

RIVER BEND FOOD RESERVOIR D/B/A RIVER BEND FOODBANK

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2018 AND 2017**

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Independent Auditors' Report

Board of Directors
River Bend Food Reservoir d/b/a River Bend Foodbank
Davenport, Iowa

We have audited the accompanying financial statements of River Bend Food Reservoir d/b/a River Bend Foodbank (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 River Bend Food Reservoir d/b/a River Bend Foodbank as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of River Bend Food Reservoir d/b/a River Bend Foodbank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering River Bend Food Reservoir d/b/a River Bend Foodbank's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Anders Minkler Heber & Helms LLP". The signature is written in a cursive style.

December 21, 2018

River Bend Food Reservoir d/b/a River Bend Foodbank
Statements of Financial Position
June 30, 2018 and 2017

Assets

| | 2018 | 2017 |
|--|--------------|--------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 1,371,934 | \$ 1,222,809 |
| Accounts receivable, net | 49,767 | 80,622 |
| Unconditional promises to give | 359,656 | 364,197 |
| Grants receivable | 24,244 | 30,856 |
| Other receivables | - | 3,122 |
| Inventory | 2,039,192 | 2,154,155 |
| Total Current Assets | 3,844,793 | 3,855,761 |
| Unconditional Promises to Give | - | 205,000 |
| Investments, at fair value - other | 1,909,941 | 1,742,865 |
| Investments, at fair value - endowment | 38,458 | 22,281 |
| Property and Equipment, net | 3,130,302 | 2,831,413 |
| Total Assets | \$ 8,923,494 | \$ 8,657,320 |

Liabilities and Net Assets

| | | |
|---|--------------|--------------|
| Current Liabilities | | |
| Current maturities of capital lease obligations | \$ 85,906 | \$ 62,612 |
| Current maturities of long-term debt | 4,474 | - |
| Accounts payable | 137,173 | 77,195 |
| Accrued expenses | 15,261 | 13,874 |
| Total Current Liabilities | 242,814 | 153,681 |
| Long-term Capital Lease Obligations | 359,709 | 283,440 |
| Long-term Debt | 16,170 | - |
| Total Liabilities | 618,693 | 437,121 |
| Net Assets | | |
| Unrestricted | | |
| Undesignated | 7,680,349 | 7,445,900 |
| Board designated endowment | 38,458 | 22,281 |
| Total Unrestricted | 7,718,807 | 7,468,181 |
| Temporarily restricted | 585,994 | 752,018 |
| Total Net Assets | 8,304,801 | 8,220,199 |
| Total Liabilities and Net Assets | \$ 8,923,494 | \$ 8,657,320 |

**River Bend Food Reservoir d/b/a River Bend Foodbank
Statement of Activities
Year Ended June 30, 2018**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| Support and Revenue | | | |
| Program fees | \$ 312,980 | \$ - | \$ 312,980 |
| Contributions | 1,675,932 | 454,656 | 2,130,588 |
| Government grants | 346,836 | - | 346,836 |
| Investment income | 125,143 | - | 125,143 |
| Special events | 68,019 | - | 68,019 |
| Other income | 22,716 | - | 22,716 |
| Consumable product donations/receipts | <u>26,379,839</u> | <u>-</u> | <u>26,379,839</u> |
| | 28,931,465 | 454,656 | 29,386,121 |
| Net assets released from restrictions | | | |
| Satisfaction of time and usage restrictions | <u>620,680</u> | <u>(620,680)</u> | <u>-</u> |
| Total Support and Revenue | <u>29,552,145</u> | <u>(166,024)</u> | <u>29,386,121</u> |
| Expenses | | | |
| Program services - food distribution | <u>28,223,876</u> | <u>-</u> | <u>28,223,876</u> |
| Supporting activities | | | |
| Management and general | 591,467 | - | 591,467 |
| Fundraising | <u>486,176</u> | <u>-</u> | <u>486,176</u> |
| Total Supporting Activities | <u>1,077,643</u> | <u>-</u> | <u>1,077,643</u> |
| Total Expenses | <u>29,301,519</u> | <u>-</u> | <u>29,301,519</u> |
| Change in Net Assets | 250,626 | (166,024) | 84,602 |
| Net Assets, Beginning of Year | <u>7,468,181</u> | <u>752,018</u> | <u>8,220,199</u> |
| Net Assets, End of Year | <u>\$ 7,718,807</u> | <u>\$ 585,994</u> | <u>\$ 8,304,801</u> |

