

Food Gatherers
(a nonprofit Michigan corporation)
Ann Arbor, Michigan

Financial Statements

June 30, 2019 and 2018

Food Gatherers

Table of Contents

Independent Auditors' Report	Pages 1-2
Statements of Financial Position June 30, 2019 and 2018	Page 3
Statements of Activities Years ended June 30, 2019 and 2018	Page 4
Statement of Functional Expenses Year ended June 30, 2019	Page 5
Statement of Functional Expenses Year ended June 30, 2018	Page 6
Statements of Cash Flows Years ended June 30, 2019 and 2018	Page 7
Notes to Financial Statements	Pages 8-22

Independent Auditors' Report

To the Board of Directors
Food Gatherers
Ann Arbor, Michigan

We have audited the accompanying financial statements of Food Gatherers (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Food Gatherers as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2019, on our consideration of Food Gatherers' 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 solely 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 effectiveness of Food Gatherers' 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 Food Gatherers' internal control over financial reporting and compliance.

Altruic Advisors, PLLC

Certified Public Accountants

Ann Arbor, Michigan
October 29, 2019

Food Gatherers

Statements of Financial Position

June 30	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,598,536	\$ 2,431,737
Investments	1,058,300	849,113
Food inventory, net of allowance for spoilage of \$89,125 in 2019 and \$81,848 in 2018	1,266,994	663,082
Pledges and grants receivable	86,382	51,000
Accounts receivable	40,064	27,840
Prepaid expenses	23,861	22,360
Total current assets	<u>5,074,137</u>	<u>4,045,132</u>
Property and Equipment		
Equipment and furniture	335,276	344,994
Vehicles	74,517	74,517
Building and improvements	5,163,657	5,163,657
Land	165,613	165,613
Less accumulated depreciation	(1,716,698)	(1,575,639)
Net property and equipment	<u>4,022,365</u>	<u>4,173,142</u>
Other Assets		
Beneficial interest in assets held by foundation	196,042	-
Right-of-use asset, net	115,843	168,887
Total other assets	<u>311,885</u>	<u>168,887</u>
Total assets	<u>\$ 9,408,387</u>	<u>\$ 8,387,161</u>

	2019	2018
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 66,502	\$ 46,550
Accrued compensation and benefits	88,742	82,138
Other accrued expenses	1,546	1,785
Refundable advances	-	20,962
Current portion of operating lease obligations	55,758	53,044
Total current liabilities	<u>212,548</u>	<u>204,479</u>
Long Term Liabilities		
Operating lease obligations, net of current portion	<u>60,085</u>	<u>115,843</u>
Total liabilities	<u>272,633</u>	<u>320,322</u>
Net Assets		
Without donor restrictions		
Undesignated	2,384,002	1,547,534
Net property and equipment	4,022,365	4,173,142
Board-designated endowment	196,042	-
Board-designated for operations	2,339,463	2,240,163
Total without donor restrictions	<u>8,941,872</u>	<u>7,960,839</u>
With donor restrictions	<u>193,882</u>	<u>106,000</u>
Total net assets	<u>9,135,754</u>	<u>8,066,839</u>
Total liabilities and net assets	<u>\$ 9,408,387</u>	<u>\$ 8,387,161</u>

Food Gatherers

Statements of Activities

Years ended June 30

2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Support and Revenue			
Support			
In-kind contributions	\$ 10,082,572	\$ -	\$ 10,082,572
Contributions	2,329,135	-	2,329,135
Grants	1,144,028	211,882	1,355,910
Special events, net of expenses of \$125,136 in 2019 and \$110,298 in 2018	565,754	-	565,754
Total support	<u>14,121,489</u>	<u>211,882</u>	<u>14,333,371</u>
Revenue			
Food bank revenue	297,794	-	297,794
Other revenue	7,710	-	7,710
Total revenue	<u>305,504</u>	<u>-</u>	<u>305,504</u>
Net assets released from restrictions			
Satisfaction of program restrictions	73,000	(73,000)	-
Expiration of time restrictions	51,000	(51,000)	-
Total operating support and revenue	<u>14,550,993</u>	<u>87,882</u>	<u>14,638,875</u>
Operating Expenses			
Program services			
Food rescue and distribution	12,376,471	-	12,376,471
Community kitchen	289,980	-	289,980
Summer food service program	155,247	-	155,247
Total program services	<u>12,821,698</u>	<u>-</u>	<u>12,821,698</u>
Supporting services			
General and administrative	358,527	-	358,527
Fundraising	423,452	-	423,452
Total supporting services	<u>781,979</u>	<u>-</u>	<u>781,979</u>
Total operating expenses	<u>13,603,677</u>	<u>-</u>	<u>13,603,677</u>
Total operating support and revenue in excess of operating expenses	947,316	87,882	1,035,198
Other Changes			
Investment income	29,800	-	29,800
Change in value of beneficial interest in assets held by foundation	3,917	-	3,917
Total other changes	<u>33,717</u>	<u>-</u>	<u>33,717</u>
Change in Net Assets	981,033	87,882	1,068,915
Net Assets, Beginning of Year	<u>7,960,839</u>	<u>106,000</u>	<u>8,066,839</u>
Net Assets, End of Year	<u>\$ 8,941,872</u>	<u>\$ 193,882</u>	<u>\$ 9,135,754</u>

