



Report of Independent Auditors and
Financial Statements

Food Forward, Inc.

December 31, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Food Forward, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Food Forward, Inc., which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Food Forward, Inc. as of December 31, 2022 and 2021, and the change in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Food Forward, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Food Forward, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Food Forward, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Food Forward, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter – Adoption of New Accounting Standards

As discussed in Note 2 to the financial statements, as of and for the year ended December 31, 2022, Food Forward, Inc. adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The adoption of this standard resulted in additional footnote disclosures and had a significant impact on the consolidated statement of financial position through the recognition of right-of-use assets and lease liabilities. Food Forward, Inc. adopted the new standard using the transition method provided in ASU 2018-11 such that prior period amounts are not adjusted and continue to be reported in accordance with Accounting Standards Codification 840, *Leases*. Our opinion is not modified with



Irvine, California
June 8, 2023

Financial Statements

Food Forward, Inc.
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 372,670	\$ 1,521,958
Investments	14,269,866	10,057,438
Contributions receivable	358,647	581,389
Prepaid expenses	82,804	36,833
Total current assets	15,083,987	12,197,618
NON-CURRENT ASSETS		
Property and equipment, net	978,933	748,666
Right-of-use assets – operating leases	913,119	-
Deposits	9,383	9,383
Total assets	\$ 16,985,422	\$ 12,955,667
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 109,888	\$ 98,463
Employee related accrued expenses	241,333	202,780
Operating lease liabilities, current portion	144,313	-
Total current liabilities	495,534	301,243
OPERATING LEASE LIABILITIES, long-term portion, net	724,499	-
Total liabilities	1,220,033	301,243
COMMITMENTS (Note 7)		
NET ASSETS		
Without donor restrictions	14,556,759	10,317,007
With donor restrictions	1,208,630	2,337,417
Total net assets	15,765,389	12,654,424
Total liabilities and net assets	\$ 16,985,422	\$ 12,955,667

See accompanying notes.

Food Forward, Inc.
Statements of Activities
(with prior year summarized comparative information)
Year Ended December 31, 2022

	Year Ended December 31, 2022			Year Ended December 31, 2021
	Without Donor Restrictions	With Donor Restrictions	Total	
REVENUE AND SUPPORT				
Operating revenue and support				
Grants and contributions	\$ 7,119,466	\$ 724,828	\$ 7,844,294	\$ 7,842,957
Private picks	8,925	-	8,925	-
Investment income	167,954	-	167,954	2,241
Other income	76,069	-	76,069	3,046
Net assets released from restrictions	1,853,615	(1,853,615)	-	-
Total operating revenue and support	9,226,029	(1,128,787)	8,097,242	7,848,244
In-kind revenue				
Recovered produce and other in-kind	138,988,662	-	138,988,662	120,190,005
Total in-kind revenue	138,988,662	-	138,988,662	120,190,005
Special events				
Special events revenue	162,403	-	162,403	148,583
Special events expense	(10,224)	-	(10,224)	(29,611)
Total special events, net	152,179	-	152,179	118,972
Total revenue and support	148,366,870	(1,128,787)	147,238,083	128,157,221
EXPENSES				
Program services				
Wholesale Produce Recovery	139,103,112	-	139,103,112	120,422,311
Community Programs	2,924,123	-	2,924,123	2,216,304
Total program services	142,027,235	-	142,027,235	122,638,615
Supporting services				
Management and general	1,123,658	-	1,123,658	963,409
Fundraising	976,225	-	976,225	584,401
Total supporting services	2,099,883	-	2,099,883	1,547,810
Total expenses	144,127,118	-	144,127,118	124,186,425
CHANGE IN NET ASSETS	4,239,752	(1,128,787)	3,110,965	3,970,796
NET ASSETS AT BEGINNING OF YEAR	10,317,007	2,337,417	12,654,424	8,683,628
NET ASSETS AT END OF YEAR	\$ 14,556,759	\$ 1,208,630	\$ 15,765,389	\$ 12,654,424

See accompanying notes.