River Bend Food Reservoir d/b/a River Bend Foodbank
Statement of Activities
Year Ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| Support and Revenue | | | |
| Program fees | \$ 360,251 | \$ - | \$ 360,251 |
| Contributions | 1,469,173 | 882,508 | 2,351,681 |
| Government grants | 287,940 | - | 287,940 |
| Investment income | 124,286 | - | 124,286 |
| Special events | 36,910 | - | 36,910 |
| Other income | 69,922 | - | 69,922 |
| Consumable product donations/receipts | <u>22,746,105</u> | <u>-</u> | <u>22,746,105</u> |
| | <u>25,094,587</u> | <u>882,508</u> | <u>25,977,095</u> |
| Net assets released from restrictions | | | |
| Satisfaction of time and usage restrictions | <u>453,895</u> | <u>(453,895)</u> | <u>-</u> |
| Total Support and Revenue | <u>25,548,482</u> | <u>428,613</u> | <u>25,977,095</u> |
| Expenses | | | |
| Program services - food distribution | <u>24,199,173</u> | <u>-</u> | <u>24,199,173</u> |
| Supporting activities | | | |
| Management and general | 507,601 | - | 507,601 |
| Fundraising | 419,034 | - | 419,034 |
| Total Supporting Activities | <u>926,635</u> | <u>-</u> | <u>926,635</u> |
| Total Expenses | <u>25,125,808</u> | <u>-</u> | <u>25,125,808</u> |
| Change in Net Assets | 422,674 | 428,613 | 851,287 |
| Net Assets, Beginning of Year | <u>7,045,507</u> | <u>323,405</u> | <u>7,368,912</u> |
| Net Assets, End of Year | <u>\$ 7,468,181</u> | <u>\$ 752,018</u> | <u>\$ 8,220,199</u> |

**River Bend Food Reservoir d/b/a River Bend Foodbank
Statement of Functional Expenses
Year Ended June 30, 2018**

| | Program Services | Supporting Activities | | Total |
|--|----------------------|---------------------------|-------------------|----------------------|
| | | Management and General | Fundraising | |
| Food and product distributed | \$ 26,809,740 | \$ - | \$ - | \$ 26,809,740 |
| Salaries and related items | 697,040 | 210,446 | 171,173 | 1,078,659 |
| Employee benefits | 104,520 | 31,556 | 25,667 | 161,743 |
| Insurance | 42,189 | 1,945 | - | 44,134 |
| Rental and maintenance | 72,094 | 6,554 | - | 78,648 |
| Utilities and telephone | 66,197 | 6,018 | - | 72,215 |
| Vehicle expense | 21,234 | - | - | 21,234 |
| Freight | 153,270 | - | - | 153,270 |
| Dues and subscriptions | - | 36,953 | - | 36,953 |
| Warehouse supplies | 60,878 | - | - | 60,878 |
| Office supplies and printing | - | 50,755 | - | 50,755 |
| Interest expense | - | 16,253 | - | 16,253 |
| Professional fees | - | 86,935 | 289,336 | 376,271 |
| Other expenses | - | 126,309 | - | 126,309 |
| Total Expenses Before Depreciation and Amortization | 28,027,162 | 573,724 | 486,176 | 29,087,062 |
| Depreciation and amortization | 196,714 | 17,743 | - | 214,457 |
| Total Expenses | <u>\$ 28,223,876</u> | <u>\$ 591,467</u> | <u>\$ 486,176</u> | <u>\$ 29,301,519</u> |

