

Audited Financial Statements
Feeding America West Michigan
Year Ended December 31, 2018
with Report of Independent Auditors
and Summarized Comparative
Financial Information for the
Year Ended December 31, 2017

Feeding America West Michigan

Audited Financial Statements

Year Ended December 31, 2018

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Report of Independent Auditors

Board of Directors
Feeding America West Michigan
Comstock Park, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Feeding America West Michigan, which comprise the statement of financial position as of December 31, 2018, 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 as of December 31, 2018, 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.

Report on Summarized Comparative Information

We have previously audited Feeding America West Michigan's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2019 on our consideration of Feeding America West Michigan'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's internal control over financial reporting and compliance.

Andrews Hooper Pavlik PLC

Grand Rapids, Michigan
April 19, 2019

Feeding America West Michigan

Statements of Financial Position

	December 31	
	2018	2017
Assets		
Current assets:		
Cash	\$ 814,234	\$ 889,253
Accounts receivable, net of allowance of \$1,500 for 2018 and 2017	444,192	422,963
Pledges receivable, current	229,721	158,136
Prepaid expenses	71,497	25,260
Inventory, at donated value	5,019,750	4,692,729
Inventory, at purchased cost	176,959	322,901
Total current assets	6,756,353	6,511,242
Beneficial interest in perpetual endowment	628,570	843,436
Pledges receivable, net of current portion and discount	60,689	-
Property and equipment, net	2,776,477	2,859,404
Total assets	\$ 10,222,089	\$ 10,214,082
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 255,702	\$ 225,480
Accrued expenses	138,935	142,871
Current portion of capital lease obligation	5,543	5,543
Current portion of long-term debt	20,596	19,750
Total current liabilities	420,776	393,644
Capital lease obligation	11,086	16,630
Long-term debt	190,436	210,900
Total liabilities	622,298	621,174
Net assets:		
Without donor restrictions	8,033,190	7,741,265
With donor restrictions	1,566,601	1,851,643
Total net assets	9,599,791	9,592,908
Total liabilities and net assets	\$ 10,222,089	\$ 10,214,082

See accompanying notes.

Feeding America West Michigan

Statement of Activities

Year Ended December 31, 2018
(with Comparative Totals for 2017)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2018	2017
Revenue and Public Support				
Administrative fees charged to agencies, including \$874,817 in donations applied to agency accounts in 2018 and \$984,392 in 2017	\$ 2,009,496	\$ -	\$ 2,009,496	\$ 2,013,903
Administrative fees charged to agencies on purchased products, net of cost of \$1,444,285 in 2018 and \$1,612,244 in 2017	458,517	-	458,517	537,245
Federal emergency management agency Contributions	-	89,000	89,000	85,990
Food Bank Council of Michigan	1,724,005	1,167,581	2,891,586	2,702,968
In-kind contributions of equipment and expenses	459,748	-	459,748	335,657
Interest and dividend income	27,207	-	27,207	34,186
Unrealized gain (loss) on perpetual endowment	670	14,893	15,563	17,194
Gain on sale of property and equipment	-	(56,182)	(56,182)	78,126
Miscellaneous income	1,000	-	1,000	5,583
	80,830	-	80,830	44,103
	4,761,473	1,215,292	5,976,765	5,854,955
Reclassification of net assets:				
Net assets released from restriction	1,500,334	(1,500,334)	-	-
Total revenue and public support	6,261,807	(285,042)	5,976,765	5,854,955
Expenses				
Program services	5,144,133	-	5,144,133	5,284,868
Support services:				
Management and general	471,462	-	471,462	440,281
Fundraising	681,308	-	681,308	710,581
Total expenses	6,296,903	-	6,296,903	6,435,730
Change in net assets prior to products donated, culled, and distributed	(35,096)	(285,042)	(320,138)	(580,775)
Products donated, culled, and distributed:				
In-kind product donations	41,141,296	-	41,141,296	43,939,919
Less: value of products culled and distributed	40,814,275	-	40,814,275	42,498,125
Excess of products donated over distributed	327,021	-	327,021	1,441,794
Change in net assets	291,925	(285,042)	6,883	861,019
Net assets - beginning of year	7,741,265	1,851,643	9,592,908	8,731,889
Net assets - end of year	\$ 8,033,190	\$ 1,566,601	\$ 9,599,791	\$ 9,592,908

See accompanying notes.

