

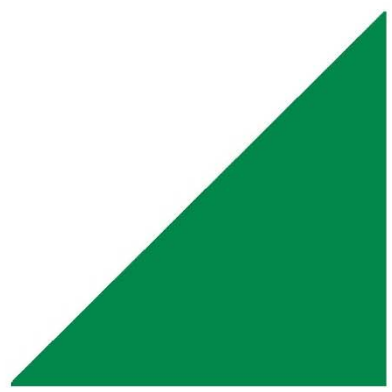


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MANNA FOOD CENTER, INC.

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

YEARS ENDED JUNE 30, 2019 AND 2018



MANNA FOOD CENTER, INC.

For the Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Manna Food Center, Inc.
Silver Spring, Maryland

We have audited the accompanying financial statements of Manna Food Center, Inc., (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.

Auditor's 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manna Food Center, Inc., 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, the Organization adopted new accounting guidance in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The guidance has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

E. Cohen and Company, CPAs

October 30, 2019

MANNA FOOD CENTER, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 706,681	\$ 1,244,624
Grants receivable	132,305	95,046
Capital campaign pledges, current portion	454,637	65,333
Other receivables	600	-
Investments	895,352	189,982
Prepaid expenses, current portion	83,487	46,285
Inventory	121,550	196,063
Total current assets	<u>2,394,612</u>	<u>1,837,333</u>
Noncurrent assets		
Property and equipment, net	481,503	192,618
Capital campaign pledges, net of current portion	124,475	116,237
Prepaid expenses, net of current portion	2,000	15,016
Certificate of deposit	18,591	18,591
Security deposits	14,907	350
Total noncurrent assets	<u>641,476</u>	<u>342,812</u>
Total assets	<u><u>\$ 3,036,088</u></u>	<u><u>\$ 2,180,145</u></u>

MANNA FOOD CENTER, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2019 AND 2018

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 36,220	\$ 25,294
Accrued payroll liabilities	68,771	63,181
Deferred rent liability, current portion	<u>1,613</u>	<u>19,006</u>
Total current liabilities	<u>106,604</u>	<u>107,481</u>
Noncurrent liabilities		
Deferred rent liability, net of current portion	<u>-</u>	<u>1,613</u>
Total liabilities	<u>106,604</u>	<u>109,094</u>
Net assets		
Without donor restrictions	2,063,399	1,730,166
With donor restrictions	<u>866,085</u>	<u>340,885</u>
Total net assets	<u>2,929,484</u>	<u>2,071,051</u>
Total liabilities and net assets	<u><u>\$ 3,036,088</u></u>	<u><u>\$ 2,180,145</u></u>

MANNA FOOD CENTER, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Donated food and supplies	\$ 4,429,414	\$ -	\$ 4,429,414
Contributions	2,072,311	-	2,072,311
Governmental grants	946,140	-	946,140
Special events less direct expenses of \$23,544	43,931	-	43,931
Contributed services	76,689	-	76,689
Other income	4,570	-	4,570
Net assets released from restriction	53,587	(53,587)	-
Total revenue and support	<u>7,626,642</u>	<u>(53,587)</u>	<u>7,573,055</u>
Program and operating expenses			
Program services	7,031,512	-	7,031,512
Management and general	253,434	-	253,434
Fundraising	399,237	-	399,237
Total program and operating expenses	<u>7,684,183</u>	<u>-</u>	<u>7,684,183</u>
Transfer of capital campaign expenses from operations	145,165		145,165
Operating revenues in excess of operating expenses and transfers	87,624	(53,587)	34,037
Other changes			
Investment income	28,654	-	28,654
Capital campaign pledges	362,120	578,787	940,907
Transfer of expenses from operating activities			
Capital campaign expenses	(145,165)		(145,165)
Change in net assets	<u>333,233</u>	<u>525,200</u>	<u>858,433</u>
Net assets, beginning	<u>1,730,166</u>	<u>340,885</u>	<u>2,071,051</u>
Net assets, ending	<u>\$ 2,063,399</u>	<u>\$ 866,085</u>	<u>\$ 2,929,484</u>

MANNA FOOD CENTER, INC.