Food Forward, Inc.
Statements of Activities
(with prior year summarized comparative information) (Continued)
Year Ended December 31, 2021

	Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Operating revenue and support			
Grants and contributions	\$ 6,516,315	\$ 1,326,642	\$ 7,842,957
Investment income	2,241	-	2,241
Other income	3,046	-	3,046
Net assets released from restrictions	2,545,359	(2,545,359)	-
Total operating revenue and support	<u>9,066,961</u>	<u>(1,218,717)</u>	<u>7,848,244</u>
In-kind revenue			
Recovered produce and other in-kind	<u>120,190,005</u>	<u>-</u>	<u>120,190,005</u>
Total in-kind revenue	<u>120,190,005</u>	<u>-</u>	<u>120,190,005</u>
Special events			
Special events revenue	148,583	-	148,583
Special events expense	(29,611)	-	(29,611)
Total special events, net	<u>118,972</u>	<u>-</u>	<u>118,972</u>
Total revenue and support	<u>129,375,938</u>	<u>(1,218,717)</u>	<u>128,157,221</u>
EXPENSES			
Program services			
Wholesale Produce Recovery	120,422,311	-	120,422,311
Community Programs	2,216,304	-	2,216,304
Total program services	<u>122,638,615</u>	<u>-</u>	<u>122,638,615</u>
Supporting services			
Management and general	963,409	-	963,409
Fundraising	584,401	-	584,401
Total supporting services	<u>1,547,810</u>	<u>-</u>	<u>1,547,810</u>
Total expenses	<u>124,186,425</u>	<u>-</u>	<u>124,186,425</u>
CHANGE IN NET ASSETS	5,189,513	(1,218,717)	3,970,796
NET ASSETS AT BEGINNING OF YEAR	<u>5,127,494</u>	<u>3,556,134</u>	<u>8,683,628</u>
NET ASSETS AT END OF YEAR	<u>\$ 10,317,007</u>	<u>\$ 2,337,417</u>	<u>\$ 12,654,424</u>

See accompanying notes.

Food Forward, Inc.
Statement of Functional Expenses
(with prior year summarized comparative information)
December 31, 2022

	Program Services			Supporting Services		Total Expenses
	Wholesale Produce Recovery	Community Programs	Total Program Services	Management and General	Fundraising	
PERSONNEL EXPENSES						
Salaries and wages	\$ 959,607	\$ 583,851	\$ 1,543,458	\$ 478,196	\$ 563,752	\$ 2,585,406
Employee benefits and taxes	234,185	129,102	363,287	115,103	104,682	583,072
Total personnel expenses	<u>1,193,792</u>	<u>712,953</u>	<u>1,906,745</u>	<u>593,299</u>	<u>668,434</u>	<u>3,168,478</u>
OTHER EXPENSES						
Accounting	-	-	-	222,087	-	222,087
Automobile	195,592	27,880	223,472	2,623	-	226,095
Bad debt	-	-	-	-	26,861	26,861
Bank and merchant fees	-	-	-	1,364	14,967	16,331
Depreciation and amortization	139,487	16,423	155,910	19,296	7,019	182,225
Equipment	44,366	32,321	76,687	21,333	10,662	108,682
Gifts	158	257	415	2,280	200	2,895
Insurance	60,939	19,719	80,658	29,216	1,424	111,298
Licenses and fees	367	-	367	-	33	400
Meals and beverages	3,201	3,126	6,327	13,005	1,664	20,996
Professional development	7,697	2,188	9,885	27,447	6,123	43,455
Occupancy	56,939	26,303	83,242	8,624	15,087	106,953
Office supplies	28,620	3,255	31,875	6,909	2,047	40,831
Marketing and outreach	1,012	28,808	29,820	4,401	24,918	59,139
Outside consultants	321,897	65,516	387,413	138,629	111,696	637,738
Postage and shipping	-	56	56	218	1,609	1,883
Recruitment	445	4,111	4,556	12,775	13,935	31,266
Repairs and maintenance	38,709	1,007	39,716	4,754	2	44,472
Stewardship	-	4,564	4,564	-	4,487	9,051
Telephone and internet	2,763	4,209	6,972	6,681	-	13,653
Travel	9,465	3,994	13,459	3,481	537	17,477
Utilities	37,389	4,146	41,535	2,234	2,422	46,191
Total other expenses	<u>949,046</u>	<u>247,883</u>	<u>1,196,929</u>	<u>527,357</u>	<u>245,693</u>	<u>1,969,979</u>
Produce and other in-kind donations	<u>136,960,274</u>	<u>1,963,287</u>	<u>138,923,561</u>	<u>3,002</u>	<u>62,098</u>	<u>138,988,661</u>
Total 2022 expenses	<u>\$ 139,103,112</u>	<u>\$ 2,924,123</u>	<u>\$ 142,027,235</u>	<u>\$ 1,123,658</u>	<u>\$ 976,225</u>	<u>\$ 144,127,118</u>
Allocation of expenses between program services and supporting services			98.5%	0.8%	0.7%	
Total 2021 expenses	<u>\$ 120,422,311</u>	<u>\$ 2,216,304</u>	<u>\$ 122,638,615</u>	<u>\$ 963,409</u>	<u>\$ 584,401</u>	<u>\$ 124,186,425</u>
Allocation of expenses between program services and supporting services			98.8%	0.8%	0.4%	

