

KANSAS FOODBANK WAREHOUSE, INC.
CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

With Report of Independent Certified Public Accountants

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KIRKPATRICK, SPRECKER & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Kansas Foodbank Warehouse, Inc.

We have audited the accompanying consolidated financial statements of Kansas Foodbank Warehouse, Inc. (a nonprofit organization) and its subsidiary, which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities 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 consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas Foodbank Warehouse, Inc. and its subsidiary as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kirkpatrick, Sprecker & Company, LLP
KIRKPATRICK, SPRECKER & COMPANY, LLP
Wichita, Kansas

November 5, 2018

KANSAS FOODBANK WAREHOUSE, INC.
CONSOLIDATED COMPARATIVE STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

ASSETS

| | <u>2018</u> | <u>2017</u> |
|--|--------------------------|--------------------------|
| Cash | \$ 3,970,017 | \$ 2,454,256 |
| Certificate of deposit | 518,952 | 517,699 |
| Prepaid expenses | 63,781 | 52,547 |
| Investments | 2,613,016 | 3,309,295 |
| Accounts receivable, net of allowance for bad debts of \$1,000 (\$1,000 for 2017) | 134,739 | 167,599 |
| Unconditional promises to give, net of allowance for uncollectible accounts of \$-0- (\$-0- for 2017) | 1,783,424 | 305,400 |
| Inventory - donated food | 926,930 | 844,929 |
| Inventory - food purchased | 140,677 | 207,364 |
| Cash restricted for capital campaign | 1,224,334 | 1,156,000 |
| Property and equipment - net of accumulated depreciation of \$2,296,818 (\$2,151,487 for 2017) | <u>4,381,304</u> | <u>4,139,391</u> |
| Total assets | <u><u>15,757,174</u></u> | <u><u>13,154,480</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|------------------------------------|--------------------------|--------------------------|
| Liabilities | | |
| Accounts payable | \$ 104,276 | \$ 125,620 |
| Funds held for others | 109,682 | 184,810 |
| Accrued salaries | 19,064 | 18,827 |
| Deferred compensation payable | 34,089 | 16,658 |
| Withheld and accrued payroll taxes | <u>726</u> | <u>169</u> |
| Total liabilities | <u>267,837</u> | <u>346,084</u> |
| Net assets | | |
| Unrestricted | 8,948,626 | 8,249,394 |
| Unrestricted - Board designated | <u>3,254,029</u> | <u>2,958,657</u> |
| Total unrestricted net assets | 12,202,655 | 11,208,051 |
| Temporarily restricted | 3,036,682 | 1,350,345 |
| Permanently restricted | <u>250,000</u> | <u>250,000</u> |
| Total net assets | <u>15,489,337</u> | <u>12,808,396</u> |
| Total liabilities and net assets | <u><u>15,757,174</u></u> | <u><u>13,154,480</u></u> |

The accompanying notes are an integral part of the financial statements.

