

**OPERATION FOOD SEARCH, INC.**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019 AND 2018**

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Operation Food Search, Inc.

We have audited the accompanying financial statements of Operation Food Search, Inc. (a not-for-profit organization), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities and changes in net assets, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Food Search, Inc. as of September 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.

January 23, 2020

*SFW Partners, LLC*

SFW Partners, LLC

**OPERATION FOOD SEARCH, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**As of September 30, 2019 and 2018**

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	\$ 1,597,980	\$ 1,756,287
Investments	609,409	604,077
Accounts receivable	28,050	14,050
Unconditional promises to give	167,800	172,077
Grants receivable	376,544	277,500
Undistributed food and household items	860,685	1,111,945
Prepaid expenses	15,938	10,618
Total current assets	3,656,406	3,946,554
Property and equipment, net of accumulated depreciation	5,427,925	5,552,081
Unconditional promises to give, net of discounts	100,460	242,837
Grants receivable, net of discounts	573,633	517,443
Endowment	1,157,208	-
	\$ 10,915,632	\$ 10,258,915

LIABILITIES AND NET ASSETS

Current liabilities:		
Accrued expenses	\$ 603,096	\$ 493,095
Net assets:		
Without donor restrictions:		
Operating	1,426,800	1,892,089
Property and equipment	5,427,925	5,552,081
Undistributed food and household items	860,685	1,111,945
Total net assets without donor restrictions	7,715,410	8,556,115
With donor restrictions:		
Specific purpose	1,431,918	1,209,705
Endowment	1,165,208	-
Total net assets with donor restrictions	2,597,126	1,209,705
Total net assets	10,312,536	9,765,820
	\$ 10,915,632	\$ 10,258,915

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

## OPERATION FOOD SEARCH, INC.

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS For the Years Ended September 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and other revenue:						
Support:						
Cash and investment contributions	\$ 2,690,877	\$ 1,145,567	\$ 3,836,444	\$ 2,813,987	\$ -	\$ 2,813,987
State support	514,135	-	514,135	360,765	-	360,765
Grant revenue	481,932	612,371	1,094,303	420,402	1,062,363	1,482,765
Special events (net of \$32,580 and \$13,715 of expenses in 2019 and 2018, respectively)	171,198	-	171,198	92,968	-	92,968
Subtotal	3,858,142	1,757,938	5,616,080	3,688,122	1,062,363	4,750,485
Other non-cash contributions	33,046,281	-	33,046,281	30,948,558	-	30,948,558
Total support	36,904,423	1,757,938	38,662,361	34,636,680	1,062,363	35,699,043
Other revenue (loss):						
Rental income	115,575	-	115,575	106,200	-	106,200
Other income	119,838	-	119,838	102,424	-	102,424
Investment income	31,021	5,002	36,023	18,994	-	18,994
Gain on sales of property and equipment	6,375	-	6,375	7,000	-	7,000
Loss on sales of investments	(4,639)	-	(4,639)	(7,673)	-	(7,673)
Unrealized gain on investments	6,274	14,439	20,713	1,563	-	1,563
Total support and other revenue	37,178,867	1,777,379	38,956,246	34,865,188	1,062,363	35,927,551
Net assets released from restrictions	389,958	(389,958)	-	226,994	(226,994)	-
Functional expenses:						
Program services	37,129,991	-	37,129,991	33,781,699	-	33,781,699
Management and general	376,724	-	376,724	400,062	-	400,062
Fundraising	902,815	-	902,815	607,661	-	607,661
Total functional expenses	38,409,530	-	38,409,530	34,789,422	-	34,789,422
Changes in net assets	(840,705)	1,387,421	546,716	302,760	835,369	1,138,129
Net assets, beginning of the year	8,556,115	1,209,705	9,765,820	8,253,355	374,336	8,627,691
Net assets, end of the year	\$ 7,715,410	\$ 2,597,126	\$ 10,312,536	\$ 8,556,115	\$ 1,209,705	\$ 9,765,820

