

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

Financial Statements

June 30, 2020 and 2019

Food Gatherers

Table of Contents

Independent Auditors' Report	Pages 1-2
Statements of Financial Position June 30, 2020 and 2019	Page 3
Statement of Activities Year ended June 30, 2020	Page 4
Statement of Activities Year ended June 30, 2019	Page 5
Statement of Functional Expenses Year ended June 30, 2020	Page 6
Statement of Functional Expenses Year ended June 30, 2019	Page 7
Statements of Cash Flows Years ended June 30, 2020 and 2019	Page 8
Notes to Financial Statements	Pages 9-23

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, 2020 and 2019, 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, 2020 and 2019, 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 20, 2020, 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 20, 2020

Food Gatherers

Statements of Financial Position

June 30	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,429,387	\$ 2,598,536
Investments	1,185,269	1,058,300
Food inventory, net of allowance for spoilage of \$60,192 in 2020 and \$89,125 in 2019	1,002,041	1,266,994
Pledges and grants receivable	-	86,382
Accounts receivable	7,340	40,064
Prepaid expenses	53,704	23,861
Total current assets	<u>7,677,741</u>	<u>5,074,137</u>
Property and Equipment		
Equipment and furniture	584,875	335,276
Vehicles	130,493	74,517
Building and improvements	5,163,657	5,163,657
Land	165,613	165,613
Less accumulated depreciation	(1,862,855)	(1,716,698)
Net property and equipment	<u>4,181,783</u>	<u>4,022,365</u>
Other Assets		
Beneficial interest in assets held by foundation	196,180	196,042
Right-of-use asset, net	<u>194,016</u>	<u>115,843</u>
Total other assets	<u>390,196</u>	<u>311,885</u>
Total assets	<u>\$ 12,249,720</u>	<u>\$ 9,408,387</u>

	2020	2019
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 38,500	\$ 66,502
Accrued compensation and benefits	118,621	88,742
Other accrued expenses	-	1,546
Current portion of operating lease obligations	55,066	55,758
Total current liabilities	<u>212,187</u>	<u>212,548</u>
Long Term Liabilities		
Operating lease obligations, net of current portion	<u>138,950</u>	<u>60,085</u>
Total liabilities	<u>351,137</u>	<u>272,633</u>
Net Assets		
Without donor restrictions		
Undesignated	4,994,918	2,384,002
Net property and equipment	4,181,783	4,022,365
Board-designated endowment	196,180	196,042
Board-designated for operations	2,438,174	2,339,463
Total without donor restrictions	<u>11,811,055</u>	<u>8,941,872</u>
With donor restrictions	<u>87,528</u>	<u>193,882</u>
Total net assets	<u>11,898,583</u>	<u>9,135,754</u>
Total liabilities and net assets	<u>\$ 12,249,720</u>	<u>\$ 9,408,387</u>