KANSAS FOODBANK WAREHOUSE, INC.
CONSOLIDATED COMPARATIVE STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Revenue | | | | | | | | |
| Donated food | \$ 16,377,072 | \$ - | \$ - | \$ 16,377,072 | \$ 16,736,422 | \$ - | \$ - | \$ 16,736,422 |
| Less - unusable product | <u>(242,602)</u> | - | - | <u>(242,602)</u> | <u>(244,788)</u> | - | - | <u>(244,788)</u> |
| Net donated food | 16,134,470 | - | - | 16,134,470 | 16,491,634 | - | - | 16,491,634 |
| Food purchase program | 1,205,332 | - | - | 1,205,332 | 1,254,444 | - | - | 1,254,444 |
| Shared maintenance | 212,616 | - | - | 212,616 | 221,678 | - | - | 221,678 |
| Contributions | 2,183,732 | 2,753,845 | - | 4,937,577 | 1,665,873 | 2,154,986 | - | 3,820,859 |
| Interest income | 10,800 | - | - | 10,800 | 2,888 | - | - | 2,888 |
| Rent income | 12,000 | - | - | 12,000 | 12,000 | - | - | 12,000 |
| Investment income | 318,689 | - | - | 318,689 | 349,191 | - | - | 349,191 |
| Gain (loss) on disposition of asset | (343) | - | - | (343) | 366 | - | - | 366 |
| Other revenue | <u>145,401</u> | - | - | <u>145,401</u> | <u>120,893</u> | - | - | <u>120,893</u> |
| Total revenue | <u>20,222,697</u> | <u>2,753,845</u> | - | <u>22,976,542</u> | <u>20,118,967</u> | <u>2,154,986</u> | - | <u>22,273,953</u> |
| Net assets released from restrictions | <u>1,067,508</u> | <u>(1,067,508)</u> | - | - | <u>856,484</u> | <u>(856,484)</u> | - | - |
| Expenses | | | | | | | | |
| Program services | | | | | | | | |
| Donated food distributed | 16,054,063 | - | - | 16,054,063 | 16,350,817 | - | - | 16,350,817 |
| Cost of purchased food distributed | 1,661,874 | - | - | 1,661,874 | 2,035,362 | - | - | 2,035,362 |
| Other program service expenses | 1,996,646 | - | - | 1,996,646 | 2,030,373 | - | - | 2,030,373 |
| Supporting services | | | | | | | | |
| Administrative | 175,323 | - | - | 175,323 | 163,713 | - | - | 163,713 |
| Fund-raising | <u>407,695</u> | - | - | <u>407,695</u> | <u>373,948</u> | - | - | <u>373,948</u> |
| Total expenses | <u>20,295,601</u> | - | - | <u>20,295,601</u> | <u>20,954,213</u> | - | - | <u>20,954,213</u> |
| Change in net assets | 994,604 | 1,686,337 | - | 2,680,941 | 21,238 | 1,298,502 | - | 1,319,740 |
| Net assets, beginning of year | <u>11,208,051</u> | <u>1,350,345</u> | <u>250,000</u> | <u>12,808,396</u> | <u>11,186,813</u> | <u>51,843</u> | <u>250,000</u> | <u>11,488,656</u> |
| Net assets, end of year | <u>12,202,655</u> | <u>3,036,682</u> | <u>250,000</u> | <u>15,489,337</u> | <u>11,208,051</u> | <u>1,350,345</u> | <u>250,000</u> | <u>12,808,396</u> |

The accompanying notes are an integral part of the financial statements.