Feeding America West Michigan

Statement of Functional Expenses

Year Ended December 31, 2018
(with Comparative Totals for 2017)

	Program Services	Support Services		Totals	
		Management and General	Fund- raising	2018	2017
Compensation and related expenses:					
Salaries and wages	\$ 1,768,719	\$ 259,530	\$ 217,585	\$ 2,245,834	\$ 2,248,330
Payroll taxes	137,943	20,241	16,969	175,153	178,797
Health and life insurance	387,757	56,897	47,701	492,355	459,131
Pension	91,717	13,458	11,283	116,458	116,829
Total compensation and related expenses	2,386,136	350,126	293,538	3,029,800	3,003,087
Conferences and travel	17,171	7,727	3,720	28,618	28,207
Contractual services	47,149	47,149	47,149	141,447	74,633
Depreciation	270,503	7,118	7,118	284,739	295,681
Direct marketing	-	-	242,126	242,126	290,174
Dues, fees, and subscriptions	94,222	-	-	94,222	103,413
Equipment and improvements	52,552	-	-	52,552	92,678
Food and storage costs	136,176	-	-	136,176	114,921
Freight in	108,295	-	-	108,295	123,466
Insurance – property and casualty	75,793	1,995	1,995	79,783	80,358
Insurance – workers compensation	37,604	5,518	4,626	47,748	62,670
Interest	8,966	236	236	9,438	9,761
Maintenance	112,793	-	-	112,793	77,435
Office and operating supplies	87,317	25,613	3,493	116,423	129,491
Printing and promotion	9,072	9,072	72,576	90,720	124,204
Rent	44,822	1,180	1,180	47,182	47,012
Rubbish removal	57,633	-	-	57,633	65,791
Donations applied to agency accounts	874,817	-	-	874,817	984,392
Telephone	26,715	844	562	28,121	26,132
Travel and truck expense	582,832	11,895	-	594,727	580,180
Utilities	113,565	2,989	2,989	119,543	122,044
Total expenses	\$ 5,144,133	\$ 471,462	\$ 681,308	\$ 6,296,903	\$ 6,435,730

Feeding America West Michigan

Statements of Cash Flows

	Year Ended December 31	
	2018	2017
Operating activities		
Change in net assets	\$ 6,883	\$ 861,019
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	284,739	295,681
Gain on sale of property and equipment	(1,000)	(5,583)
Change in beneficial interest in perpetual endowment	214,866	(93,483)
Contribution revenue for endowment	(17,413)	(10,406)
Change in operating assets and liabilities:		
Accounts receivable	(21,229)	(112,091)
Pledges receivable	(132,274)	48,734
Prepaid expenses	(46,237)	35,995
Inventory	(181,079)	(1,458,775)
Accounts payable	30,222	(69,465)
Accrued expenses	(3,936)	(35,185)
Net cash from operating activities	133,542	(543,559)
Investing activities		
Purchase of property and equipment	(201,812)	(72,386)
Proceeds from sale of investments	-	164,381
Proceeds from sale of property and equipment	1,000	31,374
Net cash from investing activities	(200,812)	123,369
Financing activities		
Payments on long-term debt	(19,618)	(19,091)
Payments on capital lease obligation	(5,544)	(5,543)
Proceeds from contributions restricted for endowment	17,413	10,406
Net cash from financing activities	(7,749)	(14,228)
Net change in cash and cash equivalents	(75,019)	(434,418)
Cash as of beginning of year	889,253	1,323,671
Cash as of end of year	\$ 814,234	\$ 889,253
Supplemental cash flow information:		
Interest paid	\$ 9,438	\$ 9,761
In-kind contributions reflected as revenues, capital assets, and expenses	27,207	34,186

See accompanying notes.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Method of Accounting

The records of Feeding America 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 financial statements of Feeding America have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require Feeding America to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Feeding America’s management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Feeding America or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

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

New Accounting Pronouncement (continued)

expenses and investment return. Feeding America has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

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. Feeding America 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, Feeding America 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.

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

Feeding America considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

Feeding America 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, Feeding America may have cash in an account in excess of the federally insured limit. As of December 31, 2018, there was cash in excess of the federally insured limit of approximately \$388,000.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

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

Accounts Receivable

Feeding America 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. Feeding America provides for possible uncollectible amounts through a valuation 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, 2018 or 2017.

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. Donated inventory is stated at a standard per pound value based on an independent survey performed by a national accounting firm. In addition, Feeding America receives United States Department of Agriculture (USDA) commodities donations. The USDA items in inventory as of December 31, 2018 are valued based on the food only amount per pound determined by the independent survey and the USDA items in inventory as of December 31, 2017.

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. Feeding America capitalizes all expenditures for property and equipment in excess of \$5,000.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

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

Property and Equipment (continued)

Donations of property and equipment are recorded at their estimated fair value. Such donations are reported as without donor restrictions 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 with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, Feeding America reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Feeding America reclassifies with donor restrictions net assets to without donor restrictions net assets at that time.

Revenue Recognition

Contributions received are recorded as without donor restrictions or with donor restrictions, depending on the existence and nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the statement of activities as net assets released from restrictions.