Food Gatherers

Statement of Activities

Year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Operating Support and Revenue			
Support			
In-kind contributions	\$ 10,504,196	\$ -	\$ 10,504,196
Contributions	4,850,447	-	4,850,447
Grants	2,252,882	100,000	2,352,882
Special events, net of expenses of \$1,116 in 2020	376,993	-	376,993
Net assets released from restrictions			
Satisfaction of program restrictions	119,972	(119,972)	-
Expiration of time restrictions	86,382	(86,382)	-
Total support	<u>18,190,872</u>	<u>(106,354)</u>	<u>18,084,518</u>
Revenue			
Food bank revenue	310,985	-	310,985
Other revenue	2,526	-	2,526
Total revenue	<u>313,511</u>	<u>-</u>	<u>313,511</u>
Total operating support and revenue	<u>18,504,383</u>	<u>(106,354)</u>	<u>18,398,029</u>
Operating Expenses			
Program services			
Food rescue and distribution	13,902,114	-	13,902,114
Community kitchen	495,835	-	495,835
Summer food service program	353,969	-	353,969
Total program services	<u>14,751,918</u>	<u>-</u>	<u>14,751,918</u>
Supporting services			
General and administrative	427,656	-	427,656
Fundraising	484,560	-	484,560
Total supporting services	<u>912,216</u>	<u>-</u>	<u>912,216</u>
Total operating expenses	<u>15,664,134</u>	<u>-</u>	<u>15,664,134</u>
Total operating support and revenue in excess (deficit) of operating expenses	<u>2,840,249</u>	<u>(106,354)</u>	<u>2,733,895</u>
Other Changes			
Investment income	34,826	-	34,826
Change in value of beneficial interest in assets held by foundation	(862)	-	(862)
Loss on disposal of property and equipment	(5,030)	-	(5,030)
Total other changes	<u>28,934</u>	<u>-</u>	<u>28,934</u>
Change in Net Assets	<u>2,869,183</u>	<u>(106,354)</u>	<u>2,762,829</u>
Net Assets, Beginning of Year	<u>8,941,872</u>	<u>193,882</u>	<u>9,135,754</u>
Net Assets, End of Year	<u>\$ 11,811,055</u>	<u>\$ 87,528</u>	<u>\$ 11,898,583</u>

The accompanying Notes are an integral part of these financial statements

Food Gatherers

Statement of Activities

Years ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
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	565,754	-	565,754
Net assets released from restrictions			
Satisfaction of program restrictions	73,000	(73,000)	-
Expiration of time restrictions	51,000	(51,000)	-
Total support	<u>14,245,489</u>	<u>87,882</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>
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>