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

## OPERATION FOOD SEARCH, INC.

### STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended September 30, 2019 and 2018

	2019				2018			
	Hunger Programs	Management and General	Fundraising	Total	Hunger Programs	Management and General	Fundraising	Total
Distributed food and household items	\$ 33,265,429	\$ -	\$ -	\$ 33,265,429	\$ 30,835,942	\$ -	\$ -	\$ 30,835,942
Salaries	1,352,076	190,433	361,823	1,904,332	1,086,513	181,086	241,447	1,509,046
Food purchased for distribution	945,518	-	-	945,518	741,231	-	-	741,231
Professional services	299,112	66,431	133,214	498,757	59,963	45,135	6,735	111,833
Depreciation	266,087	31,304	15,652	313,043	209,891	47,226	5,247	262,364
Fundraising	-	-	279,943	279,943	-	-	272,512	272,512
Employee benefits	197,703	23,412	39,020	260,135	127,722	26,984	25,185	179,891
Office expense	190,829	28,625	19,083	238,537	123,076	43,956	8,791	175,823
Payroll taxes	91,324	12,863	24,439	128,626	75,785	12,631	16,841	105,257
Shipping	113,355	-	-	113,355	140,890	-	-	140,890
Program expenses	97,577	-	-	97,577	55,670	-	-	55,670
Communications	57,252	9,400	18,799	85,451	77,198	13,064	28,504	118,766
Insurance	59,276	4,999	7,142	71,417	48,126	14,759	1,283	64,168
Utilities	50,975	4,531	1,133	56,639	49,100	5,580	1,116	55,796
Travel	52,247	544	1,633	54,424	43,184	4,798	-	47,982
Repairs and maintenance	42,479	3,268	934	46,681	39,000	4,820	-	43,820
Vehicles	33,723	-	-	33,723	33,975	-	-	33,975
Warehouse	14,281	-	-	14,281	33,996	-	-	33,996
Miscellaneous	748	914	-	1,662	437	23	-	460
	<u>\$ 37,129,991</u>	<u>\$ 376,724</u>	<u>\$ 902,815</u>	<u>\$ 38,409,530</u>	<u>\$ 33,781,699</u>	<u>\$ 400,062</u>	<u>\$ 607,661</u>	<u>\$ 34,789,422</u>

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

**OPERATION FOOD SEARCH, INC.**

**STATEMENTS OF CASH FLOWS**  
**For the Years Ended September 30, 2019 and 2018**

	2019	2018
Cash flows from operating activities:		
Changes in net assets	\$ 546,716	\$ 1,138,129
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Investment contributions	(89,274)	(92,458)
Loss on sales of investments	4,639	7,673
Unrealized gain on investments	(20,713)	(1,563)
Depreciation	313,043	262,364
Gain on sales of property and equipment	(6,375)	(7,000)
Contributions restricted for endowment	(1,145,567)	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(14,000)	(7,100)
Unconditional promises to give	154,654	319,331
Grants receivable	(155,234)	(674,577)
Undistributed food and household items	251,260	(75,945)
Prepaid expenses	(5,320)	45,975
Increase in liabilities:		
Accrued expenses	110,001	173,595
Net cash (used in) provided by operating activities	(56,170)	1,088,424
Cash flows from investing activities:		
Proceeds from sales of investments	401,688	262,288
Purchases of investments	(301,672)	(164,299)
Proceeds from sales of property and equipment	6,375	-
Purchases of property and equipment	(188,887)	(397,543)
Purchases of endowment investments	(1,157,208)	-
Net cash used in investing activities	(1,239,704)	(299,554)
Cash flows from financing activities:		
Proceeds from contributions restricted for endowment	1,137,567	-
Net (decrease) increase in cash and cash equivalents	(158,307)	788,870
Cash and cash equivalents, beginning of the year	1,756,287	967,417
Cash and cash equivalents, end of the year	\$ 1,597,980	\$ 1,756,287

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

## **OPERATION FOOD SEARCH, INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **(1) Operations**

Operation Food Search, Inc. (the “Organization”) is a not-for-profit voluntary health and welfare organization established in 1981. The Organization’s mission is as follows: “To nourish and educate our neighbors in need to heal the hurt of hunger.” The Organization distributes food and household items free of charge to community agencies to help serve hungry individuals and families in the St. Louis bi-state area. Childhood hunger and nutrition programs are a primary focus of the Organization, as is working to address the root causes of food insecurity. To that end the Organization increases awareness about the issues related to hunger and works to eliminate waste in the region. The Organization is supported primarily through donor contributions and grants.