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Donated food and supplies	\$ 5,058,233	\$ -	\$ 5,058,233
Contributions	2,075,988	53,295	2,129,283
Governmental grants	770,762	-	770,762
Special events less direct expenses of \$20,636	31,307	292	31,599
Contributed services	15,362	-	15,362
Other income	5,876	-	5,876
Net assets released from restriction	558	(558)	-
Total revenue and support	<u>7,958,086</u>	<u>53,029</u>	<u>8,011,115</u>
Program and operating expenses			
Program services	7,418,373	-	7,418,373
Management and general	227,936	-	227,936
Fundraising	389,684	-	389,684
Total program and operating expenses	<u>8,035,993</u>	<u>-</u>	<u>8,035,993</u>
Transfer of capital campaign expenses from operations	92,529		92,529
Operating revenues in excess of operating expenses and transfers	14,622	53,029	67,651
Other changes			
Investment income	16,035	-	16,035
Capital campaign pledges	-	272,070	272,070
Transfer of expenses from operating activities			
Capital campaign expenses	(92,529)	-	(92,529)
Change in net assets	(61,872)	325,099	263,227
Net assets, beginning	<u>1,792,038</u>	<u>15,786</u>	<u>1,807,824</u>
Net assets, ending	<u>\$ 1,730,166</u>	<u>\$ 340,885</u>	<u>\$ 2,071,051</u>

MANNA FOOD CENTER, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	Program Services	Management and General	Fundraising	Total
In-kind distributed food	\$ 4,105,506	\$ -	\$ -	\$ 4,105,506
Salaries	1,115,818	88,340	119,688	1,323,846
Purchased food	427,313	-	-	427,313
Inventory shrinkage	398,421	-	-	398,421
Professional services	177,828	75,713	3,845	257,386
Occupancy	191,526	18,279	18,979	228,784
Capital campaign expenses			145,165	145,165
Payroll taxes	88,371	5,410	9,477	103,258
Health insurance	34,632	42,994	3,757	81,383
Grants	68,993	-	-	68,993
Depreciation	52,476	3,685	5,629	61,790
Printing and reproduction	9,494	641	51,131	61,266
Warehouse supplies	57,865	230	352	58,447
Office expense	35,334	3,852	4,415	43,601
Technology	31,315	1,557	6,072	38,944
Retirement plan	26,855	1,885	2,880	31,620
Gas, oil, and tolls	31,195			31,195
Workers compensation insurance	24,492	1,719	2,627	28,838
Vehicle and refrigeration repairs	27,934	-	-	27,934
Contribution processing fee	22,324	1,567	2,394	26,285
Equipment rental	22,922	112	169	23,203
Vehicle insurance	19,638	-	-	19,638
Temporary labor	17,460	-	-	17,460
Telephone and internet	12,988	912	1,393	15,293
Postage and delivery	165	2	12,160	12,327
Business insurance	7,496	2,719	805	11,020
Repairs and maintenance	10,294	286	368	10,948
Travel	5,441	2,701	1,342	9,484
Marketing and communication	875	3	5,047	5,925
Outreach	3,441	109	769	4,319
Permits and licensing	2,252	120	535	2,907
Dues and subscriptions	848	598	238	1,684
Total Expenses	\$ 7,031,512	\$ 253,434	\$ 399,237	\$ 7,684,183