2018

<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 8,684,835	\$ -	\$ 8,684,835
2,337,569	15,000	2,352,569
917,536	50,000	967,536
556,354	-	556,354
<u>12,496,294</u>	<u>65,000</u>	<u>12,561,294</u>
239,953	-	239,953
7,516	-	7,516
<u>247,469</u>	<u>-</u>	<u>247,469</u>
-	-	-
28,210	(28,210)	-
<u>12,771,973</u>	<u>36,790</u>	<u>12,808,763</u>
11,199,985	-	11,199,985
428,088	-	428,088
139,494	-	139,494
<u>11,767,567</u>	<u>-</u>	<u>11,767,567</u>
343,254	-	343,254
340,795	-	340,795
<u>684,049</u>	<u>-</u>	<u>684,049</u>
<u>12,451,616</u>	<u>-</u>	<u>12,451,616</u>
320,357	36,790	357,147
15,273	-	15,273
-	-	-
<u>15,273</u>	<u>-</u>	<u>15,273</u>
335,630	36,790	372,420
<u>7,625,209</u>	<u>69,210</u>	<u>7,694,419</u>
<u>\$ 7,960,839</u>	<u>\$ 106,000</u>	<u>\$ 8,066,839</u>

The accompanying Notes are an integral
part of these financial statements

Food Gatherers

Statement of Functional Expenses

Year ended June 30, 2019

	Program Services		
	Food Rescue and Distribution	Community Kitchen	Summer Food Service Program
Cost of food distributed - in-kind	\$ 9,455,008	\$ -	\$ -
Cost of food distributed - purchased	1,055,421	87,025	102,181
Total cost of food distributed	<u>10,510,429</u>	<u>87,025</u>	<u>102,181</u>
Salaries and wages	909,764	112,381	20,242
Fringe benefits	156,528	31,332	3,282
Payroll taxes	70,489	14,539	1,469
Total personnel costs	<u>1,136,781</u>	<u>158,252</u>	<u>24,993</u>
Occupancy	156,321	13,334	-
Depreciation	145,427	-	-
Equipment rental and maintenance	146,570	-	-
Supplies	74,041	20,074	10,138
Vehicle expenses	62,655	-	-
Advertising and marketing	490	-	-
Insurance	34,739	-	-
Bank and credit card charges	-	-	-
Partner programs	33,624	-	-
Specific assist - stipends	4,230	7,949	14,400
Accounting fees	-	-	-
IT consulting and website	4,414	-	-
Travel	13,348	2,126	2,181
Grants to partner agencies	17,000	-	-
Telephone	13,643	545	46
Dues and subscriptions	9,227	361	-
Postage and shipping	1,102	239	-
Training	7,430	75	1,308
Donated delivery services	5,000	-	-
Miscellaneous expense	-	-	-
Legal fees	-	-	-
Total expenses	<u>\$ 12,376,471</u>	<u>\$ 289,980</u>	<u>\$ 155,247</u>