The Organization identifies the three pillars of its strategy as:

1. Meet the Immediate Need:

- Emergency food distribution is the heart of the work at Operation Food Search. The Organization provides food to over 200 partner agencies working to feed the need in their community. Partner agencies include food pantries, soup kitchens, homeless shelters, and other sites.
- Operation Backpack provides weekly sacks of kid-friendly food to help students get through the weekend when school meals are not available.
- Out-of-school meals include the Summer Meals program and Afterschool ReFuel, which provide vital nutrition to children when school is out.

2. Building Nutrition IQ:

- Nutrition Education programs such as Operation CHEF and Cooking Matters at the Store teach low-income kids, teens, families, parents and adults how to plan, shop for, and prepare healthy and delicious meals that are affordable. In addition, on- or off- site demonstrations are provided for groups and organizations aimed at cooking nutritious meals at home and on a budget.

3. Champion Change:

- The Organization works with lawmakers and stakeholders to advance both public and institutional policies that help families put food on the table. Operation Food Search educates, trains and empowers people to engage in the policy-making process in order to ensure that all voices are represented. Innovation programs such as Fresh Rx address the root causes of hunger to improve the overall health of individuals and communities.

#### **(2) Summary of Significant Accounting Policies**

##### *Basis of Accounting*

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



## OPERATION FOOD SEARCH, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### (2) Summary of Significant Accounting Policies (Continued)

##### *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 and disclosures. Accordingly, actual results could differ from those estimates.

##### *Investments*

Investments are adjusted to market value at year end. Unrealized gains and losses on investments are recorded as changes in net assets in the periods in which they occur. Interest and dividend income from investments is recognized when earned. Gains or losses on the sale of investments are recognized on a specific identification basis. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

##### *Unconditional Promises to Give*

Unconditional promises to give are recognized as revenue when the promise is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Unconditional promises to give expected to be collected in less than one year are reported at net realizable value. Contributions to be collected in future years are recorded at fair value when the promise is made based on a discounted cash flow model. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with the donors, and accordingly, has made no allowance for doubtful accounts.

##### *Grants Receivable*

Grants receivable are recognized as revenue when the grant is received. Grants receivable expected to be collected in less than one year are reported at net realizable value. Grants to be collected in future years are recorded at fair value when the grant is made based on a discounted cash flow model. Management does not believe an allowance for uncollectible amounts is necessary based on historical experience with the grantors, and accordingly, has made no allowance for doubtful accounts.

##### *Contributed and Undistributed Food and Household Items*

Contributed and undistributed food and household items are valued at retail value at the date of donation, which approximates fair market value.

##### *Property and Equipment*

Property and equipment are stated at cost if purchased or fair value if contributed, less an allowance for depreciation. Material expenditures for property acquisitions and those expenditures which substantially increase useful lives are capitalized. Expenditures for maintenance, repairs, and minor replacements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

## OPERATION FOOD SEARCH, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### (2) Summary of Significant Accounting Policies (Continued)

##### *Depreciation*

The Organization provides for depreciation using both straight-line and accelerated methods based upon the estimated useful lives of the assets as follows: building, 39 years; transportation equipment, 5 years; furniture and fixtures, 7 years; office equipment, 5 years; warehouse equipment, 5 to 7 years; land improvements, 15 years.

##### *Support and Revenue With and Without Donor Restrictions*

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Gifts of cash and other assets received are recorded as without donor restrictions or with donor restrictions depending on the existence or nature of any donor restrictions.

Contributions without donor restrictions include resources available for the support of operations, which have no donor imposed restrictions.

Contributions with donor restrictions are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are 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 donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction has been accomplished, net assets with restrictions are reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restrictions.

Non-cash contributions are recorded as support without donor restrictions unless specifically restricted by the donor. Food and other household items are valued at retail, and other non-cash items are valued at their fair market value. During the years ended September 30, 2019 and 2018, the Organization received non-cash contributions, excluding contributed services, of \$33,014,169 and \$30,911,887, respectively.

##### *Contributed Services*

Services which create or enhance nonfinancial assets or require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. These services are recognized in the financial statements at the fair value of services provided. For the years ended September 30, 2019 and 2018, the Organization received immaterial donated services included in other non-cash contributions in the accompanying statements of activities and changes in net assets.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization in its mission. These services are not recognized in the financial statements.

##### *Program Services*

Hunger programs include those expenses necessary for programs and other items that enable the Organization to collect, coordinate, and distribute food and household items for the benefit of the hungry, such as salaries, facilities, transportation, food purchases, and administrative expenses.