The accompanying Notes are an integral
part of these financial statements

Food Gatherers

Statement of Functional Expenses

Year ended June 30, 2020

	Program Services				Supporting Services			Total Expenses
	Food Rescue and Distribution	Community Kitchen	Summer Food Service Program	Total	General and Administrative	Fundraising	Total	
Cost of food distributed - in-kind	\$ 10,644,299	\$ 219,470	\$ 109,735	\$ 10,973,504	\$ -	\$ -	\$ -	\$ 10,973,504
Cost of food distributed - purchased	1,294,786	51,797	175,509	1,522,092	-	-	-	1,522,092
Total cost of food distributed	<u>11,939,085</u>	<u>271,267</u>	<u>285,244</u>	<u>12,495,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,495,596</u>
Salaries and wages	844,218	133,883	29,635	1,007,736	276,693	246,850	523,543	1,531,279
Fringe benefits	170,393	30,754	4,543	205,690	19,858	31,787	51,645	257,335
Payroll taxes	66,804	17,403	2,268	86,475	15,296	16,568	31,864	118,339
Total personnel costs	<u>1,081,415</u>	<u>182,040</u>	<u>36,446</u>	<u>1,299,901</u>	<u>311,847</u>	<u>295,205</u>	<u>607,052</u>	<u>1,906,953</u>
Occupancy	178,444	15,691	1,011	195,146	13,263	15,783	29,046	224,192
Supplies	147,601	17,463	6,918	171,982	11,556	148	11,704	183,686
Depreciation	149,771	-	-	149,771	26,430	-	26,430	176,201
Equipment rental and maintenance	140,346	2,894	3,675	146,915	-	-	-	146,915
Bank and credit card charges	-	-	-	-	3,937	78,784	82,721	82,721
Vehicle expenses	68,414	1,411	705	70,530	-	-	-	70,530
Grants to partner agencies	70,000	-	-	70,000	-	-	-	70,000
Advertising and marketing	1,173	58	-	1,231	25	52,794	52,819	54,050
Insurance	36,439	419	209	37,067	5,925	-	5,925	42,992
Partner programs	36,894	-	-	36,894	-	-	-	36,894
IT consulting and website	4,605	-	-	4,605	16,118	13,151	29,269	33,874
Telephone	20,951	767	351	22,069	1,622	1,210	2,832	24,901
Accounting fees	-	-	-	-	24,146	-	24,146	24,146
Postage and shipping	2,235	2	25	2,262	254	21,287	21,541	23,803
Specific assist - stipends	-	3,255	15,600	18,855	-	-	-	18,855
Travel	8,830	84	3,245	12,159	817	1,632	2,449	14,608
Training	7,870	483	45	8,398	218	407	625	9,023
Miscellaneous expense	430	-	-	430	7,547	47	7,594	8,024
Dues and subscriptions	2,611	1	495	3,107	621	4,112	4,733	7,840
Donated delivery services	5,000	-	-	5,000	-	-	-	5,000
Legal fees	-	-	-	-	3,330	-	3,330	3,330
Total expenses	<u>\$ 13,902,114</u>	<u>\$ 495,835</u>	<u>\$ 353,969</u>	<u>\$ 14,751,918</u>	<u>\$ 427,656</u>	<u>\$ 484,560</u>	<u>\$ 912,216</u>	<u>\$ 15,664,134</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				Supporting Services			Total Expenses
	Food Rescue and Distribution	Community Kitchen	Summer Food Service Program	Total	General and Administrative	Fundraising	Total	
Cost of food distributed - in-kind	\$ 9,455,008	\$ -	\$ -	\$ 9,455,008	\$ -	\$ -	\$ -	\$ 9,455,008
Cost of food distributed - purchased	1,055,421	87,025	102,181	1,244,627	-	-	-	1,244,627
Total cost of food distributed	10,510,429	87,025	102,181	10,699,635	-	-	-	10,699,635
Salaries and wages	909,764	112,381	20,242	1,042,387	215,492	241,691	457,183	1,499,570
Fringe benefits	156,528	31,332	3,282	191,142	22,142	35,017	57,159	248,301
Payroll taxes	70,489	14,539	1,469	86,497	9,865	15,601	25,466	111,963
Total personnel costs	1,136,781	158,252	24,993	1,320,026	247,499	292,309	539,808	1,859,834
Occupancy	156,321	13,334	-	169,655	13,777	15,588	29,365	199,020
Depreciation	145,427	-	-	145,427	25,663	-	25,663	171,090
Equipment rental and maintenance	146,570	-	-	146,570	9,569	-	9,569	156,139
Supplies	74,041	20,074	10,138	104,253	2,127	1,627	3,754	108,007
Vehicle expenses	62,655	-	-	62,655	-	-	-	62,655
Advertising and marketing	490	-	-	490	-	53,997	53,997	54,487
Insurance	34,739	-	-	34,739	10,600	-	10,600	45,339
Bank and credit card charges	-	-	-	-	2,625	41,640	44,265	44,265
Partner programs	33,624	-	-	33,624	-	-	-	33,624
Specific assist - stipends	4,230	7,949	14,400	26,579	-	-	-	26,579
Accounting fees	-	-	-	-	22,525	-	22,525	22,525
IT consulting and website	4,414	-	-	4,414	14,727	2,774	17,501	21,915
Travel	13,348	2,126	2,181	17,655	1,037	380	1,417	19,072
Grants to partner agencies	17,000	-	-	17,000	-	-	-	17,000
Telephone	13,643	545	46	14,234	1,120	405	1,525	15,759
Dues and subscriptions	9,227	361	-	9,588	2,397	1,324	3,721	13,309
Postage and shipping	1,102	239	-	1,341	1,054	10,020	11,074	12,415
Training	7,430	75	1,308	8,813	205	1,740	1,945	10,758
Donated delivery services	5,000	-	-	5,000	-	-	-	5,000
Miscellaneous expense	-	-	-	-	1,962	1,648	3,610	3,610
Legal fees	-	-	-	-	1,640	-	1,640	1,640
Total expenses	\$ 12,376,471	\$ 289,980	\$ 155,247	\$ 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