See accompanying notes.

Food Forward, Inc.
Statement of Functional Expenses (Continued)
(with prior year summarized comparative information)
Year Ended December 31, 2021

	Program Services			Supporting Services		Total Expenses
	Wholesale Produce Recovery	Community Programs	Total Program Services	Management and General	Fundraising	
PERSONNEL EXPENSES						
Salaries and wages	\$ 762,163	\$ 530,703	\$ 1,292,866	\$ 401,299	\$ 352,064	\$ 2,046,229
Employee benefits and taxes	185,961	125,331	311,292	126,042	80,828	518,162
Total personnel expenses	<u>948,124</u>	<u>656,034</u>	<u>1,604,158</u>	<u>527,341</u>	<u>432,892</u>	<u>2,564,391</u>
OTHER EXPENSES						
Accounting	-	-	-	119,857	-	119,857
Automobile	108,001	24,741	132,742	3,008	-	135,750
Bank and merchant fees	2	-	2	6,781	16,002	22,785
Conferences and meetings	3,102	1,491	4,593	18,145	174	22,912
Depreciation and amortization	116,760	-	116,760	23,197	-	139,957
Equipment	45,431	15,095	60,526	22,596	10,541	93,663
Gifts	616	266	882	248	245	1,375
Grant expenses	11,577	-	11,577	-	-	11,577
Insurance	14,244	9,834	24,078	19,431	6,600	50,109
Licenses and fees	988	-	988	155	-	1,143
Meals and beverages	2,875	1,444	4,319	4,363	152	8,834
Occupancy	74,139	29,409	103,548	17,509	16,307	137,364
Office supplies	6,970	1,302	8,272	4,265	548	13,085
Marketing and outreach	167	8,483	8,650	528	11,612	20,790
Outside consultants	280,493	35,908	316,401	161,157	69,636	547,194
Postage and shipping	96	85	181	231	1,445	1,857
Recruitment	547	2,736	3,283	5,155	3,366	11,804
Repairs and maintenance	38,700	1,033	39,733	3,305	-	43,038
Stewardship	1,923	5,318	7,241	97	2,686	10,024
Telephone and internet	2,607	2,454	5,061	6,479	-	11,540
Travel	233	2,603	2,836	473	114	3,423
Utilities	31,816	2,814	34,630	1,205	1,413	37,248
Total other expenses	<u>741,287</u>	<u>145,016</u>	<u>886,303</u>	<u>418,185</u>	<u>140,841</u>	<u>1,445,329</u>
Produce and other in-kind donations	<u>118,732,900</u>	<u>1,415,254</u>	<u>120,148,154</u>	<u>17,883</u>	<u>10,668</u>	<u>120,176,705</u>
Total 2021 expenses	<u>\$ 120,422,311</u>	<u>\$ 2,216,304</u>	<u>\$ 122,638,615</u>	<u>\$ 963,409</u>	<u>\$ 584,401</u>	<u>\$ 124,186,425</u>
Allocation of expenses between program services and supporting services			98.8%	0.8%	0.4%	
Total 2020 expenses	<u>\$ 109,249,373</u>	<u>\$ 2,322,067</u>	<u>\$ 111,571,440</u>	<u>\$ 364,344</u>	<u>\$ 400,001</u>	<u>\$ 112,335,785</u>
Allocation of expenses between program services and supporting services			99.3%	0.3%	0.4%	