Supporting Services				
Total	General and Administrative	Fundraising	Total	Total Expenses
\$ 9,455,008	\$ -	\$ -	\$ -	\$ 9,455,008
1,244,627	-	-	-	1,244,627
10,699,635	-	-	-	10,699,635
1,042,387	215,492	241,691	457,183	1,499,570
191,142	22,142	35,017	57,159	248,301
86,497	9,865	15,601	25,466	111,963
1,320,026	247,499	292,309	539,808	1,859,834
169,655	13,777	15,588	29,365	199,020
145,427	25,663	-	25,663	171,090
146,570	9,569	-	9,569	156,139
104,253	2,127	1,627	3,754	108,007
62,655	-	-	-	62,655
490	-	53,997	53,997	54,487
34,739	10,600	-	10,600	45,339
-	2,625	41,640	44,265	44,265
33,624	-	-	-	33,624
26,579	-	-	-	26,579
-	22,525	-	22,525	22,525
4,414	14,727	2,774	17,501	21,915
17,655	1,037	380	1,417	19,072
17,000	-	-	-	17,000
14,234	1,120	405	1,525	15,759
9,588	2,397	1,324	3,721	13,309
1,341	1,054	10,020	11,074	12,415
8,813	205	1,740	1,945	10,758
5,000	-	-	-	5,000
-	1,962	1,648	3,610	3,610
-	1,640	-	1,640	1,640
\$ 12,821,698	\$ 358,527	\$ 423,452	\$ 781,979	\$ 13,603,677

The accompanying Notes are an integral part of these financial statements

Food Gatherers

Statement of Functional Expenses

Year ended June 30, 2018

	Program Services		
	Food Rescue and Distribution	Community Kitchen	Summer Food Service Program
Cost of food distributed - in-kind	\$ 8,450,696	\$ -	\$ -
Cost of food distributed - purchased	1,053,388	93,251	105,229
Total cost of food distributed	<u>9,504,084</u>	<u>93,251</u>	<u>105,229</u>
Salaries and wages	732,311	220,236	18,019
Fringe benefits	117,200	45,393	2,818
Payroll taxes	57,212	15,763	1,215
Total personnel costs	<u>906,723</u>	<u>281,392</u>	<u>22,052</u>
Depreciation	183,024	-	-
Occupancy	161,139	18,452	-
Equipment rental and maintenance	150,509	-	-
Supplies	67,991	18,736	1,987
Vehicle expenses	55,573	-	-
Grants to partner agencies	50,325	-	-
Advertising and marketing	702	-	-
Bank and credit card charges	-	-	-
Insurance	33,119	-	-
Partner programs	30,220	-	-
Specific assist - stipends	2,400	12,161	9,915
IT consulting and website	4,200	-	-
Postage and shipping	1,460	4	7
Accounting fees	-	-	-
Dues and subscriptions	11,973	355	-
Telephone	11,630	787	304
Travel	10,427	1,799	-
Training	7,828	911	-
Miscellaneous expense	1,658	240	-
Donated delivery services	5,000	-	-
Total expenses	<u>\$ 11,199,985</u>	<u>\$ 428,088</u>	<u>\$ 139,494</u>

Supporting Services				
Total	General and Administrative	Fundraising	Total	Total Expenses
\$ 8,450,696	\$ -	\$ -	\$ -	\$ 8,450,696
1,251,868	-	-	-	1,251,868
9,702,564	-	-	-	9,702,564
970,566	185,131	185,278	370,409	1,340,975
165,411	29,221	29,245	58,466	223,877
74,190	8,284	12,867	21,151	95,341
1,210,167	222,636	227,390	450,026	1,660,193
183,024	32,298	-	32,298	215,322
179,591	32,561	-	32,561	212,152
150,509	1,216	-	1,216	151,725
88,714	4,696	473	5,169	93,883
55,573	-	-	-	55,573
50,325	-	-	-	50,325
702	-	45,077	45,077	45,779
-	3,044	39,073	42,117	42,117
33,119	5,957	-	5,957	39,076
30,220	-	-	-	30,220
24,476	-	1,590	1,590	26,066
4,200	14,700	2,506	17,206	21,406
1,471	997	16,868	17,865	19,336
-	18,952	-	18,952	18,952
12,328	2,063	1,478	3,541	15,869
12,721	1,269	994	2,263	14,984
12,226	372	975	1,347	13,573
8,739	419	2,433	2,852	11,591
1,898	2,074	1,938	4,012	5,910
5,000	-	-	-	5,000
\$ 11,767,567	\$ 343,254	\$ 340,795	\$ 684,049	\$ 12,451,616