Functional Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Compensation and related expenses	Time and effort
Contractual services	Time and effort
Depreciation	Square footage
Insurance – property and casualty	Square footage
Insurance – workers’ compensation	Time and effort
Utilities	Square footage

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

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

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 Feeding America. Unaudited records indicate that 22,997 hours of donated non-specialized services were provided to Feeding America in 2018 and 25,649 hours in 2017.

Income Taxes

Feeding America is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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

Generally, tax years from 2015 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 Feeding America.

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 2017 have been reclassified to conform with the 2018 presentation.

Subsequent Events

Management has evaluated subsequent events for potential recognition or disclosure in the financial statements through April 19, 2019, which is the date the financial statements were available to be issued.

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

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

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 Feeding America's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

2. Liquidity and Availability

Feeding America has current assets available within one year of the balance sheet date to meet cash needs for general expenditures. None of the current assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The receivables are subject to implied time restrictions but are expected to be collected within one year. Feeding America has a goal to maintain current assets, which consists of cash and receivables, on hand of \$500,000 to meet 30 days of normal operating expenses. Feeding America has a policy to structure its current assets to be available as its general expenditures, liabilities, and other obligations come due.

3. Pledges Receivable

Pledges receivable consisted of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Receivable in one year	\$ 229,721	\$ 158,136
Receivable in two – five years	64,000	-
Discounts to net present value	(3,311)	-
	<u>\$ 290,410</u>	<u>\$ 158,136</u>

Pledges receivable have been discounted using the three year U.S. Treasury rate of 2.46%.

4. 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 an audit in accordance with Uniform Grant Guidance. Accordingly, Feeding America recorded the value of donated commodities received and distributed and culled. All USDA commodities distributed were valued at an average food only per pound price of \$1.57 in 2018 and

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

4. Donated Food Product (continued)

\$1.52 in 2017. All other donated commodities recorded in inventory and in-kind product donations were valued at an average per pound price of \$1.68 in 2018 and \$1.73 in 2017. The average price per pound for all 2018 and 2017 products was determined by the results of an independent survey performed by a national accounting firm, solely to assist in determining the approximate average wholesale value of one pound of donated product at the national level for each year.

5. Beneficial Interest in Perpetual Endowment Fund

Feeding America 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, Feeding America 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 Feeding America'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 net assets with donor restrictions in the statement of activities. Distributions from the Foundation are recorded as contributions on the statement of activities. The fair market value was \$628,570 as of December 31, 2018 and \$843,436 as of December 31, 2017, including a spendable portion of \$35,886 as of December 31, 2018 and \$216,134 as of December 31, 2017 that is available upon request. During 2018, Feeding America received a distribution from the spendable portion of the agency endowment fund of \$215,000 (none in 2017).

In addition to Feeding America'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 \$120,990 as of December 31, 2018 and \$177,944 as of December 31, 2017, including a spendable portion of \$7,318 as of December 31, 2018 and \$49,297 as of December 31, 2017 that is available upon request. During 2018, Feeding America received a distribution from the spendable portion of the donor endowment fund of \$49,000 that is included in miscellaneous income (none in 2017). The Foundation was given variance power, which gives the Foundation the ability to control the use of the transferred assets. Therefore, in accordance with accounting principles, the market value of these gifts is not reported as an asset on Feeding America's financial statements.

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Notes to Financial Statements

December 31, 2018

6. Property and Equipment

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

	2018	2017
Land	\$ 501,750	\$ 501,750
Land improvements	31,870	31,870
Building	3,490,048	3,407,453
Furniture, equipment, and delivery vehicles	2,027,017	1,922,856
	6,050,685	5,863,929
Accumulated depreciation	(3,274,208)	(3,004,525)
Property and equipment, net	\$ 2,776,477	\$ 2,859,404

7. Fair Value Measurement

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

	Fair Value	Level 3 Significant Unobservable Inputs
2018		
Beneficial interest in perpetual endowment	\$ 628,570	\$ 628,570
2017		
Beneficial interest in perpetual endowment	\$ 843,436	\$ 843,436

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

Balance as of January 1, 2017	\$ 749,953
Total gains (realized/unrealized) included in net investment income	101,849
Net transfers out of Level 3	(8,366)
Balance as of December 31, 2017	843,436
Total gains (realized/unrealized) included in net investment income	8,839
Net transfers in/out of Level 3	(8,705)
Grants drawn from spendable portion of endowment	(215,000)
Balance as of December 31, 2018	\$ 628,570

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

8. Long-Term Debt

Feeding America holds a mortgage note payable with a bank related to an operating facility in Cadillac. Through February 2017, the mortgage required monthly payments of \$2,319 including interest at 3.1%. Effective March 6, 2017, the mortgage was refinanced and requires monthly payments of \$2,421 including interest at 4.2%. The note matures on September 6, 2027. The note is collateralized with the land and building in Cadillac. The balance was \$211,032 as of December 31, 2018 and \$230,650 as of December 31, 2017.