See accompanying notes.

Food Forward, Inc.
Statements of Cash Flows
December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,110,965	\$ 3,970,796
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	182,225	139,957
Bad debt	26,861	-
Donated food received	138,988,662	120,190,005
Donated food distributed	(138,988,662)	(120,190,005)
Non-cash contributions of securities	(16,701)	(102,248)
Right-of-use asset – operating lease amortization	67,942	-
Change in operating assets and liabilities		
Contributions receivable	222,742	167,961
Prepaid expenses	(45,971)	(36,833)
Accounts payable and accrued liabilities	11,425	52,295
Employee related accrued expenses	38,553	97,652
Operating lease liability payments	(112,249)	-
	<u>3,485,792</u>	<u>4,289,580</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(14,772,983)	(10,053,689)
Proceeds from sale of investments	10,550,395	103,364
Purchases of property and equipment	(412,492)	(123,103)
	<u>(4,635,080)</u>	<u>(10,073,428)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,149,288)	(5,783,848)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,521,958</u>	<u>7,305,806</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 372,670</u>	<u>\$ 1,521,958</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 981,061</u>	<u>\$ -</u>

See accompanying notes.

Food Forward, Inc.

Notes to Financial Statements

Note 1 – Organization

Food Forward, Inc. (the “Organization”) is a California public benefit corporation whose mission is to fight hunger and prevent food waste by rescuing fresh surplus produce, connecting this abundance with people in need, and inspiring others to do the same.

Programs include:

The Wholesale Produce Recovery program collects surplus produce by the pallet and truckload from wholesale produce vendors, distributors, and growers and donates it to hunger relief agencies. These partners, ranging from food pantries, shelters, afterschool programs, and more, then distribute the produce free of charge to people experiencing food insecurity.

Community Programs: The Backyard Harvest program mobilizes volunteers to harvest excess fruit from private residences, commercial orchards, and public orchards and then donates the harvest to organizations serving people experiencing food insecurity. The Farmers Market Recovery program organizes volunteers to collect unsold produce from local farmers markets to donate to organizations serving people experiencing food insecurity.

Collectively, the programs regularly served organizations in eight counties in California in 2022, as well as occasional distributions to partners in neighboring states.

Since the COVID-19 pandemic hit in 2020, food insecurity has continued to increase. The Organization has continued to scale up its capacity for food recovery and distribution, partnering with a growing number of produce donors and additional hunger relief agencies to help mitigate food waste and to address food insecurity. In 2022, the Organization continued to operate efficiently, providing almost \$139 million of in-kind produce free of charge to people experiencing food insecurity, which is 27 times greater than the Organization’s operating expenses of approximately \$5.2 million.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation of financial statements – The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles (GAAP). The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash and cash equivalents – All cash and highly liquid financial instruments with an original maturity of three months or less when purchased, and which are neither held for nor restricted by donors for long-term purposes, are considered to be cash and cash equivalents.

Investments – Investments consist of certificates of deposit and marketable securities and are reported in the statements of financial position at fair value, with any realized or unrealized gains and losses reported net within investment income in the statements of activities. Investment income and gains and losses on investments with or without donor restrictions, net of related expenses, are reported as increases or decreases in net assets without donor restrictions. The date of record for investments is the trade date.