The accompanying Notes are an integral
part of these financial statements

Food Gatherers

Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years ended June 30	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 1,068,915	\$ 372,420
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	171,090	215,322
Donated food inventory and provision for spoilage	(622,564)	(229,138)
Increase (decrease) from changes in assets and liabilities		
Purchased food inventory	18,652	38,133
Pledges and grants receivable	(35,382)	(21,790)
Accounts receivable	(12,224)	12,921
Prepaid expenses	(1,501)	(18,430)
Accounts payable	19,952	4,219
Accrued compensation and benefits	6,604	(14,225)
Other accrued expenses	(239)	306
Refundable advances	(20,962)	20,962
Net cash provided by operating activities	<u>592,341</u>	<u>380,700</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(20,313)	(34,303)
Net sales (purchases) of investments	(405,229)	50,317
Net cash provided (used) by investing activities	<u>(425,542)</u>	<u>16,014</u>
Net Increase in Cash and Cash Equivalents	166,799	396,714
Cash and Cash Equivalents, Beginning of Year	2,431,737	2,035,023
Cash and Cash Equivalents, End of Year	\$ 2,598,536	\$ 2,431,737

The accompanying Notes are an integral
part of these financial statements

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Nature of Organization and Significant Accounting Policies

Nature of Organization. Food Gatherers ("the Organization") is a not-for-profit Michigan corporation recognized as exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Organization's sources of revenue are primarily private and public contributions and grants, special events, food bank sales, and in-kind donations. The Organization supports local feeding programs throughout Washtenaw County through collection and delivery of surplus perishable food from local sources and from the acquisition and distribution of nonperishable food through a national food bank program.

Description of Program Services:

Food Rescue and Distribution - Food Gatherers procures unsellable, but edible, food from the food industry, receives direct donations of food, administers certain government food programs, and purchases food from wholesalers. Food is stored and packaged and delivered to more than 100 other nonprofit agencies such as homeless shelters, food pantries, low income housing, and after school programs, who then distribute food to people in need throughout Washtenaw County.

Community Kitchen - Food Gatherers operates the Community Kitchen, which is located in the Robert J. Delonis Center, home of the Shelter Association of Washtenaw County. Volunteers transform rescued and bulk food into useful food resources, and prepare and serve 19 meals per week to those in need. The Food Gatherers Community Kitchen Job Training Program is part of the Organization's overall effort to not merely alleviate hunger but to end hunger. Students obtain marketable skills at the same time they are feeding neighbors in need. By targeting young adults who are often recipients of food assistance, the hope is to help them secure gainful employment in the food industry. The training curriculum reflects the skills and experiences that local food service employers are seeking. Food Gatherers also offers paid internships at the warehouse or at the Community Kitchen.

Summer Food Service Program - The Summer Food Service Program (SFSP) was created to ensure that children in lower-income areas could continue to receive nutritious meals during long school vacations when they do not have access to the National School Lunch or School Breakfast Programs. The SFSP is a program of the United States Department of Agriculture, which provides funding to cover the costs of the meals at eligible sites. Food Gatherers is the largest sponsor of the SFSP for children in Washtenaw County. Free meals are made available to children under 18 years of age and for persons up to age 26 who are enrolled in an educational program for the mentally or physically disabled that is recognized by a state or local public educational agency.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

Description of Supporting Services:

General and Administrative - Includes the functions necessary to provide support to the Organization's program activities. General and administrative activities include those that provide governance (Board of Directors), oversight, business management, financial recordkeeping, budgeting, legal services, human resource management, and similar activities that ensure an adequate working environment and an equitable employment program.

Fundraising - Provides the structure necessary to encourage and secure private financial support from individuals, foundations, governments, and corporations, including donations and pledges received during special events. The majority of Food Gatherers' special event revenue is generated through the annual Rockin' and Grillin' events.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting. The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation. The Organization reports information regarding its financial position and activities according to two classes of net assets - net assets without donor restrictions and net assets with donor restrictions:

Net Assets Without Donor Restrictions. Net assets resulting from revenues generated, receiving contributions that have no donor stipulations, providing services, receiving rents, and receiving interest and other income, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net Assets With Donor Restrictions. Net assets resulting from gifts of cash and other assets that are received with donor stipulations that limit the use of donated net assets, until the donor restriction expires, that is, until the stipulated time restriction ends or the purpose restriction is accomplished.

Board Designated Endowment. The Board of Directors has determined that a portion of the Organization's net assets meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act (UPMIFA), enacted by the State of Michigan in 2009. The Organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

As a result of this interpretation, the Organization generally classifies as endowment net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resourced of the Organization, and (7) the Organization's policies.

Endowment Investment Policies. The Organization has adopted investment policies that include a conservative risk tolerance to ensure the long-term stability of its endowment funds. To achieve the objective of the endowment, the investment policy attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the fund if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Endowment Spending Policies. Provided that there are annual earnings from the investments of the endowment funds, the Organization expends the earnings in accordance with the direction of the applicable donor gift instrument.