KANSAS FOODBANK WAREHOUSE, INC.
CONSOLIDATED COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|---|-------------------|----------------------------|-----------------------|---------------------|-------------------|----------------------------|-----------------|-----------------------|
| | Program | Supporting Services | | | Program | Supporting Services | | |
| | | Services | Administrative | Fund-raising | | Total | Services | Administrative |
| Donated food distributed | \$ 16,054,063 | \$ - | \$ - | \$ 16,054,063 | \$ 16,350,817 | \$ - | \$ - | \$ 16,350,817 |
| Cost of purchased food distributed | 1,661,874 | - | - | 1,661,874 | 2,035,362 | - | - | 2,035,362 |
| Other expenses | | | | | | | | |
| Salaries | 787,623 | 71,901 | 80,356 | 939,880 | 809,601 | 69,022 | 92,335 | 970,958 |
| Depreciation | 206,524 | 6,387 | - | 212,911 | 192,815 | 5,963 | - | 198,778 |
| Direct mail | 44,726 | - | 184,454 | 229,180 | 48,341 | - | 136,557 | 184,898 |
| Employee benefits | 189,035 | 23,227 | 21,909 | 234,171 | 204,496 | 16,364 | 27,076 | 247,936 |
| Utilities | 117,849 | - | - | 117,849 | 112,750 | - | - | 112,750 |
| Vehicle expense | 91,681 | - | - | 91,681 | 87,479 | - | - | 87,479 |
| Food purchase - share contributions | 82,166 | - | - | 82,166 | 99,841 | - | - | 99,841 |
| Freight | 82,580 | - | - | 82,580 | 83,163 | - | - | 83,163 |
| Warehouse and other supplies | 74,653 | 13,516 | 8,191 | 96,360 | 87,103 | 16,958 | 4,196 | 108,257 |
| Payroll taxes | 62,085 | 5,543 | 6,283 | 73,911 | 61,821 | 3,045 | 7,454 | 72,320 |
| Postage | 8,702 | 6,264 | 47,604 | 62,570 | 15,824 | 3,052 | 53,266 | 72,142 |
| Insurance | 58,327 | 1,804 | - | 60,131 | 53,927 | 1,668 | - | 55,595 |
| Regional development and rural delivery | 63,886 | - | - | 63,886 | 53,188 | - | - | 53,188 |
| Equipment repair | 22,763 | 300 | - | 23,063 | 9,293 | 420 | - | 9,713 |
| Accounting and legal fees | - | 27,333 | - | 27,333 | - | 28,725 | - | 28,725 |
| Computer maintenance | 17,148 | 7,248 | 223 | 24,619 | 24,853 | 1,888 | - | 26,741 |
| Building maintenance and repair | 11,413 | 2,179 | - | 13,592 | 13,917 | 5,456 | - | 19,373 |
| Retirement | 15,961 | 2,192 | 1,250 | 19,403 | 13,765 | 2,131 | 1,617 | 17,513 |
| Association dues and subscriptions | 13,948 | 1,159 | - | 15,107 | 13,893 | 628 | - | 14,521 |
| Office supplies | 3,766 | 579 | 483 | 4,828 | 7,904 | 1,216 | 1,013 | 10,133 |
| Telephone | 8,981 | 870 | - | 9,851 | 9,463 | 909 | - | 10,372 |
| Offsite food storage and equipment rental | 6,092 | 2,507 | - | 8,599 | 6,490 | 2,385 | - | 8,875 |
| Taxes | 9,221 | 950 | 315 | 10,486 | 9,013 | - | - | 9,013 |
| Meetings and conferences | 8,167 | 681 | 627 | 9,475 | 5,040 | 3,316 | 431 | 8,787 |
| Travel | 3,715 | 465 | - | 4,180 | 3,708 | 333 | 1,832 | 5,873 |
| Marketing and printing | 800 | 200 | 800 | 1,800 | 1,305 | 85 | 2,171 | 3,561 |
| Meals and entertainment | 202 | 18 | - | 220 | 81 | 149 | - | 230 |
| Contract labor | 4,632 | - | 55,200 | 59,832 | 530 | - | 46,000 | 46,530 |
| Agency freezers | - | - | - | - | 769 | - | - | 769 |
| Total other expenses | <u>1,996,646</u> | <u>175,323</u> | <u>407,695</u> | <u>2,579,664</u> | <u>2,030,373</u> | <u>163,713</u> | <u>373,948</u> | <u>2,568,034</u> |
| Total expenses | <u>19,712,583</u> | <u>175,323</u> | <u>407,695</u> | <u>20,295,601</u> | <u>20,416,552</u> | <u>163,713</u> | <u>373,948</u> | <u>20,954,213</u> |

The accompanying notes are an integral part of the financial statements.