Food Forward, Inc.

Notes to Financial Statements

Fair value of financial instruments – The fair value of the Organization’s financial instruments represents management’s best estimates for the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. Future confirming events could affect the estimates of fair value when realized upon the liquidations of the investments. The estimate methods used by the Organization to determine fair value are further described in Note 4.

Contributions receivable – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. Conditional promises to give are not included as support until the conditions are substantially met. For the years ended December 31, 2022 and 2021, the Organization received conditional grant commitments from governmental entities totaling \$147,463 and \$224,416, respectively. Amounts are considered to be currently collectable and do not require a net present value. Management has determined an allowance for doubtful accounts to not be necessary.

Property and equipment – The Organization’s policy is to capitalize asset additions over \$3,000. Property and equipment are stated at cost, with the exception of donated property and equipment, which are recorded at fair value on the date received. Depreciation and amortization have been provided on the straight-line method over the estimated useful lives of the assets, which are generally three to fifteen years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated lives or the term of the lease. Expenditures for repairs and maintenance are expensed as incurred.

Accounting for the impairment of long-lived assets and for the disposal of long-lived assets – The Organization reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2022 and 2021, there were no events or changes in circumstances indicating that the carrying amounts of the property and equipment may not be recoverable.

Leases – The Organization recognizes an operating lease liability and a right-of-use (ROU) asset for all leases, including operating leases with an expected term greater than 12 months, on its statement of financial position. Operating lease ROU assets and liabilities are recognized on the statement of financial position at commencement date, which is the date that the Organization gains access to the property or underlying asset. The lease liability is determined based on the present value of the minimum rental payments using a risk-free incremental borrowing rate in effect at the time of the lease commencement. The borrowing rate ranged from 1.46%–1.55% for the year ended December 31, 2022. The ROU asset is determined based on the lease liability adjusted for lease incentives received. Operating lease cost is recognized on a straight-line basis over the lease term. Certain optional renewal periods were not included in the determination of the lease liability and ROU asset if management determined it was not reasonably certain that the lease would be extended.

Food Forward, Inc.

Notes to Financial Statements

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

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions and designated by board amounts.

Net assets with donor restrictions – Net assets subject to donor or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, for example, contributed assets that may or will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, for example, stipulating that resources be maintained in perpetuity. There were no amounts required to be held in perpetuity at December 31, 2022 and 2021. Law may extend those limits to investment returns from those resources and to other enhancements (diminishments) of those resources. Thus, laws extend to donor-imposed restrictions. The expirations of donor-imposed restrictions are recognized when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition – Unconditional revenue is recognized when earned. Grants and contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Event sponsorships received in advance are deferred to the applicable period in which the related services are performed or event occurs.

Approximately 57% of total grants and contributions revenue for the year ended December 31, 2022, was provided by two funders. Approximately 45% of total grants and contributions revenue for the year ended December 31, 2021, was provided by one funder.

In-kind contributions – Contributed goods and services are recorded at fair value at the date of donation. Contributed services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. Volunteers contribute significant amounts of time to the Organization and its programs; however, the financial statements do not reflect the value of their contributed time as they do not meet the requirements for recognition as prescribed by GAAP. See Note 9.

Marketing and outreach – Outreach, advertising, and marketing expenditures are charged to operations when incurred. Outreach and advertising expense for the years ended December 31, 2022 and 2021, was \$59,139 and \$20,790, respectively.

Food Forward, Inc.

Notes to Financial Statements

Functional expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural and functional classification detail of expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, employee benefits and taxes, automobile, conferences and meetings, depreciation and amortization, equipment, gifts, insurance, meals and beverages, occupancy, office supplies, outreach and advertising, outside consultants, payroll fees, postage and shipping, recruitment, repairs and maintenance, stewardship, telephone and internet, travel, and utilities, which are allocated on the basis of estimates of time and effort.