**River Bend Food Reservoir d/b/a River Bend Foodbank
Statement of Functional Expenses
Year Ended June 30, 2017**

| | Program Services | Supporting Activities | | Total |
|--|----------------------|---------------------------|-------------------|----------------------|
| | | Management and General | Fundraising | |
| Food and product distribution | \$ 23,092,162 | \$ - | \$ - | \$ 23,092,162 |
| Salaries and related items | 556,867 | 178,503 | 149,626 | 884,996 |
| Employee benefits | 72,158 | 23,130 | 19,388 | 114,676 |
| Insurance | 33,171 | 1,471 | - | 34,642 |
| Rental and maintenance | 51,408 | 4,673 | - | 56,081 |
| Utilities and telephone | 63,468 | 5,770 | - | 69,238 |
| Vehicle expense | 8,940 | - | - | 8,940 |
| Freight | 111,758 | - | - | 111,758 |
| Dues and subscriptions | - | 26,181 | - | 26,181 |
| Warehouse supplies | 44,933 | - | - | 44,933 |
| Office supplies and printing | - | 40,939 | - | 40,939 |
| Interest expense | - | 9,897 | - | 9,897 |
| Professional fees | - | 55,504 | 250,020 | 305,524 |
| Other expenses | - | 146,771 | - | 146,771 |
| Total Expenses Before Depreciation and Amortization | 24,034,865 | 492,839 | 419,034 | 24,946,738 |
| Depreciation and amortization | 164,308 | 14,762 | - | 179,070 |
| Total Expenses | <u>\$ 24,199,173</u> | <u>\$ 507,601</u> | <u>\$ 419,034</u> | <u>\$ 25,125,808</u> |

River Bend Food Reservoir d/b/a River Bend Foodbank
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

| | 2018 | 2017 |
|--|--------------|--------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 84,602 | \$ 851,287 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 214,457 | 179,070 |
| Realized and unrealized gains on investments | (77,212) | (75,587) |
| Donated securities | (63,926) | (50,047) |
| (Increase) decrease in assets | | |
| Accounts receivable, net | 30,855 | 75,098 |
| Unconditional promises to give | 209,541 | (274,197) |
| Grants receivable | 6,612 | (30,856) |
| Other receivables | 3,122 | - |
| Inventory | 114,963 | (148,465) |
| Increase (decrease) in liabilities | | |
| Accounts payable | 11,030 | (41,752) |
| Accrued expenses | 1,387 | (19,245) |
| Deferred revenue | - | (16,417) |
| Net Cash Provided by Operating Activities | 535,431 | 448,889 |
| Cash Flows From Investing Activities | | |
| Proceeds from sales of investments | 758,659 | 1,069,875 |
| Purchases of investments | (800,774) | (1,078,384) |
| Purchases of property and equipment | (274,285) | (282,714) |
| Net Cash Used in Investing Activities | (316,400) | (291,223) |
| Cash Flows From Financing Activities | | |
| Payments on long-term debt | (3,165) | - |
| Payments on capital lease obligations | (66,741) | (57,828) |
| Net Cash Used in Financing Activities | (69,906) | (57,828) |
| Net Increase in Cash and Cash Equivalents | 149,125 | 99,838 |
| Cash and Cash Equivalents, Beginning of Year | 1,222,809 | 1,122,971 |
| Cash and Cash Equivalents, End of Year | \$ 1,371,934 | \$ 1,222,809 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash paid for interest | \$ 16,253 | \$ 9,897 |

Noncash Investing and Financing Activities

During the year ended June 30, 2018, the Organization financed the acquisition of property and equipment with long-term debt in the amount of \$23,809.

At June 30, 2018, the Organization included the acquisition of property and equipment in accounts payable in the amount of \$48,948.

During the years ended June 30, 2018 and 2017, the Organization acquired property and equipment of \$166,304 and \$403,880, respectively, using capital leasing arrangements.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

1. Nature of Operations and Basis of Presentation

Organization

River Bend Food Reservoir d/b/a River Bend Foodbank (the "Organization"), is a not-for-profit organization established in 1982 to collect donations of wholesome food from the food industry for distribution to more than 300 charitable community organizations that support the hungry in 22 counties in western Illinois and eastern Iowa.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions of the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification (the "FASB ASC"), which is the source of authoritative, non-governmental accounting principles generally accepted in the United States of America ("GAAP"). All references to authoritative accounting guidance contained in our disclosures are based on the general accounting topics within the FASB ASC.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified into three categories of net assets, as applicable, and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. Board designated funds are established by the Board of Directors and represent unrestricted net assets that have been set aside to help ensure the long-term financial stability of the Organization.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations required to be maintained permanently by the Organization. As of June 30, 2018 and 2017, there were no permanently restricted net assets.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

Fair Value Measurements

The Organization follows guidance issued by the FASB on fair value measurements, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. The three general valuation techniques used to measure fair value are the market approach, cost approach, and income approach.

Cash and Cash Equivalents

The Organization considers all short-term investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Investments

The Organization carries investments at fair value with unrealized holding gains and losses included in earnings. Realized gains and losses are included in earnings and are derived using primarily the specific identification method for determining the cost of securities sold. Dividend and interest income is recognized when earned.

