

Audited Financial Statements

Feeding America West Michigan Food Bank

*Year Ended December 31, 2015
with Report of Independent Auditors
and Summarized Comparative Financial
Information for the Year Ended
December 31, 2014*



ANDREWS HOOPER PAVLIK PLC

Feeding America West Michigan Food Bank

Audited Financial Statements

Year Ended December 31, 2015

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Report of Independent Auditors

Board of Directors
Feeding America West Michigan Food Bank
Comstock Park, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Feeding America West Michigan Food Bank, which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feeding America West Michigan Food Bank as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of Feeding America West Michigan Food Bank as of December 31, 2014 were audited by other auditors whose report dated April 29, 2015 expressed an unmodified opinion on those statements. As discussed in Note 13 to the financial statements, Feeding America West Michigan Food Bank has restated its 2014 financial statements during the current year to correct the classification of net assets between temporarily restricted and unrestricted, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2014 financial statements before the restatement. The December 31, 2014 financial statements are presented as summarized comparative information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2016 on our consideration of Feeding America West Michigan Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Feeding America West Michigan Food Bank's internal control over financial reporting and compliance.

Andrew Hooper Paulik PLC

Grand Rapids, Michigan
June 14, 2016

Feeding America West Michigan Food Bank

Statements of Financial Position

	December 31	
	2015	2014
Assets		
Cash and cash equivalents	\$ 1,257,849	\$ 746,809
Investments	160,861	157,648
Accounts receivable, net of allowance of \$5,125 for 2015 and 2014	456,344	428,060
Pledges receivable	81,620	80,000
Prepaid expenses	61,311	22,797
Inventory, at donated value	3,335,541	3,207,556
Inventory, at purchased cost	355,268	423,553
Beneficial interest in perpetual endowment	695,144	688,529
Property and equipment, net	3,245,966	3,268,893
Total assets	\$ 9,649,904	\$ 9,023,845
 Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 208,272	\$ 184,391
Accrued expenses	185,729	227,781
Long-term debt	269,416	288,511
Total liabilities	663,417	700,683
 Net assets:		
Unrestricted		
Undesignated	7,204,584	6,695,309
Board designated	4,304	18,904
Temporarily restricted	1,304,624	1,173,474
Permanently restricted	472,975	435,475
Total net assets	8,986,487	8,323,162
Total liabilities and net assets	\$ 9,649,904	\$ 9,023,845

Feeding America West Michigan Food Bank

Statement of Activities

Year Ended December 31, 2015
(with Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2015	2014
Revenue and Public Support					
Shared maintenance, including \$952,404 and \$867,390 charged to grants for 2015 and 2014	\$ 2,248,555	\$ -	\$ -	\$ 2,248,555	\$ 2,204,738
Shared maintenance purchased products, net of cost of \$1,932,794 and \$1,858,759 for 2015 and 2014	533,452			533,452	411,028
Federal emergency management agency	116,073			116,073	76,185
Contributions	1,522,360	1,680,318		3,202,678	2,637,176
Special events, net of expense of \$13,915 and \$55,709 for 2015 and 2014	51,869			51,869	58,517
United Way	15,120			15,120	7,557
Food Bank Council of Michigan	375,592			375,592	410,934
In-kind contributions of equipment and expenses	7,141			7,141	-
Interest and dividend income	3,732	20,654		24,386	13,834
Unrealized gain (loss) on perpetual endowment		(51,539)		(51,539)	9,304
Gain (loss) on sale of property and equipment	(37,950)			(37,950)	6,738
Miscellaneous income	45,802			45,802	39,323
	<u>4,881,746</u>	<u>1,649,433</u>	<u>-</u>	<u>6,531,179</u>	<u>5,875,334</u>
Reclassification of net assets:					
Transfer of funds to endowment	(37,500)		37,500	-	-
Net assets released from restriction	1,518,283	(1,518,283)	-	-	-
Total revenue and public support	<u>6,362,529</u>	<u>131,150</u>	<u>37,500</u>	<u>6,531,179</u>	<u>5,875,334</u>
Expenses					
Program services	5,209,258			5,209,258	5,356,677
Support services:					
Management and general	394,129			394,129	423,683
Fundraising	392,452			392,452	418,296
Total expenses	<u>5,995,839</u>	<u>-</u>	<u>-</u>	<u>5,995,839</u>	<u>6,198,656</u>
Products donated, culled, and distributed:					
In-kind product donations	40,696,489			40,696,489	40,628,308
Less: value of products culled and distributed	<u>40,568,504</u>			<u>40,568,504</u>	<u>40,648,962</u>
Excess (deficiency) of products donated over distributed	127,985	-	-	127,985	(20,654)
Change in net assets	494,675	131,150	37,500	663,325	(343,976)
Net assets - beginning of year, as restated	6,714,213	1,173,474	435,475	8,323,162	8,667,138
Net assets - end of year	<u>\$ 7,208,888</u>	<u>\$ 1,304,624</u>	<u>\$ 472,975</u>	<u>\$ 8,986,487</u>	<u>\$ 8,323,162</u>