KANSAS FOODBANK WAREHOUSE, INC.
CONSOLIDATED COMPARATIVE STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 2,680,941 | \$ 1,319,740 |
| Adjustments to reconcile change in net assets to net cash provided by (applied to) operating activities: | | |
| Depreciation | 212,911 | 198,778 |
| Gain on investments | (259,934) | (294,463) |
| (Gain) loss on disposition of assets | 343 | (366) |
| Donated securities included in support | - | (11,471) |
| (Increase) decrease in operating assets: | | |
| Prepaid expenses | (11,234) | (52,547) |
| Accounts and contributions receivable | 32,860 | 9,509 |
| Inventory - donated food | (82,000) | (122,818) |
| Inventory - food purchase | 66,687 | 95,019 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | (21,344) | 37,350 |
| Funds held for others | (75,128) | (31,506) |
| Accrued salaries and taxes | 793 | 3,817 |
| Deferred compensation payable | 17,432 | 16,659 |
| Contributions restricted for capital campaign | <u>(1,982,500)</u> | <u>(1,462,400)</u> |
| Net cash provided by (applied to) operating activities | <u>579,827</u> | <u>(294,699)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (2,655,810) | (1,326,946) |
| Purchase of certificate of deposit | (1,253) | (994) |
| Proceeds from sale of investments | 3,612,021 | 1,164,818 |
| Purchases of equipment | (455,166) | (254,234) |
| Proceeds from sale of property assets | - | 600 |
| Net cash provided by (applied to) investing activities | <u>499,792</u> | <u>(416,756)</u> |
| Cash flows from financing activities: | | |
| Contributions restricted for capital campaign | 1,982,500 | 1,462,400 |
| Increase in pledges receivable for capital campaign | (1,947,500) | (712,400) |
| Collection of pledges for capital campaign | 469,476 | 407,000 |
| Net increase in restricted cash | <u>(68,334)</u> | <u>(1,156,000)</u> |
| Net cash provided by financing activities | <u>436,142</u> | <u>1,000</u> |
| Net increase (decrease) in cash | 1,515,761 | (710,455) |
| Cash at beginning of year | <u>2,454,256</u> | <u>3,164,711</u> |
| Cash at end of year | <u>3,970,017</u> | <u>2,454,256</u> |

The accompanying notes are an integral part of the financial statements.

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Kansas Foodbank Warehouse, Inc., and its wholly owned subsidiary, KFBW, LLC. All material intercompany transactions have been eliminated.

Nature of activities

Kansas Foodbank Warehouse, Inc. (the Organization) was incorporated in 1983 to feed the hungry by soliciting and receiving food and other goods from local, regional, and national food companies and other enterprises. The Organization, in turn, distributes the food and other goods to community charities with programs for the needy. The sources of product for the Organization during the years ended June 30, 2018 and 2017, were:

| | <u>2018</u> | <u>2017</u> |
|----------------------------------|-------------------|-------------------|
| Pounds of product solicited | 9,518,299 | 9,540,803 |
| Pounds of product purchased | 2,121,213 | 2,448,443 |
| Pounds of TEFAP product | <u>1,193,832</u> | <u>1,120,761</u> |
| Total pounds of product received | <u>12,833,344</u> | <u>13,110,007</u> |
| Pounds of product distributed | <u>14,004,828</u> | <u>14,440,023</u> |

The Organization serves as a distribution center for the Federal TEFAP program. Under this program, the Organization received, stored, and distributed USDA donated product to other agencies. The Organization did not have variance power over the selection of designated agencies; accordingly, the value of the food received and distributed is not included on the statement of activities.

The market value of one pound of food at June 30, 2018 and 2017, as determined by Feeding America (see Note 6), is \$1.68 and \$1.73, respectively.

Sources of revenue were as follows for the years ended June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|-------------|-------------|
| General contributions | 37% | 35% |
| Capital campaign contributions | 29% | 25% |
| Food purchases sales | 18% | 22% |
| Food 4 Kids contributions | 6% | 6% |
| Investment income | 5% | 6% |
| Shared maintenance fees | 3% | 4% |
| Other | 2% | 2% |

The Organization grants credit to community charities, substantially all of whom are located in the State of Kansas.

Income recognition

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(continued)

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Summary of significant accounting policies (continued)

Income recognition (continued)

The Organization reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Gifts-in-kind are recorded at fair market value as of the date received.

Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of agencies to meet their obligations. The Organization does not charge interest on accounts receivable. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Inventory

Inventories consist of donated food and food purchased by the Organization. Donated food is recorded at its estimated fair value. The value per pound is based on a study completed by Feeding America (see Note 6), and represents the average wholesale cost per pound of food donated to food banks. Inventory from the food purchase program is stated at cost.