Accounts Receivable

Accounts receivable are uncollateralized obligations due primarily for shared maintenance fees from member agencies under normal trade terms generally requiring payment within 30 days of the invoice date.

The Organization provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of accounts receivable. This estimate is based on historical experience coupled with a review of the current status of existing receivables. The allowance and associated accounts receivable are reduced when the receivables are determined to be uncollectible. The allowance for doubtful accounts totaled \$7,246 and \$21,944 as of June 30, 2018 and 2017, respectively.

Grants Receivable

Grants receivable includes amounts due from various funding sources under binding contracts with the Organization for services rendered prior to year-end.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

Unconditional Promises to Give

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value using risk-free interest rates applicable to the years in which the promises are to be received.

The Organization provides an allowance for doubtful promises to give equal to the estimated losses that will be incurred in the collection of unconditional promises to give. This estimate is based on historical experience coupled with a review of the current status of existing promises. The allowance and associated promises are reduced when the promises are determined to be uncollectible. The Organization considers unconditional promises to give to be fully collectible; accordingly, no allowance for doubtful promises to give is deemed necessary.

Inventory

The Organization's inventory consists of donated food items, USDA product, and purchased product. The donated products received and distributed by the Organization have been valued and recorded in the accompanying financial statements in accordance with the FASB's guidance on accounting for contributions received and contributions made. Donated products are valued at fair value using product distribution pricing guidelines provided by Feeding America, a national consortium of regional food banks. The estimated fair value prices per pound of \$1.68 and \$1.57 were used in determining general donated and federal government donated product, respectively, as of and for the year ended June 30, 2018. The estimated fair value prices per pound of \$1.73 and \$1.52 were used in determining general donated and federal government donated product, respectively, as of and for the year ended June 30, 2017.

Property and Equipment

Property and equipment acquisitions with a life of 3 years or greater and a cost in excess of \$3,000 are capitalized and recorded at cost, while maintenance and repairs are expensed as incurred. Donated assets are recorded at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose or period of time. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation and amortization are removed from the accounts. Any gain or loss arising from such disposition is included as income or expense in the year of disposition.

Depreciation and amortization is computed using the straight-line and accelerated methods over the estimated useful lives of the assets.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

The estimated lives for computing depreciation and amortization on property and equipment are:

| <u>Classification</u> | <u>Years</u> |
|-------------------------------|--------------|
| Building and improvements | 5-40 |
| Warehouse equipment | 5-20 |
| Vehicles | 5 |
| Office equipment | 5 |
| Vehicles under capital leases | 6 |

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Endowment Fund

In 2015, the Board of Directors approved the establishment of an Endowment Fund (the "Endowment") to provide a continuous source of income to support the Organization's mission.

The State of Iowa has enacted the State Prudent Management of Institutional Funds Act ("the SPMIFA"). The Organization follows FASB guidance on accounting for the net assets classification of endowment funds for a not-for-profit organization that is subject to the enacted version of the SPMIFA. The Organization has determined that the Endowment meets the definition of endowment funds under the SPMIFA.

The Organization has interpreted the SPMIFA as requiring the preservation of the original gift amount. As a result of this interpretation, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. There are no gifts with donor imposed restrictions included in the Endowment. The funds contributed by the Organization are included in unrestricted net assets as board designated. These funds may be appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by the SPMIFA.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

Support and Revenue

Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Donor restricted contributions in which the restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Government contracts are generally recognized as income in the period that specific services are provided.

Donated Materials and Services

Donated noncash assets are recorded as contributions at their fair values at the date of donation. Significant food products, services, and materials are donated to the Organization by various individuals, organizations, and state governments. Donated food products, with a fair value of \$25,482,938 and \$22,018,019 at the date of donation, have been included in the financial statements for the years ended June 30, 2018 and 2017, respectively.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Functional Expense Allocation

The Organization allocates expenses on a functional basis among various programs and supporting activities. Expenses that can be identified with a specific program and supporting activity are allocated directly according to their natural expenditure classifications. Other expenses that are common to several functions are allocated by various statistical bases.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except on net income derived from unrelated business activities as defined in the Code. Accordingly, the Organization files as a tax exempt organization.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