MANNA FOOD CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Total
In-kind distributed food	\$ 4,776,840	\$ -	\$ -	\$ 4,776,840
Salaries	969,845	110,047	153,673	1,233,565
Inventory shrinkage	426,057	-	-	426,057
Purchased food	282,636	-	-	282,636
Occupancy	188,290	14,566	20,241	223,097
Community food rescue	120,077	-	-	120,077
Payroll taxes	78,538	9,819	12,308	100,665
Capital campaign expenses			92,529	92,529
Professional services	54,197	19,009	10,257	83,463
Health insurance	25,630	45,625	3,868	75,123
Technology	46,900	2,081	23,082	72,063
Depreciation	54,222	3,153	5,674	63,049
Warehouse supplies	56,768	193	281	57,242
Printing and reproduction	8,711	292	40,947	49,950
Vehicle and refrigeration repairs	44,429	-	-	44,429
Grants	40,230	-	-	40,230
Gas, oil, and tolls	34,800	-	-	34,800
Office expense	22,714	8,242	2,498	33,454
Retirement plan	24,473	2,919	4,448	31,840
Workers compensation insurance	26,031	2,061	2,993	31,085
Loss on disposition of property and equipment	25,125	1,461	2,629	29,215
Equipment rental	25,895	152	183	26,230
Vehicle insurance	25,893	-	-	25,893
Telephone and internet	11,039	789	1,314	13,142
Temporary labor	12,051	-	-	12,051
Contribution processing fee	9,923	709	1,181	11,813
Repairs and maintenance	10,348	1,068	386	11,802
Business insurance	6,142	2,753	706	9,601
Postage and delivery	593	394	7,289	8,276
Travel	4,834	834	903	6,571
Outreach	2,016	882	693	3,591
Permits and licensing	2,377	121	550	3,048
Dues and subscriptions	170	766	1,051	1,987
Other program related expenses	579	-	-	579
Total Expenses	\$ 7,418,373	\$ 227,936	\$ 389,684	\$ 8,035,993

MANNA FOOD CENTER, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 858,433	\$ 263,227
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donated food received	(4,429,414)	(5,058,233)
Donated food disbursed	4,105,506	4,776,840
Inventory shrinkage	398,421	426,057
Depreciation and amortization expense	61,790	63,049
Capital campaign contributions	(940,907)	(272,070)
Loss on disposition of property and equipment	-	29,215
Unrealized gain on investments	(19,220)	(8,073)
(Increase) decrease in assets		
Grants receivable	(37,259)	2,239
Contributions receivable	-	12,731
Other receivables	(600)	1,232
Prepaid expenses	(24,186)	(8,096)
Security deposits	(14,557)	-
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	10,926	(29,640)
Accrued payroll liabilities	5,590	6,012
Deferred rent liability	(19,006)	(14,876)
Net cash (used in) provided by operating activities	(44,483)	189,614
Cash flows from investing activities		
Reinvested earnings on investments	(5,279)	(4,111)
Purchases of investments	(680,871)	-
Purchases of property and equipment	(350,675)	(79,893)
Proceeds from sale of property and equipment	-	3,800
Net cash used in investing activities	(1,036,825)	(80,204)
Cash flows from financing activities		
Cash collected from capital campaign pledges	543,365	90,500
Net cash provided by financing activities	543,365	90,500
Net (decrease) increase in cash and cash equivalents	(537,943)	199,910
Cash and cash equivalents, beginning of year	1,244,624	1,044,714
Cash and cash equivalents, end of year	\$ 706,681	\$ 1,244,624

See independent auditor's report and notes to financial statements

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

1. Description of organization and operations

Organization

Manna Food Center, Inc. (the Organization) is a non-profit organization that is Montgomery County, Maryland's largest and most far-reaching provider of food assistance. The Organization strives to meet its neighbors' requests for services by serving as both a food bank and a food pantry. For more than three decades, the Organization has been a reliable "thread" in the social safety net for the vulnerable: the elderly, the disabled, individuals and families in crisis that require a supplement of nutritious food.

The Organization's work is built on three pillars that create a unique and comprehensive approach to hunger relief.

Pillar 1: Reduce hunger and improve access to nutritious food for Montgomery County residents who experience food insecurity.

Pillar 2: Strengthen community food skills and knowledge to encourage and enable healthy eating.

Pillar 3: Connect Montgomery County neighbors to service providers and to each other.