Donated food is distributed to member agencies at no charge. These member agencies reimburse the Organization a fee of up to \$0.16 per pound to share in the cost of maintaining the warehouse. These fees are included in shared maintenance revenues. Purchased inventories are sold to member agencies at cost plus the shared maintenance fee described above.

Property and equipment

Property and equipment is recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. The Organization does not have a capitalization policy. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---------------------------|----------------|
| Buildings | 31 to 40 years |
| Building improvements | 10 to 40 years |
| Equipment and furnishings | 5 to 7 years |
| Vehicles | 5 years |

The Organization periodically reviews the carrying value of property and equipment and will recognize impairments when the expected future operating cash flow derived from such assets is less than their carrying value.

Functional allocation of expenses

The costs of providing the various programs are summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

(continued)

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

1. Summary of significant accounting policies (continued)

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business income. For the year ended June 30, 2017, the Organization did not incur any unrelated business income. The federal exemption from income tax is recognized by state authorities.

The Organization's federal Organization Exempt From Income Tax Returns (Form 990) for 2015, 2016, and 2017 are subject to examination by the IRS, generally for three years after they were filed.

Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in preparing these financial statements include those assumed in valuing donated food inventory. It is at least reasonably possible that the significant estimate used will change within the next year.

Capital campaign

In January 2017, the Organization's board of directors approved a capital campaign designed to raise \$5 million for the building expansion. During the years ended June 30, 2018 and 2017, the Organization received gross contributions, including pledges, totaling \$1,982,500 and \$1,462,400, respectively, which is recorded with temporarily restricted contributions on the statement of activities for the years then ended.

2. Fair value measurements

Fair values of assets measured on a recurring basis at June 30, 2018 and 2017, are as follows:

| | Fair Value | Fair Value Measurements | | |
|-------------------------------|------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>June 30, 2018</u> | | | | |
| Common stocks | \$ 560,279 | \$ 560,279 | \$ - | \$ - |
| Equity funds | 1,357,138 | 1,357,138 | - | - |
| Exchange traded funds | 239,539 | 239,539 | - | - |
| Treasury and federal agencies | 33,311 | - | 33,311 | - |
| Nongovernment obligations | 90,332 | - | 90,332 | - |
| Foreign obligations | 16,701 | - | 16,701 | - |
| Fixed income funds | 133,931 | 133,931 | - | - |
| Alternatives | 181,785 | 181,785 | - | - |
| Total | <u>2,613,016</u> | <u>2,472,672</u> | <u>140,344</u> | <u>-</u> |

(continued)

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

2. Fair value measurements (continued)

| | Fair Value | Fair Value Measurements | | |
|-------------------------------|------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>June 30, 2017</u> | | | | |
| Common stocks | \$ 564,980 | \$ 564,980 | \$ - | \$ - |
| Equity funds | 2,104,990 | 2,104,990 | - | - |
| Treasury and federal agencies | 78,973 | - | 78,973 | - |
| State and municipal | 7,634 | - | 7,634 | - |
| Nongovernment obligations | 100,671 | - | 100,671 | - |
| Foreign obligations | 23,967 | - | 23,967 | - |
| Fixed income funds | 200,231 | 200,231 | - | - |
| Alternatives | 227,849 | 227,849 | - | - |
| Total | <u>3,309,295</u> | <u>3,098,050</u> | <u>211,245</u> | <u>-</u> |

All of the assets in the schedule above have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