The Organization follows guidance issued by the FASB on accounting for income taxes and has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, and believes that no provision for income taxes is necessary to cover any uncertain tax positions. The Organization's returns for tax periods 2014 and later remain subject to examination by taxing authorities.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

Leases

The FASB has issued new guidance on the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. The guidance requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial position. The guidance will be required for the first fiscal year beginning after December 15, 2019. Based on a preliminary analysis, the Organization does not expect the new guidance will have a significant impact on its financial statements.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

Not-for-Profit Entities

The FASB has issued new guidance on financial reporting for not-for-profit entities. The guidance requires a not-for-profit entity to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than that of the currently required three classes. Not-for-profit entities will continue reporting the currently required amount of the change in total net assets for the period. The guidance also requires a not-for-profit entity to continue to present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit entity will report amounts for net assets with donor restrictions and net assets without donor restrictions, as well as the currently required amount for total net assets. The guidance also requires a not-for-profit entity to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer requires the presentation or disclosure of the indirect method (reconciliation) if using the direct method. The guidance also requires enhanced disclosures about the following:

- Amounts and purposes of governing board designations, appropriations, etc.,
- Composition of net assets with donor restrictions at the end of the period,
- Qualitative information that communicates how an entity manages its liquid resources,
- Quantitative and additional qualitative information, as necessary, that communicates the availability of an entity's financial assets,
- Amounts of expenses by both their natural classification and their functional classification,
- Method(s) used to allocate costs among program and support functions,
- Underwater endowment funds.

The guidance also requires that the Organization report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses. The guidance also requires that the Organization use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

The guidance will be required for the first fiscal year beginning after December 15, 2017. Based on a preliminary analysis, the Organization does expect the new guidance will have a significant impact on the presentation of its financial statements.

River Bend Food Reservoir d/b/a River Bend Foodbank
Notes to Financial Statements
June 30, 2018 and 2017

3. Fair Value Measurements

The framework for measuring fair value establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into Levels 1, 2, and 3. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical instruments in active markets. |
| Level 2 | Inputs to the valuation methodology to include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, inputs other than quoted prices that are observable for the instrument, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

The instruments' 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Carrying amounts of certain financial instruments such as cash and cash equivalents, accounts receivable, grants receivable, promises to give, accounts payable, accrued expenses, and capital lease obligations approximate fair value due to their short maturities or because the terms are similar to market terms. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Following is a description of the valuation methodologies used for instruments measured at fair value:

- | | |
|---------|---|
| Level 1 | Instruments consist of publicly traded common stock, preferred stock, and mutual funds. These securities are traded on national exchanges and are stated at the last reported sales price on the day of valuation. |
| Level 2 | Instruments consist of government and agency obligations and unit investment trusts. These securities are valued using evaluated pricing, which incorporates modeling techniques, information from extensive market sources, observed transaction data, credit quality information, perceived market movements, news, and other relevant information. |

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The following table presents the fair value measurements of instruments recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements are categorized at June 30, 2018 and 2017:

| | 2018 | | | |
|-----------------------------------|---------------------|-------------------------|-------------------|-------------|
| | Total | Fair Value Measurements | | |
| | | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| Equity mutual funds | \$ 389,429 | \$ 389,429 | \$ - | \$ - |
| Common stock | 615,528 | 615,528 | - | - |
| Preferred stock | 49,420 | 49,420 | - | - |
| Government and agency obligations | 340,139 | - | 340,139 | - |
| Unit investment trusts | 515,425 | - | 515,425 | - |
| Endowment fund | 38,458 | 38,458 | - | - |
| Total Investments | <u>\$ 1,948,399</u> | <u>\$ 1,092,835</u> | <u>\$ 855,564</u> | <u>\$ -</u> |
| | | | | |
| | 2017 | | | |
| | Total | Fair Value Measurements | | |
| | | Level 1 | Level 2 | Level 3 |
| Investments: | | | | |
| Equity mutual funds | \$ 519,116 | \$ 519,116 | \$ - | \$ - |
| Common stock | 504,133 | 504,133 | - | - |
| Preferred stock | 85,730 | 85,730 | - | - |
| Government and agency obligations | 343,371 | - | 343,371 | - |
| Unit investment trusts | 290,515 | - | 290,515 | - |
| Endowment fund | 22,281 | 22,281 | - | - |
| Total Investments | <u>\$ 1,765,146</u> | <u>\$ 1,131,260</u> | <u>\$ 633,886</u> | <u>\$ -</u> |