The Organization is the main food bank in Montgomery County, and nearly every local county and nonprofit organization relies on the Organization to provide essential food to their clients through their referral system. The vision for the Organization is to be at the center of ending hunger in their community. The Organization's signature programs include:

Food for Families: Distributes roughly 50 pounds of perishable and nonperishable food each month to an average of 3,146 families. Qualifying families must report income below Maryland's self-sufficiency standard. This program is run at 18 sites.

Smart Sacks: Distributes food through a network of almost sixty Montgomery County public elementary schools. The program fills a critical gap by providing food to children and their families on Fridays during the school year in order to ensure they have nutritious food to eat during the weekend. The program reaches about 2,910 children each week during the school year and 938 children weekly during the summer. The food bags are full of nutritious food that is selected by the Organization's registered dietitian. Use of the ingredients provided and sustained healthy eating is encouraged through educational materials included in the Smart Sacks bags throughout the school year. A new program for school-based pantries began this year serving two schools, Harmony Hills Elementary and Highland Elementary, and provided families both produce and shelf-stable food items in a choice setting. School-based pantries distributed a total of 21,324 pounds of food to 421 distinct families over 15 pantry events.

Community Food Rescue (CFR): Is a first-of-its kind, coordinated food recovery network led by the Organization and building on the former Food for Agencies program. By partnering with a range of hunger relief organizations, volunteers and business, the initiative is making sure that edible food reaches hungry neighbors. CFR builds upon the work of establishments already recovering good food before it is thrown away, and also identifies new donors. State-of-the-art technology makes

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

1. Description of organization and operations (continued)

real-time matches based on geography and transportation options. Trainings and mini-grants are offered in order to build capacity and increase food-rescuing capabilities.

Nutrition Education: Nutrition educators teach clients about unit price comparison and reading nutrition labels in order to stretch tight budgets when purchasing health food. The Organization also hosts workshops, cooking demos, and tours where neighbors gather. The free programs make crucial health information more accessible. In fiscal year 2018, the Organization started the Manna Mobile Kitchen and Pop-Up Pantry, known as “Manny”. Manny serves two separate functions, as a classroom to teach general nutrition principals through cooking, and as a food distribution vehicle.

Breaking Bread: Breaking Bread is a conversation series to help identify and solidify common values necessary to successfully combat hunger. Breaking Bread creates a space and intentional conversations to nurture dialogue around critical issues, such as race, class, and a culture of dependency, that create or contribute to hunger and food insecurity in our community. The series of dinners and conversations is open to all residents of Montgomery County and are held monthly.

Food For All Campaign: The Organization created a Capital Campaign/Food For All Campaign focused on bringing food and programs to the high-poverty communities where poor transportation and other barriers make access to food incredibly challenging. Through the Food For All campaign, they will reach 10,000 more hungry children, seniors and working poor by 2020. The Organization is poised to expand to a second location in East County to include a choice market, nutrition education services, and community meeting space. Their goal is to raise \$2 million to \$2.5 million to both create this new East County center and renovate/relocate the current warehouse.

2. Summary of significant accounting polices

Basis of accounting

The financial statements 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, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

2. Summary of significant accounting polices (continued)

Basis of presentation (continued)

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions 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 and reported in the statements of activities as net assets released from restrictions.

Cash and cash equivalents

The Organization considers all cash and highly liquid investments with initial maturities of three months or less to be cash equivalents. As of June 30, 2019 and 2018, the Organization held \$18,547 and \$198,880, respectively, in money market accounts. The Organization considers all highly liquid investments with the investment custodian to facilitate investment transactions as investments in the consolidated statements of financial position, and not cash equivalents.

Certificate of deposit

The Organization invests in a certificate of deposit (CD) that is not a debt instrument. CDs with original maturities of less than one year are classified as short-term. CDs with original maturities greater than one year are classified as long-term. The CD serves as the security deposit on the leased warehouse space.