See accompanying notes.

Feeding America West Michigan Food Bank

Statement of Functional Expenses

Year Ended December 31, 2015
(with Comparative Totals for 2014)

	Program Services	Support Services		Total	
		Management and General	Fund- raising	2015	2014
Compensation and related expenses:					
Salaries and wages	\$ 1,803,148	\$ 236,059	\$ 77,910	\$ 2,117,117	\$ 2,178,258
Payroll taxes	145,414	19,037	6,283	170,734	174,745
Health and life insurance	415,565	54,403	17,956	487,924	482,136
Pension	94,147	12,325	4,068	110,540	101,703
Total compensation and related expenses	<u>2,458,274</u>	<u>321,824</u>	<u>106,217</u>	<u>2,886,315</u>	<u>2,936,842</u>
Conferences	25,962	3,055	1,527	30,544	42,835
Contractual services	15,233	15,234	15,234	45,701	58,366
Depreciation	300,084	7,897	7,897	315,878	299,962
Direct marketing			234,567	234,567	272,919
Dues, fees, and subscriptions	77,374			77,374	78,854
Equipment and improvements	66,889			66,889	58,416
Food and storage costs	40,387			40,387	118,695
Freight in	155,611			155,611	210,536
Insurance – property and casualty	67,755	1,783	1,783	71,321	66,748
Insurance – workers compensation	54,882	7,185	2,372	64,439	60,020
Interest	8,735			8,735	9,321
Maintenance	105,308			105,308	92,403
Office and operating supplies	153,978	18,115	9,058	181,151	158,292
Rent	73,960			73,960	77,298
Rubbish removal	28,612			28,612	32,006
Shared maintenance charges to grants	952,404			952,404	867,390
Telephone	30,441	961	641	32,043	38,061
Travel and truck expense	467,342	14,758	9,839	491,939	577,243
Utilities	126,027	3,317	3,317	132,661	142,449
Total expenses	<u>\$ 5,209,258</u>	<u>\$ 394,129</u>	<u>\$ 392,452</u>	<u>\$ 5,995,839</u>	<u>\$ 6,198,656</u>

Feeding America West Michigan Food Bank

Statements of Cash Flows

	Year Ended December 31	
	2015	2014
Operating activities		
Change in net assets	\$ 663,325	\$ (343,976)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	315,878	299,962
Loss (gain) on sale of property and equipment	37,950	(6,738)
Change in beneficial interest in perpetual endowment	(6,615)	(19,107)
Contributions restricted for long-term purposes	37,500	-
Change in operating assets and liabilities:		
Accounts receivable	(28,284)	(73,140)
Pledges receivable	(1,620)	44,000
Prepaid expenses	(38,514)	8,113
Inventory	(59,700)	(108,743)
Accounts payable	23,881	(90,132)
Accrued expenses	(42,052)	53,780
Net cash from operating activities	901,749	(235,981)
Investing activities		
Purchase of property and equipment	(349,901)	(230,016)
Purchase of investments	(3,213)	(2,903)
Proceeds from sale of property and equipment	19,000	17,500
Net cash from investing activities	(334,114)	(215,419)
Financing activities		
Payments on long-term debt	(19,095)	(18,509)
Contributions restricted for long-term purposes	(37,500)	-
Net cash from financing activities	(56,595)	(18,509)
Net change in cash and cash equivalents	511,040	(469,909)
Cash and cash equivalents at beginning of year	746,809	1,216,718
Cash and cash equivalents at end of year	\$ 1,257,849	\$ 746,809
Supplemental cash flow information:		
Interest paid	\$ 8,735	\$ 9,321
In-kind contributions reflected as revenues, capital assets and expenses	7,141	30,570