Cash and Cash Equivalents. The Organization considers all highly liquid debt instruments with maturities of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Fair Value Measurements. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

Fair Value Measurements (continued).

Level 2. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for certain assets measured at fair value. There have been no changes in methodologies used at June 30, 2019 and 2018.

Taxable Bonds and Taxable Bond Funds

The Organization values taxable bonds and taxable bond funds at fair value by discounting the related cash flows on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. Early withdrawal charges may apply in the event the instruments are liquidated prior to their scheduled maturity date.

Beneficial Interest in Assets Held by Foundation

The Organization values the beneficial interest in assets held by foundation at the net asset value ("NAV") of units held by the Organization at year end. The NAV, as provided by Ann Arbor Area Community Foundation ("the Foundation"), is used as practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the Foundation less its liabilities. This practical expedient is not used when it is determined to be probable that the Foundation will sell the investment for an amount different than reported NAV.

The carrying amount of other assets held by the Organization approximate fair value due to the short-term nature of such assets.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

The valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Food inventory. Purchased food inventory is comprised of nonperishable purchased food, and is stated at lower of cost or market value. Cost is determined on a first-in, first-out basis. Donated food inventory is comprised of perishable and nonperishable food and is recorded as inventory and contribution revenue at its estimated fair value at the date of donation, taking into consideration spoilage and utility for use. See *Donated Food Inventory*.

Pledges and Grants Receivable. Pledges and grants receivable are all expected to be paid within one year and are stated net of allowances for doubtful amounts. Management provides for probable doubtful pledges through a provision for bad debt expense and an adjustment to the allowance account based on its assessment of the current status of individual pledges and grants. Balances still outstanding after management has used reasonable collection efforts are written off through a reduction to the allowance account and a corresponding reduction to the receivable account. Management has determined that pledges and grants receivable are fully collectible and has not recorded an allowance for doubtful pledges and grants as of June 30, 2019 and 2018.

Accounts Receivable. Predominately all accounts receivable at June 30, 2019 and 2018 are related to food bank sales. Management has determined that accounts receivable are fully collectible and has not recorded an allowance for doubtful accounts as of June 30, 2019 and 2018.

Property and Equipment. It is the Organization's policy to capitalize property and equipment at cost for purchases over \$5,000, while repair and maintenance items are charged to expense. Donations of property and equipment are capitalized at their estimated fair value at the date of gift. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using straight-line methods over the estimated useful lives of the assets. In general, asset lives are ten to thirty-nine years for buildings and improvements, five years for vehicles, and three to five years for equipment and furniture. Depreciation expense for the years ended June 30, 2019 and 2018 was \$171,090 and \$215,322, respectively.

Impairment of Long-Lived Assets. In the event that facts and circumstances indicate that property and equipment, or other assets, may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if a write-down to market value would be necessary. No impairment losses were recorded during the years ended June 30, 2019 and 2018.

Refundable Advances. Grant funding amounts received in advance of incurring related expenses are considered refundable advances and are deferred. Revenue is recognized as the related costs are incurred.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

Leases. The Organization determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (“ROU”) lease assets, current portion of lease obligations, and long term lease obligations on the Organization's statements of financial position. ROU lease assets represent the Organization's right to use an underlying asset for the lease term and lease obligations represent the Organization's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Organization's leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Contributions. Contributions are recognized when donations are received. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions and grants that are restricted by the donor or grantor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Donated Food Inventory. All donated inventory is recorded at fair value and is received from private businesses, organizations, and individuals. Donated inventory is considered to be unrestricted support unless the inventory explicitly contains donor restrictions. The Organization only records the value of donated inventory in which it is either the original recipient of the gift, is involved in partnership with another organization for distribution, or if the inventory is used in the Organization's programs.

To determine food inventory values, donated food inventories are weighed when they arrive at the Organization's warehouse and are weighed again before distribution. The Organization uses per pound values as published annually by Feeding America, a national organization of which the Organization is an affiliate.

The following average per pound values were used to value the following inventory donations received and inventory distributions made during the years ended June 30:

	<u>2019</u>	<u>2018</u>
Food-only items	\$ 1.52	\$ 1.57
Mixed food and non-food items	\$ 1.62	\$ 1.68

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

Contributed Services. Contributed services are recognized if the services received satisfy the criteria for recognition. The contributions of services are recognized if services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. A substantial number of volunteers have donated significant amounts of their time to the Organization's administrative services. However, these donated services are not reflected in the financial statements since the services are not professional in nature, and as such, do not meet the criteria for recognition as contributed services.