Concentration of credit risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has never experienced any losses related to these balances. The Organization's cash management policies limit its exposure to concentrations of credit risk by allocating their cash balance across multiple financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash in excess of the FDIC-insured limits at June 30, 2019, approximated \$498,000. The Organization has determined this excess balance is temporary and was accumulated in anticipation for major renovations in accordance with their major programs.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect account balances and the amounts reported in the accompanying financial statements

Grants, contributions, and pledges receivable

Receivables represent amounts committed by donors and grantors that have not been received as of the date of the statements of financial position. Receivables are stated at their original amount, less an estimate for doubtful receivables based on an annual review of outstanding amounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded as revenue when received. At June 30, 2019 and 2018, management expects the amounts in receivables to be fully collected.

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

2. Summary of significant accounting polices (continued)

Investments

Investments are reflected at their fair value as of the date of the statements of financial position, which may differ from the amount ultimately realized at the time of sale. Realized and unrealized gains and losses are reflected in the statements of activities.

Property and equipment

All purchases of property and equipment in excess of \$1,000 are capitalized at cost and depreciated using the straight-line method over their estimated useful lives ranging from five to ten years. Costs of repairs and maintenance are expensed as incurred.

Inventory

Inventories of food that have been purchased for food distribution but have not been distributed, are valued at lower of cost or market. Inventories of food contributed by donors are valued at the approximate wholesale value which is determined annually by Feeding America.

For purpose of valuing food donated to and distributed by the Organization during the year, the Organization uses the average wholesale value determined annually by Feeding America, the nation's largest domestic hunger-relief organization, in effect at the beginning of the year. For the fiscal year ended June 30, 2019, inventory received and distributed was valued at \$1.73 per pound. For the fiscal year ended June 30, 2018, the inventory received and distributed was valued at \$1.67 per pound. As of June 30, 2019, and 2018, the inventory on hand was adjusted to \$1.68 and \$1.73, respectively, per pound, based on the most recent average wholesale value determined by Feeding America as of Manna Food Center, Inc.'s fiscal year end.

Revenue recognition

Revenue is recognized when earned. Program service fees received in advance are deferred to the applicable period to which it relates. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Donated equipment and materials, if any, are reflected in the accompanying financial statements at their estimated fair values at the date of donation.

Revenue from contracts and grants that provide for cost reimbursement is recognized when the related direct and allocated indirect expenses are incurred, deliverables are met, or per-diem services are provided.

Donated food and supplies are recognized when received. Revenue from special events is recognized at the time of the event. The Organization recognizes the fair value of donated services. For a donated service to be recognized, the service must either create or enhance a non-financial asset or require specialized skills. In addition, approximately 61,935 and 58,466 volunteer hours were provided to the Organization during the years ended June 30, 2019 and 2018, respectively, for which no value has been assigned as these services did not require specialized skills.

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

2. Summary of significant accounting polices (continued)

Income taxes

The Organization is exempt from federal and state income taxes (except taxes on unrelated business income) under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Services as *other than a private foundation*. No provision for income taxes are required for the years ended June 30, 2019 or 2018, since the Organization had no taxable income from unrelated business activities.

The income tax positions taken by the Organization for any years open under the various statutes of limitations are that the Organization continues to be exempt from income taxes and that it has properly reported unrelated business income that is subject to income taxes. The Organization believes there are no tax positions taken or expected to be taken that would significantly increase unrecognized tax liabilities within 12 months of the reporting date. None of the Organization's federal or state income tax returns are currently under examination.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional allocation of expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Costs that can be identified with a particular program or supporting function are charge directly to that program function. Expenses that are not specifically identified are allocated among programs and supporting services based on management's best estimate of allocation of hours.

Fair value measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, established a 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 the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

2. Summary of significant accounting polices (continued)

Fair value measurement (continued)

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

- *Level 1*: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date (e. g., equity securities traded on the New York Stock Exchange).
- *Level 2*: Level 2 inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (e. g., quoted market prices of similar assets or liabilities in active markets, or quoted market prices for identical or similar assets or liabilities in markets that are not active).
- *Level 3*: Level 3 inputs are unobservable (e. g., a company's own data) and are used to measure fair value to the extent that observable inputs are not available.