3. Investments

Investments are stated at current market value and are summarized as follows at June 30, 2018 and 2017:

| | Cost | Current Market Value | Appreciation (Depreciation) |
|------------------------------------|------------------|-------------------------|--------------------------------|
| <u>June 30, 2018</u> | | | |
| Common stocks | \$ 531,824 | \$ 560,279 | \$ 28,455 |
| Equity funds | 1,265,704 | 1,357,138 | 91,434 |
| Exchange traded funds | 260,534 | 239,539 | (20,995) |
| Treasury and federal agencies | 33,090 | 33,311 | 221 |
| Nongovernment obligations | 86,955 | 90,332 | 3,377 |
| Foreign obligations | 22,978 | 16,701 | (6,277) |
| Fixed income funds | 117,861 | 133,931 | 16,070 |
| Alternatives | 190,785 | 181,785 | (9,000) |
| Total investments at June 30, 2018 | <u>2,509,731</u> | <u>2,613,016</u> | <u>103,285</u> |
| <u>June 30, 2017</u> | | | |
| Common stocks | \$ 496,664 | \$ 564,980 | \$ 68,316 |
| Equity funds | 1,838,323 | 2,104,990 | 266,667 |
| Treasury and federal agencies | 79,065 | 78,973 | (92) |
| State and municipal | 4,858 | 7,634 | 2,776 |
| Nongovernment obligations | 105,306 | 100,671 | (4,635) |
| Foreign obligations | 18,017 | 23,967 | 5,950 |
| Fixed income funds | 181,760 | 200,231 | 18,471 |
| Alternatives | 230,363 | 227,849 | (2,514) |
| Total investments at June 30, 2017 | <u>2,954,356</u> | <u>3,309,295</u> | <u>354,939</u> |

(continued)

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

3. Investments (continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|---|-----------------|-----------------|
| Total investment interest and dividends | \$ 70,651 | \$ 66,634 |
| Gain on investments | 259,934 | 294,463 |
| Fees and taxes | <u>(11,896)</u> | <u>(11,906)</u> |
| Investment income per statement of activities | <u>318,689</u> | <u>349,191</u> |

4. Unconditional promises to give

Unconditional contributions receivable consist of the following as of June 30, 2018 and 2017:

| | <u>2018</u> | | <u>2017</u> | |
|------------------------------------|------------------|--------------------------|----------------|--------------------------|
| | <u>Total</u> | <u>Net Present Value</u> | <u>Total</u> | <u>Net Present Value</u> |
| Receivable in less than one year | \$ 1,380,124 | \$ 1,380,124 | \$ 40,050 | \$ 40,050 |
| Receivable in one to five years | <u>403,300</u> | <u>403,300</u> | <u>265,350</u> | <u>265,350</u> |
| | 1,783,424 | 1,783,424 | 305,400 | 305,400 |
| Less allowance for uncollectible | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net unconditional promises to give | <u>1,783,424</u> | <u>1,783,424</u> | <u>305,400</u> | <u>305,400</u> |

5. Property and equipment

Property and equipment and related accumulated depreciation at June 30, 2018 and 2017, are summarized as follows:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|------------------|------------------|
| Land | \$ 1,069,485 | \$ 970,956 |
| Buildings and improvements | 3,290,892 | 3,290,892 |
| Equipment and furnishings | 1,237,786 | 1,234,122 |
| Vehicles | 942,760 | 794,908 |
| Construction in progress | <u>137,199</u> | <u>-</u> |
| | 6,678,122 | 6,290,878 |
| Less accumulated depreciation | <u>2,296,818</u> | <u>2,151,487</u> |
| | <u>4,381,304</u> | <u>4,139,391</u> |

6. Transactions with affiliate

The Organization is a certified food bank of Feeding America, an organization that solicits surplus food and distributes the donations to a nationwide network of food banks. The Organization had the following activity with Feeding America and other Feeding America affiliates during the years ended June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------|-------------|
| Pounds (unaudited) of food received | 519,165 | 208,012 |
| Share contribution paid | \$ 8,613 | \$ 9,689 |
| Dues paid | \$ 13,848 | \$ 13,893 |