## OPERATION FOOD SEARCH, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### (2) Summary of Significant Accounting Policies (Continued)

##### *Management and General*

Management and general includes the functions necessary to maintain an adequate working environment, provide coordination of program strategy, secure proper administrative functioning of the Board of Directors, and manage the financial and budgetary responsibilities.

##### *Fundraising*

Fundraising provides the structure necessary to encourage and secure public and private financial support from individuals, foundations, and corporations.

##### *Functional Allocation of Expenses*

The costs associated with providing the Organization's activities have been summarized on the functional basis. Certain expenses represent costs associated with multiple activities and require allocation among the program and supporting services benefited. Such allocations are based on management's estimate of time and effort which include salaries, employee benefits, and payroll taxes. Certain other expenses are allocated based on a combination of square footage and usage which include depreciation, insurance, and utilities. All other expenses are allocated based on usage.

##### *Income Taxes*

The Internal Revenue Service has advised the Organization that it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's management does not believe that its exempt status has been significantly affected by any changes in its activities since the date of the most recent determination letter received. Accordingly, no provision for income taxes has been included in these financial statements.

The Organization accounts for any uncertain tax positions in accordance with the Income Taxes topic of the FASB ASC. The topic prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. In evaluating the Organization's exempt status, interpretations and tax planning strategies are considered. The Organization believes it is not exposed to any material current or future tax liability based on its current operations.

## OPERATION FOOD SEARCH, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### (2) Summary of Significant Accounting Policies (Continued)

##### *Concentration of Credit Risk*

The Organization, on occasion, maintains cash deposits with financial institutions that include funds greater than the insured limit by the FDIC. The Organization has not experienced any losses in such accounts. Management and the Board believe the Organization is not exposed to any significant credit risk related to cash. The amounts on deposit at September 30, 2019 and 2018 exceeded the insured limits by \$1,121,458 and \$1,181,107, respectively. The Organization also holds cash equivalent assets in uninsured accounts totaling \$34,677 and \$35,057 as of September 30, 2019 and 2018, respectively.

The Organization maintains cash equivalents and investments with a brokerage firm that includes funds greater than the insured limit by the SIPC. The Organization has not experienced any losses beyond normal market fluctuations. Management and the Board believe the Organization is not exposed to any significant credit risk beyond normal market fluctuations related to cash equivalents and investments. The brokerage account at September 30, 2019 and 2018 exceeded the insured limit by \$769,709 and \$87,824, respectively.

##### *Statements of Cash Flows*

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

##### *Change in Accounting Principle*

Effective for fiscal year ending September 30, 2019, the Organization adopted ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. A summary of the changes includes a change in classifications of net assets. Also, the enhanced quantitative and qualitative disclosures provide additional information in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position. The ASU has been applied retrospectively to all periods presented, which had no impact on previously reported total changes in net assets.

##### *Subsequent Events*

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

**OPERATION FOOD SEARCH, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**(3) Investments**

Cost and market value of investments consist of the following at:

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Market Value
September 30, 2019				
Mutual funds	\$ 352,912	\$ 9,094	\$ -	\$ 362,006
Bonds	238,266	4,105	(1,076)	241,295
Common stocks	15,149	-	(9,041)	6,108
	<u>\$ 606,327</u>	<u>\$ 13,199</u>	<u>\$ (10,117)</u>	<u>\$ 609,409</u>
September 30, 2018				
Bonds	\$ 521,520	\$ -	\$ (10,215)	\$ 511,305
Mutual funds	56,703	15,864	-	72,567
Common stocks	26,608	73	(6,476)	20,205
	<u>\$ 604,831</u>	<u>\$ 15,937</u>	<u>\$ (16,691)</u>	<u>\$ 604,077</u>

Based on management's evaluation and the Organization's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization considers these investments temporarily impaired at September 30, 2019 and 2018. The investments currently in an unrealized holding loss position have a market value of \$78,596 and \$526,432 at September 30, 2019 and 2018, with a majority in an unrealized loss position for less than 12 months at September 30, 2019.