4. Investments

A summary of the cost and fair value of the Organization's investments as of June 30, is as follows:

| | 2018 | | |
|-----------------------------------|---------------------|------------------|---------------------|
| | Cost | Unrealized | |
| | | Gains (Losses) | Fair Value |
| Equity mutual funds | \$ 365,349 | \$ 24,080 | \$ 389,429 |
| Common stock | 652,260 | (36,732) | 615,528 |
| Preferred stock | 50,000 | (580) | 49,420 |
| Government and agency obligations | 290,192 | 49,947 | 340,139 |
| Unit investment trusts | 506,067 | 9,358 | 515,425 |
| Endowment fund | 38,458 | - | 38,458 |
| | <u>\$ 1,902,326</u> | <u>\$ 46,073</u> | <u>\$ 1,948,399</u> |

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| | 2017 | | |
|-----------------------------------|---------------------|------------------------------|---------------------|
| | Cost | Unrealized Gains (Losses) | Fair Value |
| Equity mutual funds | \$ 522,680 | \$ (3,564) | \$ 519,116 |
| Common stock | 560,672 | (56,539) | 504,133 |
| Preferred stock | 83,901 | 1,829 | 85,730 |
| Government and agency obligations | 264,722 | 78,649 | 343,371 |
| Unit investment trusts | 297,495 | (6,980) | 290,515 |
| Endowment fund | 22,281 | - | 22,281 |
| | <u>\$ 1,751,751</u> | <u>\$ 13,395</u> | <u>\$ 1,765,146</u> |

Investment income for the years ended June 30, is summarized as follows:

| | 2018 | 2017 |
|---|-------------------|-------------------|
| Interest and dividend income | \$ 47,931 | \$ 48,699 |
| Net realized and unrealized gains on investments reported at fair value | 77,212 | 75,587 |
| Total Investment Income | <u>\$ 125,143</u> | <u>\$ 124,286</u> |

5. Unconditional Promises to Give

Unconditional promises to give at June 30, are as follows:

| | 2018 | 2017 |
|--------------------------------------|-------------------|-------------------|
| Less than one year | \$ 359,656 | \$ 364,197 |
| One to five years | - | 205,000 |
| Total unconditional promises to give | <u>\$ 359,656</u> | <u>\$ 569,197</u> |

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6. Inventory

The Organization distributes products to approximately 300 social service agencies for use in their food distribution and on-site serving programs. The Organization distributes USDA product primarily through The Emergency Food Assistance Program ("TEFAP") in Iowa and Illinois. Food products distributed, in pounds, during the years ended June 30, are as follows:

| | <u>2018</u> | <u>2017</u> |
|-----------------------|-------------------|-------------------|
| Donated products | 12,264,246 | 10,139,710 |
| Purchased products | 1,848,846 | 1,571,567 |
| Iowa USDA (TEFAP) | 828,588 | 1,216,611 |
| Illinois USDA (TEFAP) | <u>1,581,605</u> | <u>1,635,940</u> |
| | <u>16,523,285</u> | <u>14,563,828</u> |

Inventory as of June 30, is as follows:

| | <u>2018</u> | | <u>2017</u> | |
|-----------------------|------------------|---------------------|------------------|---------------------|
| | <u>Pounds</u> | <u>Amount</u> | <u>Pounds</u> | <u>Amount</u> |
| Donated products | 792,243 | \$ 1,361,736 | 810,300 | \$ 1,393,102 |
| Purchased products | 579,243 | 372,248 | 547,082 | 331,844 |
| Iowa USDA (TEFAP) | 62,380 | 107,917 | 85,263 | 129,600 |
| Illinois USDA (TEFAP) | <u>114,041</u> | <u>197,291</u> | <u>197,111</u> | <u>299,609</u> |
| | <u>1,547,907</u> | <u>\$ 2,039,192</u> | <u>1,639,756</u> | <u>\$ 2,154,155</u> |

7. Grants Receivable

Grants receivable at June 30, are as follows:

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Iowa Department of Human Services (TEFAP) | \$ 13,509 | \$ 14,677 |
| Illinois Department of Human Services (TEFAP) | 10,504 | - |
| Feeding Illinois - SNAP reimbursements | <u>231</u> | <u>16,179</u> |
| | <u>\$ 24,244</u> | <u>\$ 30,856</u> |