Advertising. The Organization expenses advertising costs as they are incurred. Costs, expensed as advertising and marketing in the statements of functional expenses, were \$54,487 and \$45,779 for the years ended June 30, 2019 and 2018, respectively.

Income Taxes. The Organization is a nonprofit corporation exempt from income taxes as described in Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for income taxes has been made.

Functional Allocation of Expenses. Direct expenses have been allocated to the applicable program for which the expenses were incurred. Indirect expenses have been allocated between program and supporting services based on an analysis of personnel time and space utilized for the related activities.

Reclassifications. Certain amounts from the financial statements for the year ended June 30, 2018 have been reclassified to conform to current year presentation, without affecting the change in net assets.

Subsequent Events. The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through October 29, 2019, the date at which the financial statements were available for release.

Note 2 - New Accounting Pronouncement

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, with the intended purpose to improve financial reporting of leasing transactions by requiring organizations that lease assets to recognize assets and liabilities for the rights and obligations created by leases that extend more than twelve months on the statement of financial position. This accounting update also requires additional disclosures surrounding the amount, timing, and uncertainty of cash flows arising from leases.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 2 - New Accounting Pronouncement (continued)

During the year ended June 30, 2019, the Organization elected to early adopt the requirements of ASU 2016-02 and, as a result, adjusted the presentation of the financial statements accordingly, applying the changes retrospectively to the period presented. The Organization has elected the package of practical expedients permitted in ASC Topic 842, and accordingly, accounted for its existing operating leases as operating leases under the new guidance, without reassessing (a) whether the contracts contain a lease under ASC Topic 842, (b) whether classification of the operating leases would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. In addition, the Organization does allocate the consideration between lease and non-lease components. As a result of the adoption of the new lease accounting guidance, The Organization recognized on July 1, 2017 (a) a lease liability of approximately \$213,000, which represents the present value of the remaining lease payments of approximately \$236,000, discounted using the Organization's incremental borrowing rate of 5%, and (b) a right-of-use asset of approximately \$213,000. This standard did not have a material impact on the Organization's statements of financial position or cash flows from operations and had no impact on the Organization's operating results. The most significant impact was the recognition of ROU assets and lease obligations for operating leases.

Note 3 - Change in Accounting Estimate

Management has reassessed its estimates of the value of USDA food commodities that the Organization receives by donation. On July 1, 2018, the Organization began using per pound food values as provided by Feeding America, discontinuing the former methodology of using per item estimates as provided in USDA Food Value Reports. The approximate effects reflecting this change in accounting estimate on the financial statements for the year ended June 30, 2019 are as follows:

Increase in:

Donations received of USDA food	<u><u>\$ 1,684,000</u></u>
Value of USDA food inventory and net assets without donor restrictions at year-end	<u><u>\$ 391,000</u></u>

Note 4 - Fair Value Measurements

The following table summarizes the Organization's fair value of assets measured on a recurring basis by fair value hierarchy as of June 30, 2019:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Taxable bonds and taxable bond funds	\$ 1,058,300	\$ -	\$ 1,058,300	\$ -
Beneficial interest in assets held by foundation	<u>196,042</u>	-	<u>196,042</u>	-
	<u><u>\$ 1,254,342</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,254,342</u></u>	<u><u>\$ -</u></u>

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 4 - Fair Value Measurements (continued)

The following table summarizes the Organization's fair value of assets measured on a recurring basis by fair value hierarchy as of June 30, 2018:

	Fair Value	Level 1	Level 2	Level 3
Certificates of deposit	\$ 849,113	\$ -	\$ 849,113	\$ -

Changes in Fair Value Levels. The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Organization evaluated the significance of transfers between levels based upon the nature of the financial instruments and size of the transfer relative to total net assets available for benefits. For the years ended June 30, 2019 and 2018, there were no significant transfers in or out of fair value levels.