Future maturities of long-term debt are as follows:

Year Ending December 31	Amount
2019	\$ 20,596
2020	21,478
2021	22,398
2022	23,357
2023	24,357
Thereafter	98,846
	<u>\$ 211,032</u>

9. Net Assets with Donor Restrictions

Net assets with donor restrictions were as follows as of December 31:

	2018	2017
Donor restricted contributions to be applied to agencies	\$ 580,677	\$ 563,755
Donor restricted funds for future use	345,340	408,129
Endowment earnings – future program	113,873	370,461
John Arnold Endowment Fund held at Community Foundation	514,697	472,975
Cash to be remitted to John Arnold Endowment Fund	12,014	36,323
	<u>\$ 1,566,601</u>	<u>\$ 1,851,643</u>

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

10. 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 are classified as net assets with donor restrictions. Feeding America has a specific dollar goal for the John Arnold Endowment Fund of \$15,000,000 for the purpose of generating annual operating revenue for Feeding America to prevent Feeding America from shifting its focus from food distribution to fundraising.

To achieve that objective, Feeding America 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 with or without donor restrictions, upon receipt by the Foundation all assets so gifted are classified as net assets with donor restrictions. 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.

Donor-restricted assets are deposited temporarily in a separate bank account and transferred periodically to the Foundation. As of December 31, 2018, there was \$12,014 held in cash and recorded as net assets with donor restrictions. This balance consisted entirely of donor-restricted contributions to the endowment.

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

	Without Donor Restrictions	With Donor Restrictions	Total
2018			
John Arnold endowment fund	\$ -	\$ 640,584	\$ 640,584
2017			
John Arnold endowment fund	\$ -	\$ 879,759	\$ 879,759

Feeding America West Michigan

Notes to Financial Statements

December 31, 2018

10. Endowment Funds (continued)

Changes in endowment net assets for the years ended December 31, 2018 and 2017 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	\$ 25,917	\$ 749,953	\$ 775,870
Contributions	-	10,406	10,406
Transfer to endowment	(25,917)	25,917	-
Investment income	-	15,357	15,357
Unrealized/realized gain on investments	-	86,492	86,492
Investment expenses	8,366	(8,366)	-
Reclassification of funds	(8,366)	-	(8,366)
Endowment net assets, December 31, 2017	-	879,759	879,759
Contributions	-	17,413	17,413
Investment income	-	14,893	14,893
Unrealized/realized loss on investments	-	(47,776)	(47,776)
Endowment draw	215,000	(215,000)	-
Investment expenses	8,705	(8,705)	-
Reclassification of funds	(223,705)	-	(223,705)
Endowment net assets, December 31, 2018	\$ -	\$ 640,584	\$ 640,584

11. Related Party Transactions

Feeding America paid approximately \$330,100 for trucking services and leases during the year ended December 31, 2018 and \$339,700 during the year ended December 31, 2017 to a company whose president is a member of Feeding America's Board of Directors. Feeding America also had administrative fees charged to agencies revenue of approximately \$85,200 for the year ended December 31, 2018 (\$125,500 for 2017) from an agency where the Executive Director of Feeding America is a member of the agency's oversight board.

12. Defined Contribution 403(b) Plan

Feeding America 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 approximately \$116,500 for the year ended December 31, 2018 and \$116,800 for the year ended December 31, 2017.

Feeding America West Michigan

Notes to Financial Statements

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13. Operating Leases

Feeding America leases business premises in Benton Harbor under a 7-year lease which began on March 1, 2010. The original lease term matured in February 2017 and 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 approximately \$47,200 for the year ended December 31, 2018 and \$47,000 for the year ended December 31, 2017.

Feeding America currently has non-cancelable operating leases for equipment that expire on various dates through September 2021. Total rental expenses for these equipment leases totaled approximately \$3,500 for the year ended December 31, 2018 and \$26,200 for 2017.

Future minimum lease payments are approximately as follows:

Year Ending December 31	Amount
2019	\$ 3,500
2020	2,700
2021	1,800

14. Capital Leases

Equipment under capital leases consists of a forklift with a capitalized cost of \$25,542. Accumulated depreciation in the statement of financial position included \$7,602 relating to this leased forklift. Depreciation expense reported in the statement of activities includes \$3,649 for the equipment under capital lease. The lease includes a \$1 purchase option at the end of the lease period. The capital lease obligation as of December 31, 2018 was \$16,629, including interest. Future minimum lease payments are as follows:

Year Ending December 31	Amount
2019	\$ 5,543
2020	5,543
2021	5,543
	<u>\$ 16,629</u>

The imputed interest necessary to reduce the net minimum lease payments to present value is considered immaterial.