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8. Property and Equipment

Property and equipment at June 30, is as follows:

| | 2018 | 2017 |
|--|--------------|--------------|
| Land | \$ 236,000 | \$ 236,000 |
| Building and improvements | 2,337,423 | 2,157,423 |
| Warehouse equipment | 433,829 | 410,315 |
| Vehicles | 358,499 | 338,578 |
| Office equipment | 113,518 | 92,741 |
| Vehicles under capital leases | 570,185 | 403,880 |
| | 4,049,454 | 3,638,937 |
| Less accumulated depreciation and amortization | 919,152 | 807,524 |
| | \$ 3,130,302 | \$ 2,831,413 |

Depreciation and amortization expense was \$214,457 and \$179,070 for the years ended June 30, 2018 and 2017, respectively.

9. Long-term Debt

Long-term debt at June 30, 2018 is as follows:

| | |
|---|-----------|
| Note payable, monthly principal and interest payments of \$225 beginning in October 2017, annual interest of 6.10%, maturing in September 2022. | \$ 10,086 |
| | |
| Note payable, monthly principal and interest payments of \$225 beginning in October 2017, annual interest of 3.90%, maturing in September 2022. | 10,558 |
| | 20,644 |
| Less current maturities | 4,474 |
| | \$ 16,170 |

The Organization had no long-term debt at June 30, 2017.

Maturities of long-term debt as of June 30, 2018 are as follows:

| <u>June 30,</u> | |
|-----------------|-----------|
| 2019 | \$ 4,474 |
| 2020 | 4,700 |
| 2021 | 4,940 |
| 2022 | 5,192 |
| 2023 | 1,338 |
| | \$ 20,644 |

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10. Restricted Net Assets

Temporarily restricted net assets at June 30, are as follows:

| | 2018 | 2017 |
|----------------------------|------------|------------|
| Backpack Program | \$ 50,000 | \$ 169,197 |
| End Hunger in Scott County | 104,656 | 61,900 |
| Capacity Building | 334,029 | 520,921 |
| Major Gifts Officer | 47,309 | - |
| Purchase of Produce | 50,000 | - |
| | \$ 585,994 | \$ 752,018 |

Net assets totaling \$620,680 and \$453,895 were released from donor restrictions during the years ended June 30, 2018 and 2017, respectively, as a result of collection of unconditional promises to give and use of funds for their restricted purposes.

11. Endowment Funds

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to the Organization, while also maintaining the purchasing power of those endowment assets over the long-term. Disbursements, other than amounts to pay investment fees, require the approval of the Board of Directors. 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 the donor-restricted endowment fund
- ◆ General economic conditions
- ◆ The possible effect of inflation and deflation
- ◆ The expected total return from income and the appreciation of investments
- ◆ Other resources of the Organization
- ◆ The investment policies of the Organization

Endowment funds at June 30, are as follows:

| 2018 | | | |
|--------------|------------------------|------------------------|-----------|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| \$ 38,458 | \$ - | \$ - | \$ 38,458 |
| | | | |

| 2017 | | | |
|--------------|------------------------|------------------------|-----------|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| \$ 22,281 | \$ - | \$ - | \$ 22,281 |
| | | | |

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Changes in endowment net assets for the years ended June 30, are as follows:

| | 2018 | | | Total |
|--|------------------|---------------------------|---------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Endowment net assets, beginning of year | \$ 22,281 | \$ - | \$ - | \$ 22,281 |
| Contributions | 14,577 | - | - | 14,577 |
| Investment income, net of fees | 562 | - | - | 562 |
| Net appreciation | <u>1,038</u> | <u>-</u> | <u>-</u> | <u>1,038</u> |
| Endowment net assets, end of year | <u>\$ 38,458</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 38,458</u> |
| | 2017 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ 16,763 | \$ - | \$ - | \$ 16,763 |
| Contributions | 4,026 | - | - | 4,026 |
| Investment income, net of fees | 247 | - | - | 247 |
| Net appreciation | <u>1,245</u> | <u>-</u> | <u>-</u> | <u>1,245</u> |
| Endowment net assets, end of year | <u>\$ 22,281</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 22,281</u> |

12. Agreements and Contracts

The Organization has primary responsibility for warehousing, handling, and distributing USDA-donated foods under TEFAP within its Iowa and Illinois service territories. The Organization receives grants from the Iowa Department of Human Services and Illinois Department of Human Services to offset certain operating expenses incurred in the distribution of the food. The donated foods received by the Organization under TEFAP are distributed to food pantries and on-site serving centers.