Statements of Cash Flows

Increase (Decrease) in Cash and Cash Equivalents

Years ended June 30	2020	2019
Cash Flows From Operating Activities		
Change in net assets	\$ 2,762,829	\$ 1,068,915
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	176,201	171,090
Donated food inventory and provision for spoilage	474,307	(622,564)
Change in value of beneficial interest in assets held by foundation	(138)	-
Loss on disposition of property and equipment	5,030	-
Increase (decrease) from changes in assets and liabilities		
Purchased food inventory	(209,354)	18,652
Pledges and grants receivable	86,382	(35,382)
Accounts receivable	32,724	(12,224)
Prepaid expenses	(29,843)	(1,501)
Accounts payable	(28,002)	19,952
Accrued compensation and benefits	29,879	6,604
Other accrued expenses	(1,546)	(239)
Refundable advances	-	(20,962)
Net cash provided by operating activities	<u>3,298,469</u>	<u>592,341</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(340,649)	(20,313)
Net purchases of investments	<u>(126,969)</u>	<u>(405,229)</u>
Net cash used by investing activities	<u>(467,618)</u>	<u>(425,542)</u>
Net Increase in Cash and Cash Equivalents	2,830,851	166,799
Cash and Cash Equivalents, Beginning of Year	<u>2,598,536</u>	<u>2,431,737</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 5,429,387</u></u>	<u><u>\$ 2,598,536</u></u>

The accompanying Notes are an integral
part of these financial statements

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

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.

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.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

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

Description of Supporting Services (continued):

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.

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.

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.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

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

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.

Investments and New Accounting Pronouncement. The Organization's investments are stated at fair value. 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 Organization's management determines the valuation policies utilizing information provided by the investment advisors and custodians. During the year ended June 30, 2020, the Organization adopted the requirements of Accounting Standards Update ("ASU") 2016-01, *Topic 825-10, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, applying the requirements retrospectively to the comparative period presented. For the Organization, the ASU updates the presentation and disclosure requirements of financial assets and investments in equity securities. See *Fair Value Measurements*.

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.

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.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

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

The following is a description of the valuation methodologies used for certain assets measured at fair value. See *New Accounting Pronouncement - ASU 2015-07* (below) for changes in methodologies used at June 30, 2020 and 2019.

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.

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.

New Accounting Pronouncement - ASU 2015-07. In May 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-07, *Topic 820, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using the net asset value ("NAV") per share practical expedient. During the year ended June 30, 2020, the Organization adopted the requirements of ASU 2015-07 and, as a result, adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. As a result of implementing this standard, \$196,042 of investments using Level 2 inputs were reclassified to investments measured at NAV at June 30, 2019.

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 support at its estimated fair value at the date of donation, taking into consideration spoilage and utility for use. See *Donated Food Inventory*.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

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

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. There were no pledges and grants receivable as of June 30, 2020.

Accounts Receivable. Predominately all accounts receivable at June 30, 2020 and 2019 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, 2020 and 2019.

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 the straight-line method 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, 2020 and 2019 was \$176,201 and \$171,090, 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, 2020 and 2019.

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.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

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

Basis of Net Asset 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.

Contributions and Grants. Contributions and grants are recognized when amounts are received. Donor-restricted amounts are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions and grants that are restricted by the donor or grantor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the amounts 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>2020</u>	<u>2019</u>
Food-only items	\$ 1.49	\$ 1.52
Mixed food and non-food items	\$ 1.74	\$ 1.62

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

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 \$54,050 and \$54,487 for the years ended June 30, 2020 and 2019, 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.

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 20, 2020, the date at which the financial statements were available for release.

Note 2 - New Accounting Pronouncement

In June 2018, FASB issued ASU 2018-08, *Topic 958, Clarifying the Scope and the Guidance for Contributions Received and Contributions Made*, with the stated purposes of improving the accounting and financial reporting of grants and similar contracts as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and of distinguishing between conditional and unconditional contributions.