Measure of operations – The surplus or (deficit) of total revenue and support over total expenses, presented as change in net assets resulting from revenues and expenses on the statement of activities, includes all unrestricted expenses that are an integral part of the Organization's programs and supporting activities, including contributions and net assets released from donor restrictions to support operations. The measure of operations also includes investment earnings.

Income tax status – The Organization has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and under Revenue and Taxation Code Section 23701d, respectively. The Organization files an exempt return in the U.S. federal jurisdiction and the state of California.

Since the Organization is exempt from federal and state income tax liability, no provision is made for current or deferred income taxes. The Organization uses the same accounting methods for tax and financial reporting. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization returns are more likely than not to be sustained upon examination. To date, the Organization has not recorded any uncertain tax positions. During the years ended December 31, 2022 and 2021, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

Use of estimates – Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities and the reported revenues and expenses. Actual results could differ from such estimates and those differences could be material.

Credit risk – Credit risk is the failure of another third party to perform according to contract terms. Deposit concentrations are managed by placing cash and investments with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. To date, the Organization has not experienced losses in any of these accounts. Potential credit risk for the Organization lies in investments that are exposed to various risks, such as interest rate, credit, and overall market volatility risk. It is reasonably possible that changes in the values of investments will occur due to market volatility, which could impact the Organization's investment holdings and the amounts reported in the financial statements. The Organization maintains investment balances in excess of federally insured limits. The Organization does not believe it is exposed to any significant risks on uninsured amounts. Credit risk associated with contributions receivable are considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from the organizations supportive of the mission.

Food Forward, Inc. Notes to Financial Statements

Recently adopted accounting pronouncements – The FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842) Accounting Standards Codification (ASC Topic 842)*, which increases transparency and comparability among entities by recognizing ROU assets and lease liabilities on the statement of financial position and requires disclosure of key information about leasing arrangements. The Organization adopted ASC Topic 842 effective January 1, 2022, utilizing the transition method for adoption provided in ASU 2018-11 such that prior period amounts are not adjusted and continue to be reported in accordance with ASC 840, *Leases*. The new guidance was applied for all leases that existed at the date of initial application.

In connection with its adoption of ASC Topic 842, the Organization recorded \$981,061 and \$981,061 of operating lease liabilities and operating ROU assets, respectively, as of January 1, 2022. See Note 7 for additional information on leases.

In 2022, the Organization elected to adopt ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial asset a nonprofit entity has received. Adoption of this standard did not have a significant on the financial statements, with the exception of increased disclosure.

Reclassifications – Certain amounts in the prior year have been reclassified in order to be consistent with the current-year presentation. The reclassifications have no impact on previously reported net assets.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statements of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

The Organization has evaluated subsequent events through June 8, 2023, which is the date the financial statements were available to be issued.

Food Forward, Inc.
Notes to Financial Statements

Note 3 – Liquidity and Availability

Financial assets available to meet cash needs for general expenditures within one year are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 372,670	\$ 1,521,958
Investments	14,269,866	10,057,438
Contributions receivable	<u>358,647</u>	<u>581,389</u>
 Total financial assets	 <u>15,001,183</u>	 <u>12,160,785</u>
Less: amounts unavailable for general expenditures within one year as a result of		
Funds subject to donor restrictions	(1,208,630)	(2,337,417)
Board-designated operating reserve	<u>(2,692,239)</u>	<u>(1,913,072)</u>
	<u>(3,900,869)</u>	<u>(4,250,489)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 11,100,314</u>	 <u>\$ 7,910,296</u>

The Organization's liquidity management plan includes maintaining its financial assets in checking and savings accounts and money market funds to manage short-term liquidity needs. From 2020–2022, the Organization's financial position was strengthened by several large grants and gifts. As a result, the Board of Directors approved the Organization's first formal Operating Reserve Policy in 2020, establishing a designated fund to ensure longer-term financial health and stability of ongoing operations, and approved its first Investment Policy Statement in 2022. Additionally, to help manage unanticipated liquidity needs, the Organization has a line of credit with a commercial bank. As of December 31, 2022 and 2021, the full amount of the \$500,000 line of credit was available for borrowing (Note 7).