In addition, the Organization has responsibility for warehousing, handling, repackaging and distributing USDA-donated and other foods under Temporary Assistance for Needy Families programs. The Organization receives grants through the Illinois Department of Human Services to offset certain expenses incurred in the repackaging and distribution of this food.

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13. Retirement Plan

The Organization maintains a contributory retirement savings plan under Section 403(b) of the Code. The plan covers employees that meet certain eligibility requirements. Employees may make discretionary contributions to the plan through payroll deductions up to the maximum amount allowed by the Code. There are no employer contributions to the plan.

The Organization also maintains a Simplified Employee Pension Plan ("SEP") for its full-time employees. The SEP covers employees that meet certain eligibility requirements. The SEP is funded monthly in an amount equal to 3 percent of the covered employees' wages for years of service 1-3, 4 percent of the covered employees' wages for years of service 5-9, and 5 percent of the covered employees' wages for 10 or more years of service. Employer contributions to the SEP were \$23,775 and \$16,456 for the years ended June 30, 2018 and 2017, respectively.

14. Affiliate Agreement

The Organization is a member in the national network of Feeding America through an Affiliate Contract that is in place. The Affiliate Contract establishes the Organization's exclusive service area and sets forth a variety of compliance requirements. Dues are remitted to Feeding America by the Organization based on a formula defined in the agreement.

15. Risks and Uncertainties

Concentration of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents, receivables, and investments. The Organization maintains its cash primarily with one financial institution. Deposits at this bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2018, there were cash balances in excess of federally insured limits at this bank. However, the Organization utilizes repurchase agreements as part of its cash management policy and has a secured interest in the underlying securities backing these deposits.

The Organization performs ongoing credit evaluations of its customers and maintains allowances, as needed, for potential credit losses. Although the Organization is directly affected by the financial stability of its customer base, management does not believe significant credit risk exists at June 30, 2018. The Organization maintains its investments primarily with one brokerage firm. Securities held at this firm are insured by the Securities Investor Protection Corporation up to \$500,000. As of June 30, 2018, there were investment balances of \$1,414,077 in excess of SIPC limits at the brokerage firm.

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Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, 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 change could materially affect the amounts reported in the accompanying statements of financial position.

16. Commitments and Contingencies

Leases

The Organization leases vehicles and equipment under noncancellable operating and capital leases. Future minimum lease payments at June 30, 2018, are as follows:

| | Capital Leases | Operating Leases |
|--|-------------------|---------------------|
| 2019 | \$ 104,069 | \$ 1,873 |
| 2020 | 104,069 | 1,873 |
| 2021 | 104,069 | - |
| 2022 | 87,423 | - |
| 2023 | 49,769 | - |
| Thereafter | 55,920 | - |
| | 505,319 | \$ 3,746 |
| Implied interest | 59,704 | |
| Present value of future minimum payments | 445,615 | |
| Less current maturities | 85,906 | |
| Long-term capital lease obligation | \$ 359,709 | |

The capital leases require monthly payments of \$8,672 and \$6,343 as of June 30, 2018 and 2017, respectively. The leased assets totaled \$570,185 and \$403,880 as of June 30, 2018 and 2017, respectively. Amortization expense for the years ended June 30, 2018 and 2017 was \$67,313 and \$62,747, respectively. At June 30, 2018 and 2017, accumulated amortization related to capital leased assets totaled \$130,060 and \$62,747, respectively.

Rent expense related to operating leases for the years ended June 30, 2018 and 2017 totaled \$2,525 and \$2,717, respectively.

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17. Subsequent Event

The Organization has evaluated subsequent events through December 21, 2018, the date the financial statements were available to be issued. On December 13, 2018, the Organization approved the acquisition of St. Stephen's Food Bank (a not-for-profit organization) ("St. Stephen's") with an effective date of January 1, 2019. The Organization will be the surviving not-for-profit organization. St. Stephen's mission is to end hunger in Dubuque, Iowa and the surrounding area through a community effort. The Organization expects the acquisition will achieve operational efficiencies and streamline operational and reporting structures that would not be possible if St. Stephen's and the Organization were maintained as separate entities. The Organization will not incur any significant liability or cash outlay related to this transaction.