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Feeding America West Michigan Food Bank, formerly Second Harvest Gleaners, (Food Bank) is incorporated as a not-for-profit organization. The Food Bank receives donations of food from farmers, wholesalers, food processors and stores, and distributes such food to social and religious agencies upon a normal shared maintenance fee payment of up to 18 cents per pound depending on the type of product. In addition to shared maintenance, the Food Bank receives donations and grants from individuals; social, business and community groups; and governmental agencies.

Method of Accounting

The records of the Food Bank are maintained on the accrual basis of accounting, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid.

Financial Statement Presentation and Net Asset Classification

The Food Bank reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets contain donor restrictions that permit the Food Bank to use or expend the assets as specified.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Food Bank to use or expend part or all of the income derived from the donated assets for specific purposes.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Food Bank utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Food Bank is required to provide information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Cash and Cash Equivalents

The Food Bank considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Food Bank maintains cash balances in checking and savings accounts at several financial institutions. The checking and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. From time to time during the year, the Food Bank may have cash in an account in excess of the federally insured limit. As of December 31, 2015, there was cash in excess of the federally insured limit of approximately \$801,000.

Investments

The Food Bank holds a deferred annuity investment with an insurance company, which is recorded at fair value.

Accounts Receivable

The Food Bank grants credit in the normal course of business to its agencies. Ongoing credit evaluations of customers' financial condition are conducted and, generally, no collateral is required. Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Food Bank provides for possible uncollectible amounts through a valuation

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Accounts Receivable (continued)

allowance that is determined based on management's assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off.

Pledges Receivable

Unconditional pledges receivable are recognized as revenue in the period promised and as assets, decreases in liabilities, or expenses depending on the form of the benefits to be received. Unconditional pledges receivable are stated at the amount management expects to collect on outstanding balances. Management provides for probable uncollectible amounts through a valuation allowance based on management's assessment of the current status of individual accounts. When balances are deemed uncollectible they are written off. No allowance was deemed necessary for the years ended December 31, 2015 or 2014.

Inventory

Inventory consists of both purchased and donated food items. Purchased inventory is stated at cost using the first in, first out method to determine cost. The majority of donated inventory is stated at a standard per pound value based on an independent survey performed by a national accounting firm. In addition, the Food Bank receives United States Department of Agriculture (USDA) commodities donations. The inventory items received from the USDA are valued at per pound prices suggested by the USDA.

Property and Equipment

Property and equipment are carried at cost and depreciated using the straight-line method over the estimated useful lives, ranging from five to forty years. The Food Bank capitalizes all expenditures for land, buildings, property, and equipment in excess of \$5,000.

Donations of property and equipment are recorded at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted. Absent donor stipulations regarding how long those donated assets must be maintained, the Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Food Bank reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor imposed restrictions that are met in the same year as received or earned are reported as unrestricted income.

Functional Expenses

The costs to provide the various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Directly identifiable expenses are charged to programs and supporting services by function. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Food Bank.

Donated Services

Donated services are recognized as contributions in accordance with generally accepted accounting principles (U.S. GAAP), if the services either create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Food Bank. Unaudited records indicate that 28,288 hours of donated non-specialized services were provided to the Food Bank in 2015 and 37,535 hours in 2014.