The following sets forth a summary of the Organization's beneficial interest in assets held by foundation reported at NAV at June 30, 2019:

Fair Value	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions	Redemption Notice Period
\$ 196,042	N/A	Immediate	Redemptions will only be made upon written request of the Organization	None

Net investment earnings consisted of the following for the years ended June 30:

	2019	2018
Interest, dividends, and net gains	\$ 29,800	\$ 15,273
Change in value of beneficial interest in assets held by foundation	3,917	-
	<u>\$ 33,717</u>	<u>\$ 15,273</u>

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 5 - Right-of-use Asset

Right-of-use assets consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Right-of-use asset under operating leases (equipment)	\$ 339,946	\$ 339,946
Less accumulated amortization	<u>(224,103)</u>	<u>(171,059)</u>
Net right-of-use asset	<u>\$ 115,843</u>	<u>\$ 168,887</u>

Annual amortization for the years ended June 30, 2019 and 2018 was \$53,044 and \$49,717, respectively.

Note 6 - Board-Designated Net Assets

As of June 30, 2019 and 2018, the Organization's board of directors designated net assets for operations of \$2,339,463 and \$2,240,163, respectively. These designations are based on the next six months of budgeted operational expenses as of the respective year-end.

Note 7 - Net Assets with Donor Restrictions

A summary of net assets with donor restrictions at June 30, 2019 is as follows:

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Releases</u>	<u>June 30, 2019</u>
Time restrictions	\$ 51,000	\$ 86,382	\$ 51,000	\$ 86,382
Purpose restrictions				
Summer food program	45,000	110,000	63,000	92,000
Job training program	10,000	15,500	10,000	15,500
	<u>\$ 106,000</u>	<u>\$ 211,882</u>	<u>\$ 124,000</u>	<u>\$ 193,882</u>

A summary of net assets with donor restrictions at June 30, 2018 is as follows:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Releases</u>	<u>June 30, 2018</u>
Time restrictions	\$ 29,210	\$ 50,000	\$ 28,210	\$ 51,000
Purpose restrictions				
Summer food program	40,000	5,000	-	45,000
Job training program	-	10,000	-	10,000
	<u>\$ 69,210</u>	<u>\$ 65,000</u>	<u>\$ 28,210</u>	<u>\$ 106,000</u>

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 8 - Endowment Funds

The Organization's endowment consists of a single fund with the Ann Arbor Area Community Foundation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The following summarizes the changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions
Endowment net assets, July 1, 2018	\$ -
Interest and dividends	2,491
Net realized and unrealized gains	3,327
Investment and administrative fees	(1,901)
Contributions	192,125
Change in endowment net assets	<u>196,042</u>
Endowment net assets, June 30, 2019	<u>\$ 196,042</u>

Note 9 - Leases and Commitments

Operating lease obligations consist of the following at June 30:

	2019	2018
Operating lease agreement for a vehicle; monthly payment of \$1,218 as of June 30, 2019; 84-month lease term expiring January 2021	\$ 22,205	\$ 35,352
Operating lease agreement for a vehicle; monthly payment of \$1,575 as of June 30, 2019; 84-month lease term expiring August 2020	21,380	38,740
Operating lease agreement for a vehicle; monthly payment of \$1,853 as of June 30, 2019; 78-month lease term expiring May 2022	60,227	78,940
Operating lease agreement for office equipment; monthly payment of \$257 as of June 30, 2019; 60-month lease term expiring March 2022	7,911	10,529
Operating lease agreement for office equipment; monthly payment of \$120 as of June 30, 2019; 51-month lease term expiring July 2022	<u>4,120</u>	<u>5,326</u>
Total carried to next page	\$ 115,843	\$ 168,887

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 9 - Leases and Commitments (continued)

	<u>2019</u>	<u>2018</u>
Total from previous page	\$ 115,843	\$ 168,887
Less current portion	<u>(55,758)</u>	<u>(53,044)</u>
Operating lease obligations, net of current portion net of current portion	<u>\$ 60,085</u>	<u>\$ 115,843</u>
Weighted average discount rate at June 30	5%	5%
Weighted average remaining lease term at June 30	2.3 years	3.3 years

Future annual undiscounted lease payments under operating leases are as follows at June 30, 2019:

Year ended <u>June 30</u>	<u>Total</u>
2020	\$ 55,758
2021	36,418
2022	23,548
2023	119
	<u>\$ 115,843</u>

Note 10 - Letter of Credit

The Organization has an irrevocable standby letter of credit to secure payment of insurance claims on its self-insured state unemployment plan. The letter of credit stood at \$53,670 and \$52,299 at June 30, 2019 and 2018, respectively. The letter of credit is unsecured.