During the year ended June 30, 2020, the Organization adopted the requirements of ASU 2018-08, applying the requirements retrospectively to the comparative period presented. Management has evaluated the effects of the new standard and has determined that the standard has had no changes to the financial statements for the year ended June 30, 2019.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 3 - 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, 2020:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Taxable bonds and taxable bond funds	\$ 1,185,269	\$ -	\$ 1,185,269	\$ -
Total assets in FV hierarchy	<u>\$ 1,185,269</u>	<u>\$ -</u>	<u>\$ 1,185,269</u>	<u>\$ -</u>
Investments measured at NAV: Beneficial interest in assets held by Foundation (see Note 1)	<u>196,180</u>			
Total assets valued at fair value	<u>\$ 1,381,449</u>			

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	\$ -
Total assets in FV hierarchy	<u>\$ 1,058,300</u>	<u>\$ -</u>	<u>\$ 1,058,300</u>	<u>\$ -</u>
Investments measured at NAV: Beneficial interest in assets held by Foundation (see Note 1)	<u>196,042</u>			
Total assets valued at fair value	<u>\$ 1,254,342</u>			

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 year ended June 30, 2020, there were no significant transfers in or out of fair value levels. For the year ended June 30, 2019, investments using Level 2 inputs were reclassified to investments measured at NAV (see Note 1).

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 3 - Fair Value Measurements (continued)

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

	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period</u>
2020					
\$	196,180	N/A	Immediate	Redemptions will only be made upon written request of the Organization	None
2019					
\$	196,042	N/A	Immediate		None

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

	<u>2020</u>	<u>2019</u>
Interest, dividends, and net gains	\$ 34,826	\$ 29,800
Change in value of beneficial interest in assets held by foundation	(862)	3,917
	<u>\$ 33,964</u>	<u>\$ 33,717</u>

Note 4 - Right-of-use Assets

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

	<u>2020</u>	<u>2019</u>
Right-of-use assets under operating leases (equipment)	\$ 482,691	\$ 339,946
Less accumulated amortization	(288,675)	(224,103)
Net right-of-use assets	<u>\$ 194,016</u>	<u>\$ 115,843</u>

Annual amortization for the years ended June 30, 2020 and 2019 was \$64,572 and \$53,044, respectively.

Note 5 - Board-Designated Net Assets

As of June 30, 2020 and 2019, the Organization's board of directors designated net assets for operations of \$2,438,174 and \$2,339,463, respectively. These designations are based on the next six months of budgeted operational expenses as of the respective year-end.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 6 - Net Assets with Donor Restrictions

A summary of net assets with donor restrictions at June 30, 2020 is as follows:

	July 1, 2019	Additions	Releases	June 30, 2020
Time restrictions	\$ 86,382	\$ -	\$ 86,382	\$ -
Purpose restrictions				
Summer food program	92,000	100,000	104,472	87,528
Job training program	15,500	-	15,500	-
	<u>\$ 193,882</u>	<u>\$ 100,000</u>	<u>\$ 206,354</u>	<u>\$ 87,528</u>

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

	July 1, 2018	Additions	Releases	June 30, 2019
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>

Note 7 - 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.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 7 - Endowment Funds (continued)

The following summarizes the changes in endowment net assets for the years ended June 30, 2020 and 2019:

	<u>Without Donor Restrictions</u>
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>
Interest and dividends	\$ 2,200
Net realized and unrealized losses	(1,398)
Investment and administrative fees	(1,664)
Contributions	1,000
Change in endowment net assets	<u>138</u>
Endowment net assets, June 30, 2020	<u><u>\$ 196,180</u></u>

Note 8 - Leases and Commitments

Operating lease obligations consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Operating lease agreement for a vehicle; monthly payment of \$1,218; 84-month lease term expiring January 2021	\$ 8,386	\$ 22,205
Operating lease agreement for a vehicle; monthly payment of \$1,575; 84-month lease term expiring August 2020	3,131	21,380
Operating lease agreement for a vehicle; monthly payment of \$1,853; 78-month lease term expiring May 2022	<u>40,557</u>	<u>60,227</u>
Total carried to next page	\$ 52,074	\$ 103,812

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 8 - Leases and Commitments (continued)