Income Taxes

The Food Bank is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Food Bank evaluates tax positions taken on its Federal Exempt Organization Business Income Tax Returns in accordance with U.S. GAAP. Management believes that the Food Bank has no significant unrecognized tax benefits under those criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Generally, tax years from 2012 through the current year remain open to examination. Management does not believe that the results from any examination of these open years would have a material adverse effect on the Food Bank.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassification

Certain amounts from 2014 have been reclassified to conform with the 2015 presentation.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through June 14, 2016, which is the date the financial statements were available to be issued.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Food Bank's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

2. Pledges Receivable

Pledges receivable consisted of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Receivable in less than one year	\$ 51,620	\$ 80,000
Receivable in one to five years	30,000	-
	<u>\$ 81,620</u>	<u>\$ 80,000</u>

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

3. Donated Food Product

The value of the USDA food commodities and grant money received from the Federal Emergency Management Agency surpasses the threshold of federal financial assistance which requires the performance of a Single Audit. Accordingly, the Food Bank recorded the value of donated commodities received and distributed and culled. All USDA commodities distributed were valued at average per pound prices suggested by the USDA for each particular kind of product. All other donated commodities recorded in inventory and in-kind product donations were valued at an average per pound price of \$1.70 in 2015 and \$1.72 in 2014. The average price per pound was determined by the results of an independent survey performed by the national accounting firm, KPMG, LLP, solely to assist in determining the approximate average wholesale value of one pound of donated product at the national level for each year.

4. Beneficial Interest in Perpetual Endowment Fund

The Food Bank is the beneficiary under an agency endowment agreement administered by the Grand Rapids Community Foundation (Foundation), named the John Arnold Endowment Fund. Under this agreement, the Food Bank is entitled to the earnings from the assets in perpetuity, but has no right to the principal. The fair market value of the underlying investment is recorded in the Food Bank's statements of financial position. On an annual basis, the asset is revalued based on the changes in market value. This revaluation is treated as temporarily restricted in the statement of activities. Distributions from the Foundation are recorded as contributions on the statement of activities. The fair market value was \$695,144 as of December 31, 2015 and \$688,529 as of December 31, 2014, including a spendable portion of \$150,993 as of December 31, 2015 and \$121,773 as of December 31, 2014 that is available upon request.

In addition to the Food Bank's gifts to the Foundation's John Arnold Endowment Fund (Fund), individual donations have been made directly to the Fund. The Foundation confirms that the total market value of the donor portion of the Fund was \$146,507 as of December 31, 2015 and \$152,763 as of December 31, 2014, including a spendable portion of \$35,553 as of December 31, 2015 and \$22,945 as of December 31, 2014 that is available upon request. The Foundation was given variance power; therefore, the market value of these gifts is not reported as an asset on the Food Bank's financial statements.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

5. Property and Equipment

Property and equipment consisted of the following as of December 31:

	2015	2014
Land	\$ 500,000	\$ 500,000
Land improvements	38,573	38,573
Building	3,198,497	3,176,347
Furniture, equipment, and delivery vehicles	2,098,478	1,887,783
	5,835,548	5,602,703
Less: accumulated depreciation	2,589,582	2,333,810
Property and equipment, net	\$ 3,245,966	\$ 3,268,893

6. Fair Value Measurement

Assets measured at fair value on a recurring basis were comprised of the following as of December 31:

	Fair Value	Level 1 Based on Quoted Prices in Active Markets	Level 3 Significant Unobservable Inputs
2015			
Deferred annuities	\$ 160,861	\$ 160,861	\$ -
Beneficial interest in perpetual endowment	695,144	-	695,144
Total	\$ 856,005	\$ 160,861	\$ 695,144

	Fair Value	Level 1 Based on Quoted Prices in Active Markets	Level 3 Significant Unobservable Inputs
2014			
Deferred annuities	\$ 157,648	\$ 157,648	\$ -
Beneficial interest in perpetual endowment	688,529	-	688,529
Total	\$ 846,177	\$ 157,648	\$ 688,529

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

6. Fair Value Measurement (continued)

Changes in Level 3 assets measured at fair value on a recurring basis:

Balance as of January 1, 2014	\$ 669,423
Total gains or losses (realized/unrealized) included in net investment income	25,202
Purchases, issuance, and settlements	-
Net transfers in/out of Level 3	(6,096)
Balance as of December 31, 2014	688,529
Total gains or losses (realized/unrealized) included in net investment income	(24,356)
Purchases, issuance, and settlements	37,500
Net transfers in/out of Level 3	(6,529)
Balance as of December 31, 2015	\$ 695,144

7. Long-Term Debt

The Food Bank refinanced a mortgage note payable with a bank in 2013 to lower the interest rate. The mortgage requires monthly payments of \$2,319 including interest at 3.1%. The note matures on March 1, 2018. The note is collateralized with the land and building in Cadillac. The balance was \$269,416 as of December 31, 2015 and \$288,511 as of December 31, 2014.

Future maturities of long-term debt are as follows for the years ending December 31:

2016	\$	19,753
2017		20,370
2018		229,293
		\$ 269,416

8. Restriction on Net Assets

Restrictions on net assets were as follows as of December 31:

	2015	2014
Board designated net assets consisted of the following:		
Endowment designated cash	\$ 4,304	\$ 18,904

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

8. Restriction on Net Assets (continued)

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets consisted of the following:		
Donor restricted contributions for shared maintenance	\$ 420,492	\$ 384,213
Donor restricted funds for future use	661,963	536,207
Endowment earnings – future program	222,169	253,054
	<u>\$ 1,304,624</u>	<u>\$ 1,173,474</u>
Permanently restricted net assets consisted of the following:		
John Arnold Endowment Fund	<u>\$ 472,975</u>	<u>\$ 435,475</u>

9. Endowment Funds

The board established an endowment fund in the name of its former executive director, John M. Arnold. Gifts that were explicitly restricted by the donor for the endowment fund were classified as permanently restricted net assets. The Food Bank has a specific dollar goal for the John Arnold Endowment Fund of \$15,000,000 for the purpose of generating annual operating revenue for the Food Bank to prevent the Food Bank from shifting its focus from food distribution to fundraising.

To achieve that objective, the Food Bank has adopted a policy of investing endowment fund assets with the Grand Rapids Community Foundation (Foundation). The assets delivered to the Foundation constitute irrevocable gifts, so that whether the donor intent of the assets is unrestricted, temporarily restricted or permanently restricted, upon receipt by the Foundation all assets so gifted are classified as permanently restricted net assets. The Foundation assets are invested in well-diversified and managed asset mixes that are intended to result in a consistent inflation-projected rate of return that has sufficient liquidity to make periodic distributions while growing the fund, if possible.

As of December 31, 2015 and 2014, the Board of Directors had designated \$4,304 and \$18,904 of unrestricted net assets as a general endowment fund to support the objective of the John Arnold Endowment Fund. Since that amount resulted from an internal designation and is not donor-restricted, it is classified as unrestricted net assets. Donor-restricted assets are deposited temporarily in a separate bank account and transferred periodically to the Foundation. The not-for-profit endowment fund established on the Foundation's books will be known as the John Arnold Endowment Fund for Feeding America West Michigan Food Bank.

Feeding America West Michigan Food Bank

Notes to Financial Statements

December 31, 2015

9. Endowment Funds (continued)

Endowment net asset composition by type of fund was as follows as of December 31:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2015				
John Arnold endowment fund	\$ -	\$ 222,169	\$ 472,975	\$ 695,144
Board-designated fund	4,304	-	-	4,304
Total endowment funds	\$ 4,304	\$ 222,169	\$ 472,975	\$ 699,448
2014				
John Arnold endowment fund	\$ -	\$ 253,054	\$ 435,475	\$ 688,529
Board-designated fund	18,904	-	-	18,904
Total endowment funds	\$ 18,904	\$ 253,054	\$ 435,475	\$ 707,433