Note 11 - In-Kind Contributions

In-kind contributions consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Donated food	\$ 10,031,693	\$ 8,645,882
Donated equipment and supplies	40,723	33,053
Donated delivery services	5,000	5,000
Donated graphic design services	5,156	900
	<u>\$ 10,082,572</u>	<u>\$ 8,684,835</u>

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 12 - Special Events

The Organization derived net revenue from the following special fundraising events during the year ended June 30, 2019:

	<u>Grillin'</u>	<u>Rockin'</u>	<u>Total</u>
Sales and contributions	\$ 321,527	\$ 369,363	\$ 690,890
Direct costs	<u>(123,018)</u>	<u>(2,118)</u>	<u>(125,136)</u>
Net revenue	<u>\$ 198,509</u>	<u>\$ 367,245</u>	<u>\$ 565,754</u>

The Organization derived net revenue from the following special fundraising events during the year ended June 30, 2018:

	<u>Grillin'</u>	<u>Rockin'</u>	<u>Total</u>
Sales and contributions	\$ 333,227	\$ 333,425	\$ 666,652
Direct costs	<u>(105,830)</u>	<u>(4,468)</u>	<u>(110,298)</u>
Net revenue	<u>\$ 227,397</u>	<u>\$ 328,957</u>	<u>\$ 556,354</u>

Note 13 - Retirement Plan

The Organization maintains a 401(k) plan covering all employees who have completed at least 90 days of service. The Organization makes a safe harbor matching contribution of 200% of an employee's deferrals that do not exceed 3% of compensation. These matching contributions are 100% vested. Amounts contributed by the Organization were \$99,185 and \$100,912 for the years ended June 30, 2019 and 2018, respectively.

Note 14 - Liquidity and Availability

The Organization receives significant contributions and promises to give that are restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability; maintaining adequate liquid assets to fund near-term operating needs; and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of six months budgeted operating expenses. To achieve this target, the Organization forecasts its future cash flows and monitors its liquidity quarterly, and monitors its reserves annually. During the years ended June 30, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 14 - Liquidity and Availability (continued)

The Organization's financial assets available for general expenditures within one year are as follows at June 30:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 2,598,536	\$ 2,431,737
Investments	1,058,300	849,113
Pledges and grants receivable	86,382	51,000
Accounts receivable	40,064	27,840
Prepaid expenses	23,861	22,360
	<u>3,807,143</u>	<u>3,382,050</u>
Less amounts not available to be used within one year:		
Assets designated by the board for operational reserve	(2,339,463)	(2,240,163)
Pledges and grants receivable for long-term purposes	-	(1,000)
	<u>(2,339,463)</u>	<u>(2,241,163)</u>
Financial assets available for general expenditures within one year	<u>\$ 1,467,680</u>	<u>\$ 1,140,887</u>

Note 15 - Beneficial Interest in Assets Held at Community Foundation

The Ann Arbor Area Community Foundation ("the Foundation") acts under an arrangement as a depository for gifts, conveyances, and other transfers intended to assist Food Gatherers in achieving its goals and purposes. At June 30, 2019, the Foundation held donations for the benefit of Food Gatherers of \$15,182. As the Foundation holds variance power over these assets and, therefore, has the authority to redirect these funds, these amounts are not recorded as assets of the Organization.

Note 16 - State Unemployment Self-Insurance Plan

The Organization participates in a state unemployment self insurance plan. The claim exposure varies based on the number of state approved claims. Under the plan, the Organization accrues the estimated expense of state unemployment costs based on approved claims received from its insurance company. There were no accruals as of June 30, 2019 and 2018. Claim payments based on actual claims ultimately filed could differ materially from these estimates.

Note 17 - Subsequent Event

Subsequent to year-end, the Organization approved \$262,520 for the purchase of solar panels to be installed on their building. Through the date these financial statements were available for release, the Organization expended \$114,035 for this project.

Food Gatherers

Notes to Financial Statements

June 30, 2019 and 2018

Note 18 - Concentrations

Major Grantors. The Organization had two major grantors of noncash food product, which comprised approximately 27% of total support and revenue for the year ended June 30, 2019. The Organization had one major grantor of noncash food product, which comprised approximately 14% of total support and revenue for the year ended June 30, 2018.

Bank Deposits. At certain times during the years ended June 30, 2019 and 2018, the Organization maintained cash balances in excess of federally insured limits. Management believes the risk of loss on these amounts is minimal.

Geographical. The Organization receives a substantial amount of its support and revenue from within the Washtenaw County area. The effects of this concentration of credit risk on the Organization's financial statements have not been determined for the years ended June 30, 2019 and 2018.