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

7. Board designated unrestricted net assets

The Board of Directors designated unrestricted net assets for the following purposes at June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|------------------|------------------|
| Operations endowment | \$ 1,185,968 | \$ 1,538,630 |
| Facilities and equipment endowment | 1,068,061 | 1,420,027 |
| Construction of volunteer center | <u>1,000,000</u> | <u>-</u> |
| | <u>3,254,029</u> | <u>2,958,657</u> |

8. Temporarily restricted net assets

Temporarily restricted net assets are designated for the following purposes at June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|------------------|------------------|------------------|
| Capital campaign | \$ 3,008,758 | \$ 1,323,258 |
| Freezer grants | 12,370 | 12,370 |
| Summer feeding | 14,001 | 11,545 |
| Disaster relief | <u>1,553</u> | <u>3,172</u> |
| | <u>3,036,682</u> | <u>1,350,345</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose. Releases during the years ended June 30, 2018 and 2017, consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|------------------|----------------|
| Food 4 Kids | \$ 656,332 | \$ 570,172 |
| Capital campaign | 297,001 | 139,142 |
| Appropriated endowment earnings | 28,078 | 32,848 |
| Technology | 27,000 | - |
| Mobile pantry | 23,011 | 26,625 |
| Produce procurement | 18,325 | 26,000 |
| Bob Box | 8,953 | 7,453 |
| Hygiene pantry | 4,100 | 10,473 |
| Summer feeding | 2,884 | 19,521 |
| Disaster relief | 1,619 | 2,673 |
| Filling the Gap | 205 | 815 |
| SNAP outreach | - | 19,993 |
| Freezer grant | <u>-</u> | <u>769</u> |
| | <u>1,067,508</u> | <u>856,484</u> |

9. Permanently restricted net assets

Permanently restricted net assets of \$250,000 are restricted for endowment. In 2009, in accordance with the Blueprint Against Hunger Capital Campaign, the Organization established an endowment of \$250,000 from funds raised by the capital campaign. Income from the endowment, including capital gains, is to be used to purchase and distribute food.

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

10. Endowment

Interpretation of Relevant Law

The Board of Directors of Kansas Foodbank Warehouse, Inc., has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date of gifting of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original fair value of gifts donated to the permanent endowment, (b) the original fair value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the instructions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as 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 SPMIFA. In accordance with SPMIFA, 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 fund
2. The purposes of the Organization and the donor-restricted endowment fund
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 resources of the Organization
7. The investment policies of the Organization

Endowment net asset composition by type of fund as of June 30, 2018:

| <u>Type of Endowment Fund</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-------------------------------|-------------------------------|------------------|
| Donor restricted endowment funds | \$ - | \$ - | \$ 250,000 | \$ 250,000 |
| Board designated endowment funds | 3,254,029 | - | - | 3,254,029 |
| Total endowment net assets | <u>3,254,029</u> | <u>-</u> | <u>250,000</u> | <u>3,504,029</u> |

Changes in endowment net assets for the year ended June 30, 2018:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-----------------------------------|---------------------|-------------------------------|-------------------------------|------------------|
| Endowment net assets, | | | | |
| beginning of year | \$ 2,958,657 | \$ - | \$ 250,000 | \$ 3,208,657 |
| Investment income | 480,446 | 7,871 | - | 488,317 |
| Expenses | (9,640) | (2,256) | - | (11,896) |
| Appropriated earnings | 28,078 | (28,078) | - | - |
| Net appreciation (depreciation) | <u>(203,512)</u> | <u>22,463</u> | <u>-</u> | <u>(181,049)</u> |
| Endowment net assets, end of year | <u>3,254,029</u> | <u>-</u> | <u>250,000</u> | <u>3,504,029</u> |

(continued)

KANSAS FOODBANK WAREHOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

10. Endowment (continued)

Endowment net asset composition by type of fund as of June 30, 2017:

| <u>Type of Endowment Fund</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-------------------------------|-------------------------------|------------------|
| Donor restricted endowment funds | \$ - | \$ - | \$ 250,000 | \$ 250,000 |
| Board designated endowment funds | 2,958,657 | - | - | 2,958,657 |
| Total endowment net assets | <u>2,958,657</u> | <u>-</u> | <u>250,000</u> | <u>3,208,657</u> |