	<u>2020</u>	<u>2019</u>
Total from previous page	\$ 52,074	\$ 103,812
Operating lease agreement for office equipment; monthly payment of \$257; 60-month lease term expiring March 2022	5,159	7,911
Operating lease agreement for office equipment; monthly payment of \$120; 51-month lease term expiring July 2022	2,852	4,120
Operating lease agreement for a vehicle; monthly payment of \$1,097; 84-month lease term expiring March 2027	75,268	-
Operating lease agreement for a vehicle; monthly payment of \$980; 78-month lease term expiring March 2026	<u>58,663</u>	-
Total	194,016	115,843
Less current portion	<u>(55,066)</u>	<u>(55,758)</u>
Operating lease obligations, net of current portion net of unamortized present value discount	<u>\$ 138,950</u>	<u>\$ 60,085</u>
Weighted average discount rate at June 30	5%	5%
Weighted average remaining lease term at June 30	2.7 years	2.3 years

Future annual undiscounted lease payments under operating leases are as follows at June 30, 2020:

Year ended <u>June 30</u>	<u>Total</u>
2021	\$ 55,066
2022	43,150
2023	20,725
2024	21,659
2025	22,768
Thereafter	30,648
	<u>\$ 194,016</u>

Note 9 - 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 was calculated at \$59,853 and \$53,670 with no outstanding claims at June 30, 2020 and 2019, respectively. The letter of credit is unsecured.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 10 - In-Kind Contributions

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

	<u>2020</u>	<u>2019</u>
Donated food	\$ 10,499,196	\$ 10,031,693
Donated equipment and supplies	-	40,723
Donated delivery services	5,000	5,000
Donated graphic design services	-	5,156
	<u>\$ 10,504,196</u>	<u>\$ 10,082,572</u>

Note 11 - Special Events

The Organization derived net support from the following special fundraising event during the year ended June 30, 2020:

	<u>Rockin'</u>
Sales and contributions	\$ 378,109
Direct costs	(1,116)
Net support	<u>\$ 376,993</u>

The Organization derived net support 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	(123,018)	(2,118)	(125,136)
Net support	<u>\$ 198,509</u>	<u>\$ 367,245</u>	<u>\$ 565,754</u>

Note 12 - 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 \$108,967 and \$99,185 for the years ended June 30, 2020 and 2019, respectively.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 13 - Liquidity and Availability of Resources

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, 2020 and 2019, the level of liquidity and reserves was managed within the policy requirements.

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

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 5,429,387	\$ 2,598,536
Investments	1,185,269	1,058,300
Pledges and grants receivable	-	86,382
Accounts receivable	7,340	40,064
Prepaid expenses	53,704	23,861
	<u>6,675,700</u>	<u>3,807,143</u>
Less amounts not available to be used within one year:		
Assets designated by the board for operational reserve	<u>(2,438,174)</u>	<u>(2,339,463)</u>
	<u>(2,438,174)</u>	<u>(2,339,463)</u>
Financial assets available for general expenditures within one year	<u>\$ 4,237,526</u>	<u>\$ 1,467,680</u>

Note 14 - 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, 2020 and 2019, the Foundation held donations for the benefit of Food Gatherers of \$16,690 and \$15,182, respectively. 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.

Food Gatherers

Notes to Financial Statements

June 30, 2020 and 2019

Note 15 - 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, 2020 and 2019. Claim payments based on actual claims ultimately filed could differ materially from these estimates.

Note 16 - 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.

Bank Deposits. At certain times during the years ended June 30, 2020 and 2019, 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, 2020 and 2019.

Note 17 - Uncertainty Related to Virus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including Michigan, where the Organization is headquartered, have declared a state of emergency.

Potential impacts to the Organization include disruptions or restrictions on the Organization's ability to work which may include restrictions on its ability to provide services, raise funds, and perform necessary administrative tasks. The potential impacts of COVID-19 on the Organization's funders that may affect the funders' ability to continue to support the Organization's operations are unknown.

COVID-19 may also adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could adversely impact the Organization's operating results. Although management continues to monitor and assess the effects of the COVID-19 pandemic on its operations, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.