**(4) Fair Value Measurements**

Under the Fair Value Measurements and Disclosures topic of the FASB ASC, a guideline is provided for measuring fair value under generally accepted accounting principles. The topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority; Level 2 inputs include quoted prices in active markets for similar assets or liabilities, quoted prices in inactive markets for identical or similar assets or liabilities, or inputs that are observable or can be corroborated by observable market data or other means for substantially the full term of the asset or liability; and Level 3 inputs have the lowest priority and are based on prices or valuation techniques that are unobservable and not corroborated by market data. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Organization uses Level 2 inputs when an active market comparable is not available and Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

**OPERATION FOOD SEARCH, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**(4) Fair Value Measurements (Continued)**

*Level 1 Fair Value Measurements*

The fair value of the investments is based on quoted market prices.

The Organization's assets reported at fair value in the accompanying statements of financial position consist of the following:

	Fair Value	Fair Value Measurements Using:		
		Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<i>September 30, 2019</i>				
Investments	\$ 609,409	\$ 609,409	\$ -	\$ -
<i>September 30, 2018</i>				
Investments	\$ 604,077	\$ 604,077	\$ -	\$ -

**(5) Unconditional Promises to Give**

Unconditional promises to give expected to be collected in the future are as follows at September 30:

	2019	2018
Amount due in:		
Less than one year	\$ 167,800	\$ 172,077
One to five years	103,000	260,700
	<u>270,800</u>	<u>432,777</u>
Less discount to present value	<u>(2,540)</u>	<u>(17,863)</u>
	<u>\$ 268,260</u>	<u>\$ 414,914</u>

Unconditional promises to give due in excess of one year are recognized at fair value, using present value with a discount rate of 3.00% as of September 30, 2019 and 2018 to approximate fair value.

The above unconditional promises to give relate primarily to the Organization's capital campaign for the purchase of a new facility (purchased in 2016) and expansion of current programs. In addition, at September 30, 2019, an \$8,000 unconditional promise to give to the Organization's donor-restricted endowment fund is included.

**OPERATION FOOD SEARCH, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**(6) Grants Receivable**

Grants receivable expected to be collected in the future are as follows at September 30:

	2019	2018
Amount due in:		
Less than one year	\$ 376,544	\$ 277,500
One to five years	620,225	561,250
	996,769	838,750
Less discount to present value	(46,592)	(43,807)
	\$ 950,177	\$ 794,943

Grants receivable in excess of one year are recognized at fair value, using present value with a discount rate of 3.00% as of September 30, 2019 and 2018 to approximate fair value.

**(7) Property and Equipment**

Property and equipment consists of the following at September 30:

	2019	2018
Building	\$ 4,502,331	\$ 4,475,174
Land	688,143	688,143
Transportation equipment	526,751	502,122
Furniture and fixtures	220,297	152,034
Office equipment	225,062	205,620
Warehouse equipment	183,503	190,339
Land improvements	31,936	8,950
	6,378,023	6,222,382
Accumulated depreciation	(950,098)	(670,301)
	\$ 5,427,925	\$ 5,552,081

Depreciation expense for the years ended September 30, 2019 and 2018 was \$313,043 and \$262,364, respectively.

## OPERATION FOOD SEARCH, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### (8) Endowment

The Organization's endowment, which was created in 2019, consists of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Organization has interpreted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization retains in perpetuity and classifies as net assets with donor restrictions (1) the original value of gifts donated to the perpetual endowment, (2) the original value of subsequent gifts to the perpetual endowment, and (3) accumulations to the perpetual endowment made in accordance with the direction 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 retained in perpetuity is subject to appropriation for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. 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 resources of the Organization, and (7) the Organization's investment policies.

#### *Investment Return Objectives, Risk Parameters and Strategies*

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities. The Organization expects its endowment assets, over time, to produce a rate of return to cover the endowment's spending policy, expense, and inflation (as measured by the Consumer Price Index), thus maintaining purchasing power. Actual return in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.

#### *Spending Policy*

The Organization has deferred setting a spending policy during the seed/accumulation phase of the endowment. This policy will be reviewed annually up until the point at which the endowment reaches a satisfactory level of value and/or spending needs are determined.