Changes in endowment net assets for the year ended June 30, 2017:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------------------|-------------------------------|------------------|
| Endowment net assets, beginning of year | \$ 2,612,817 | \$ - | \$ 250,000 | \$ 2,862,817 |
| Investment income | 144,440 | 10,715 | - | 155,155 |
| Expenses | (10,124) | (1,782) | - | (11,906) |
| Appropriated earnings | 32,848 | (32,848) | - | - |
| Net appreciation | 178,676 | 23,915 | - | 202,591 |
| Endowment net assets, end of year | <u>2,958,657</u> | <u>-</u> | <u>250,000</u> | <u>3,208,657</u> |

Return objectives

The Organization has adopted an investment policy for its endowment assets for the purpose of long-term growth in real value. The goal for the endowment is to average a 10% annual growth. The Organization expects and recognizes that principal losses can and may occur. Stability of principal is not the primary objective.

Investment strategies for achieving objectives

The Organization has adopted investment strategies that will allow for a 5% distribution of the endowment fund's average fair market value based upon the prior twelve quarter running average. To accomplish this strategy, the Organization requires that total equity investments never exceed 75%, or that total fixed investments never exceed 35%, of the asset holdings. Assets must have been in existence and have reported performance data for ten or more years before being considered for investment.

Spending policies and the relationship with investment policies

The Organization has a policy of appropriating 5% of the endowment fund's average fair market value for spending on operations and programs. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective of long-term growth in real value.

11. Pension plan

The Organization has a Section 403(b) pension plan for all full and part-time employees. Employees can defer up to 75% of their gross salary under the plan, not to exceed \$18,000 for the years ended June 30, 2018 and 2017. The Organization provides a match of employees' contributions up to 4%. Employer contributions during the years ended June 30, 2018 and 2017, were \$19,403 and \$17,514, respectively.

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12. Deferred compensation plan

In December 2016, the Board of Directors approved the creation of a deferred compensation plan for the President of the Organization. The Organization adopted and executed the plan in March of 2017, at which time the President was entitled to receive a contribution to the plan. The plan states that if the employee is actively employed on December 28th of the relevant year, \$20,000 will be credited to the deferred compensation account. The balance in the account will be paid out in a lump sum on December 28, 2025, if the employee is actively employed at that date. If the employee is no longer able to perform services due to death or disability, a lump sum payment for the amount credited to the account will be made within ten days following the event. The Organization has the right to terminate the plan at any time. At June 30, 2018 and 2017, the present value of the benefit was \$34,089 and \$16,658, respectively.

13. Operating leases

The following is a schedule by years of future minimum rental payments required under operating leases for office equipment as of June 30, 2018:

| <u>Year</u> | <u>Total</u> |
|-------------|--------------|
| 2019 | \$ 8,910 |
| 2020 | 8,910 |
| 2021 | 8,352 |
| 2022 | 1,022 |
| | 27,194 |

Rent expense for the years ended June 30, 2018 and 2017, amounted to \$8,600 and \$8,880, respectively.

14. Concentration of credit risk

The Organization maintains cash accounts at two local banks, which retain balances that total more than the maximum federally insured amount of \$250,000. The Organization has not experienced any losses in the accounts and management believes it is not exposed to any significant risk on the cash accounts.

The Organization maintains its investments with two local brokerage firms. Management has elected to have the funds invested in various individual funds that invest in common stock, equity funds, fixed income, alternatives, and cash and cash equivalents. Management continues to monitor the accounts to minimize the risk.

15. Subsequent events

In September 2018, the Organization signed an agreement with a contractor for the construction of the volunteer center. The total amount of the contract is \$2,168,200. Construction is scheduled to begin in October 2018.

The Organization has evaluated subsequent events through November 5, 2018, the date which the financial statements were available to be issued.