The 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 to maximize the use of observable inputs and minimize the use of unobservable inputs.

Change in accounting principle

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. There is no impact on the prior year change in net assets.

Pending accounting standards

Effective for its annual financial statements ended June 30, 2021 and thereafter, the Organization expects to adopt new accounting standards issued by FASB that will require significant changes in accounting for leases under which the Organization is a lessee. Upon adoption, among other effects, the Organization will be required to record assets and liabilities for all operating lease obligations with terms of 12 months or greater. These changes will entail certain retrospective adjustments.

The quantitative effects on the Organization's future financial statements of these changes and related retrospective adjustments have not yet been determined.

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

3. Liquidity and availability

Financial assets available for general expenditure, that is, without donor restrictions or other restrictions limiting their use, within one year of the statement of financial position date, are calculated as of June 30, 2019, as follows:

Total assets at year end	\$ 3,036,088
Less:	
Prepaid expenses	(85,487)
Property and equipment, net	(481,503)
Inventory	(121,550)
Certificate of deposit	(18,591)
Security deposits	(14,907)
Net assets with donor restrictions	<u>(866,085)</u>
Financial assets available for general expenditure	<u>\$ 1,447,965</u>

4. Investments and fair value measurement

The following are the major categories of assets measured at fair value on a recurring basis during the years ended June 30, 2019 and 2018, using quoted prices in active markets for identical assets (Level 1).

	<u>2019</u>	<u>2018</u>
U.S. equities	\$ 160,351	\$ 141,027
Cash and cash equivalents	730,167	43,158
Real estate investment trust	<u>4,834</u>	<u>5,797</u>
	<u>\$ 895,352</u>	<u>\$ 189,982</u>

All assets have been valued using a market approach. There were no changes in the valuation techniques during the current year.

MANNA FOOD CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

4. Investments and fair value measurement (continued)

Investment income consisted of the following for the year ended June 30:

	2019	2018
Interest and dividend income	\$ 9,434	\$ 7,962
Unrealized gains	19,220	8,073
	\$ 28,654	\$ 16,035

5. Capital campaign pledges

Pledges receivable represent promises to give which have been made by donors, but have not yet been received by the Organization. Pledges which will not be received in the subsequent year have been discounted using an estimated rate of return which could be earned if such contributions had been made in the current year.

Pledges receivable consisted of the following for the year ended June 30:

	2019	2018
Pledges expected to be collected in		
Less than one year	\$ 454,637	\$ 65,333
One to five years	131,929	124,667
Less, discounted present value (5.5% and 4.5%)	(7,454)	(8,430)
Subtotal	124,475	116,237
Net capital campaign pledges receivable	\$ 579,112	\$ 181,570

MANNA FOOD CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

6. Property and equipment

Property and equipment consisted of the following at June 30:

	2019	2018
Vehicles	\$ 570,973	\$ 567,605
Furnitures, fixtures, and equipment	303,477	191,611
Leasehold improvements	153,926	153,927
Subtotal of depreciable property and equipment	1,028,376	913,143
Less accumulated depreciation and amortization	(837,499)	(782,993)
Subtotal of net depreciable property and equipment	190,877	130,150
Leasehold improvement not placed in service	290,626	-
Software not placed in service	-	62,468
Total property and equipment, net	\$ 481,503	\$ 192,618

Depreciation expense on property and equipment for the years ended June 30, 2019 and 2018 was \$61,790 and \$63,049, respectively.

7. Commitments

The Organization entered a lease agreement for their primary warehouse and food storage facility with an occupancy date of October 1, 2009, for an initial term of ten years expiring September 2019. The lease can be renewed for two consecutive five-year terms. The lease calls for annual rental increases of 3.0% of the base rent. The lease contains a total of two months of rent abatement. In addition, the Organization is liable for its proportionate share of the operating expenses.

During fiscal year 2017, the Organization entered into leasing arrangements for a truck and a copier. The lease arrangement for the truck was entered in March 2017 and is for seven years. The lease arrangement for the copier was entered in November 2016 and is for five years.