Changes in endowment net assets for the years ended December 31, 2015 and 2014 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2014	\$ 7,630	\$ 233,948	\$ 435,475	\$ 677,053
Contributions	11,274			11,274
Investment income		9,802		9,802
Unrealized/realized gain on investments		15,400		15,400
Investment expenses	(6,096)			(6,096)
Reclassification of funds	6,096	(6,096)		-
Endowment net assets, December 31, 2014	18,904	253,054	435,475	707,433
Contributions	22,900			22,900
Investment income		20,654		20,654
Unrealized/realized loss on investments		(45,010)		(45,010)
Investment expenses	6,529	(6,529)		-
Transfer to endowment	(37,500)		37,500	-
Reclassification of funds	(6,529)			(6,529)
Endowment net assets, December 31, 2015	\$ 4,304	\$ 222,169	\$ 472,975	\$ 699,448

Feeding America West Michigan Food Bank

Notes to Financial Statements

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10. Related Party Transactions

The Food Bank paid Star Truck Rentals \$450,548 for trucking services and leases during the year ended December 31, 2015 and \$489,859 during the year ended December 31, 2014. The president of Star Truck Rentals is a member of the Food Bank's Board of Directors. In addition, the Food Bank paid \$44,392 during the year ended December 31, 2015 for advertising services to mLive, who employed a member of the Food Bank's Board of Directors. The Food Bank also received logistic services from Par Logistics, who is owned by a family member of the Executive Director of the Food Bank. The Food Bank paid \$8,640 to Par Logistics during the year ended December 31, 2015 and \$24,185 during the year ended December 31, 2014. There were also immaterial transactions with other companies that have related board representatives.

11. Defined Contribution 403(b) Plan

The Food Bank has a defined contribution 403(b) plan for all employees who meet the eligibility requirements. All accrued retirement plan expenses are fully funded and paid to a third party trustee on a quarterly basis. Retirement plan expense was \$110,540 for the year ended December 31, 2015 and \$101,703 for the year ended December 31, 2014.

12. Operating Leases

The Food Bank leases business premises in Benton Harbor under a 7-year lease which began on March 1, 2010. Upon maturity, the lease automatically renews for up to 20 additional one year terms. The lease requires monthly payments of \$3,000 per month, plus expenses. The lease includes an annual increase based on the consumer price index on each March 1 beginning with the first renewal term. Rent payments under this lease totaled \$47,200 for the year ended December 31, 2015 and \$50,538 for the year ended December 31, 2014.

The Food Bank leases business premises in Sault St. Marie on a month to month basis. The lease requires monthly payments of \$980. Rent payments under this lease totaled \$11,760 for the years ended December 31, 2015 and 2014.

The Food Bank leases business premises in Ishpeming on a month to month basis. The lease requires monthly payments of \$1,250. Rent payments under this lease totaled \$15,000 for the years ended December 31, 2015 and 2014.

The Food Bank currently has non-cancelable operating leases for equipment that expire on various dates through February 2022. Total rental expenses for equipment were \$50,564 for the year ended December 31, 2015 and \$19,863 for the year ended December 31, 2014.

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Notes to Financial Statements

December 31, 2015

12. Operating Leases (continued)

Future minimum lease payments are as follows as of December 31:

2016	\$ 86,564
2017	52,283
2018	44,856
2019	42,609
2020	42,609
Thereafter	49,710

13. Prior Period Adjustment

A prior period adjustment was made due to an error discovered related to the classification between temporarily restricted and unrestricted net assets in the amount of \$325,824.

This restatement has the following impact on the prior year financial statements that were issued by other auditors:

Description	Reported Balance as of 12/31/14	Reclassification	Reclassified Balance as of 12/31/14
Contributions – unrestricted	\$ 1,277,354	\$ 162,912	\$ 1,440,266
Contributions – temporarily restricted	1,359,395	(162,912)	1,196,483
Net assets released from restriction – unrestricted	1,078,465	162,912	1,241,377
Net assets released from restriction – temporarily restricted	(1,078,465)	(162,912)	(1,241,377)
Change in net assets – unrestricted	(644,013)	325,824	(318,189)
Change in net assets – temporarily restricted	300,037	(325,824)	(25,787)
Net assets at end of year – unrestricted	6,388,389	325,824	6,714,213
Net assets at end of year – temporarily restricted	1,499,298	(325,824)	1,173,474