**OPERATION FOOD SEARCH, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**(8) Endowment (Continued)**

Endowment asset composition by type of fund as of September 30, 2019, is as follows:

	<u>Endowment Assets</u>
Endowment funds with donor restrictions:	
Perpetual	\$ 1,137,767
Unappropriated endowment earnings	<u>19,441</u>
Endowment assets	<u>\$ 1,157,208</u>

Changes in endowment assets as of September 30, 2019, are as follows:

	<u>With Donor Restrictions</u>
Endowment assets, beginning of year	\$ -
Contributions	1,137,767
Investment income	5,002
Net appreciation	14,439
Amounts appropriated for expenditure	<u>-</u>
Endowment assets, end of year	<u>\$ 1,157,208</u>

**(9) Non-Cash Investing Activities**

During the year ended September 30, 2018, the Organization acquired equipment by trading in equipment valued at \$7,000.

**OPERATION FOOD SEARCH, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**(10) Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of the following at September 30:

	2019	2018
Specific purpose:		
Fresh Rx program	\$ 694,469	\$ 927,324
Advocacy	468,383	-
Out-of-school meals programs	107,644	116,372
Program expansion	105,639	147,342
Fixed asset purchases	44,750	-
Breakfast in the classroom	11,033	-
Nutrition education	-	18,667
	1,431,918	1,209,705
Endowment:		
Perpetual	1,145,767	-
Unappropriated endowment earnings	19,441	-
	1,165,208	-
	\$ 2,597,126	\$ 1,209,705

Net assets released from restrictions consist of the following at September 30:

	2019	2018
Satisfaction of purpose restrictions:		
Fresh Rx program	\$ 278,216	\$ -
Out-of-school meals programs	51,372	99,446
Program expansion	41,703	52,658
Nutrition education	18,667	40,093
Equipment	-	32,305
Food purchases	-	2,492
	-	2,492
	\$ 389,958	\$ 226,994

## OPERATION FOOD SEARCH, INC.

### NOTES TO THE FINANCIAL STATEMENTS

#### (10) Net Assets with Donor Restrictions (Continued)

Fresh Rx is a program designed by Operation Food Search to connect qualifying families with fresh, local food and provide resources for a healthy household. The Organization partners with doctors and schools to provide prescriptions for healthy food, helping families thrive from better nutrition, reducing healthcare costs, and benefiting local farmers. The Advocacy department works to support policies that strengthen families and children by increasing opportunities for them to put food on the table and live healthier lives. The Out-of-school meals programs include Operation Backpack, Summer Meals and Afterschool ReFuel and provide children with nutritious meals when school is not in session. Nutrition Education programs teach low-income kids, teens, families, parents and adults how to plan, shop for and prepare healthy and delicious meals that are affordable.

#### (11) Liquidity and Availability

Financial assets available for general expenditures without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as September 30, 2019:

Financial assets:		
Cash and cash equivalents	\$	1,597,980
Investments		609,409
Accounts receivable		28,050
Unconditional promises to give		167,800
Grants receivable		376,544
		<u>2,779,783</u>
Less: Amounts restricted by donors and grantors		<u>(858,258)</u>
	\$	<u>1,921,525</u>

The Organization manages its cash available to meet general expenditures following these guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining adequate liquid assets; and
- Maintaining sufficient reserves to provide reasonable assurance that long-term commitments to programs that support mission fulfillment will continue to be met, ensuring the sustainability of the organization

#### (12) Leases

On October 1, 2016, the Organization entered into a lease agreement to rent a portion of its building to an unrelated party. The Organization receives monthly rental payments of \$8,750. The lease expired September 30, 2019. Effective October 1, 2019, the lease became a month-to-month agreement.

## **OPERATION FOOD SEARCH, INC.**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **(13) Employee Benefit Plan**

The Organization maintains a 401(k) safe harbor plan for all eligible employees. Under the terms of the plan, employees may contribute up to the maximum amount allowed by law. The Organization is required to make matching safe harbor contributions, defined as 100% of the first 4% of eligible compensation, to the plan. Additional Organization contributions may be made at the Organization's discretion. Employees are 100% vested in their deferred compensation contributions and the Organization's matching safe harbor contributions. In the event of additional Organization contributions, employees will vest 0% in year 1, 20% after year 2, 40% after year 3, 60% after year 4, 80% after year 5, with 100% vesting after the sixth year of continuous service. Contributions charged to expense for the years ended September 30, 2019 and 2018 were \$56,087 and \$43,914, respectively.

#### **(14) Donor Concentration**

The Organization received 26% of its cash contributions from two donors for the year ended September 30, 2019.

The Organization received 52% and 43% of its non-cash contributions from one donor for the years ended September 30, 2019 and 2018, respectively.