During fiscal year 2019, the Organization entered a lease agreement for new office and market space with a rent commencement date of July 1, 2019. The initial term of the lease is seven years expiring on June 30, 2026 with one renewal option of additional five years. The lease is subject to a 2.5% annual escalation of the base rent. The lease contains a purchase option through December 31, 2021. The purchase price under the option shall be \$5,200,000.

For the years ended June 30, 2019 **and 2018**, rent expense for all leases totaled \$203,696 and \$202,481, respectively, and is included in occupancy and equipment rental costs in the statements of functional expenses.

MANNA FOOD CENTER, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

7. Commitments (continued)

Future minimum lease payments under the operating leases at June 30, 2019, are as follows:

<u>Years ending June 30.</u>	
2020	\$ 209,000
2021	201,000
2022	204,000
2023	208,000
2024	208,000
Thereafter	<u>401,000</u>
Total	<u>\$ 1,431,000</u>

8. Retirement Plan

Effective January 1, 2010, the Organization initiated a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE). All employees are eligible for this plan. For the years ended June 30, 2019 and 2018, the Organization contributed 3% of annual compensation for each eligible employee to the plan. Contributions to the plan for the years ended June 30, 2019 and 2018 totaled \$31,620 and \$31,840, respectively.

9. Restrictions and designations of net assets

Endowment

The Organization's endowment consists of The Samuel and Harriet Miller Feed the Hungry Fund. During the year ended June 30, 2015, the charter of the Samuel and Harriet Miller Feed the Hungry Fund was restated in that the initial principal sum of \$5,000 was to be restricted and preserved in perpetuity as long as the Organization exists. Annual income generated by the fund does not have any donor restrictions.

The Organization reports its endowment funds and related activity in accordance with GAAP. The endowments of not-for-profit organizations accounting guidance provides guidance on the net assets classification of donor-restricted endowments funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA").

The management of the Organization has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted endowment gifts as of the date of the gift absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of cash gifts donated to permanent endowments. The remaining portion of donor-restricted endowment funds not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

MANNA FOOD CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

9. Restrictions and designations of net assets (continued)

Endowment (continued)

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Organization and donor-restricted endowment funds
- The general economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- The investment policies of the Organization

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the program supported by its endowment while seeking to maintain purchasing power of the endowment assets. Earnings of the endowments are reflected as net assets with donor restrictions until appropriated for expenditure to support the endowment's stated purpose or are reflected as net assets without restrictions when permitted by the donor.

The following table presents the changes in the endowment fund of the Organization's endowment funds as of June 30:

	<u>2019</u>	<u>2018</u>
Endowment net assets, beginning of year	\$ 5,000	\$ 5,000
Investment return	-	-
Investment expenses	-	-
	<u>\$ 5,000</u>	<u>\$ 5,000</u>

Additional net assets with donor restrictions

The Organization has additional net assets with donor restrictions for purpose as of June 30:

	<u>2019</u>	<u>2018</u>
Breaking Bread initiative	\$ 10,228	\$ 13,815
Capital Campaign	850,857	272,070
Community Food Rescue	-	50,000
	<u>\$ 861,085</u>	<u>\$ 335,885</u>

MANNA FOOD CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

9. Restrictions and designations of net assets (continued)

Total net assets with donor restrictions consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Endowment fund	\$ 5,000	\$ 5,000
Net assets with donor restrictions for purpose	<u>861,085</u>	<u>335,885</u>
Total net assets with donor restrictions	<u>\$ 866,085</u>	<u>\$ 340,885</u>

10. Subsequent events

Management of the Organization has evaluated events and transactions that occurred after June 30, 2019, through October 30, 2019, the date the financial statements were available to be issued. Management of the Organization has determined that there were no subsequent events or transactions that should be disclosed in the financial statements with the exception of Note 7 and a \$100,000 line of credit agreement authorized July 25, 2019.