Note 4 – Investments and Fair Value

Investments stated at fair value consist of the following at December 31:

<u>Described by Asset Class</u>	<u>2022</u>	<u>2021</u>
Certificates of deposit	\$ -	\$ 10,051,457
U.S. marketable equities	5,377	5,981
Money market funds	<u>14,264,489</u>	<u>-</u>
 Total investments	 <u>\$ 14,269,866</u>	 <u>\$ 10,057,438</u>

Food Forward, Inc.

Notes to Financial Statements

The *Fair Value Measurements and Disclosures* topic of the FASB ASC defines fair value, establishes a framework for measuring fair value, and requires disclosure of fair value measurements. The fair value hierarchy set forth in the topic is as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Investments – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include marketable equities and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow and are classified within Level 2 of the valuation hierarchy. Consideration is given to the type of investment, risks, marketability, restrictions, dispositions, and quotations from other market participants. Adjustments may be determined by management.

The following tables present the Organization's valuation levels as of December 31, 2022:

	Fair Value Measurements Using			Total Fair Value
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 14,264,489	\$ -	\$ -	\$ 14,264,489
U.S. marketable equities	5,377	-	-	5,377
Total assets in fair value hierarchy	<u>\$ 14,269,866</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,269,866</u>

The following tables present the Organization's valuation levels as of December 31, 2021:

	Fair Value Measurements Using			Total Fair Value
	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certificates of deposit	\$ -	\$ 10,051,457	\$ -	\$ 10,051,457
U.S. marketable equities	5,981	-	-	5,981
Total assets in fair value hierarchy	<u>\$ 5,981</u>	<u>\$ 10,051,457</u>	<u>\$ -</u>	<u>\$ 10,057,438</u>

There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2022 and 2021.

Food Forward, Inc.
Notes to Financial Statements

Note 5 – Contributions Receivable

Contributions receivable are summarized as follows at December 31:

	2022	2021
Unconditional promises expected to be collected in less than one year	\$ 358,647	\$ 581,389

There was no allowance for doubtful accounts or net present value discount deemed necessary by management at December 31, 2022 and 2021.

Note 6 – Property and Equipment

Property and equipment are summarized as follows at December 31:

	2022	2021
Leasehold improvements	\$ 862,593	\$ 469,932
Machinery and equipment	277,135	268,932
Vehicles	415,583	421,381
Furniture and fixtures	8,609	8,609
Software	157,454	157,454
	1,721,374	1,326,308
Less: accumulated depreciation and amortization	(742,441)	(602,067)
Assets not yet placed in service	-	24,425
Total	\$ 978,933	\$ 748,666

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, was \$182,225 and \$139,957, respectively.

Note 7 – Commitments

Line of credit – During the year ended December 31, 2022, the Organization renewed their \$500,000 line of credit with a commercial lending institution for an additional one-year term maturing August 1, 2023. Borrowings under the line bear variable interest based on the Prime Rate as published in the Western Edition Wall Street Journal. The effective rates were 7.27% and 3.25% at December 31, 2022 and 2021, respectively. There were no amounts drawn in 2022 or 2021. There was no balance outstanding at December 31, 2022 and 2021. Borrowings under the line are subject to Board oversight and approval by the Chairperson of the Board of Directors and are secured by real and intangible property of the Organization.

Food Forward, Inc.
Notes to Financial Statements

Operating leases – The Organization is committed under a facility lease agreement through January 2024 that requires monthly payments of \$6,000. This lease has two, two-year options to extend that management deemed probable. The monthly payments are set to increase by the lower of CPI for Los Angeles County or 15% and 6% for each extension, respectively. The liability is calculated based on the 15% and 6% increases and does not contemplate variable payments. The Organization also leases office space in Los Angeles and Ventura Counties with lease agreements entered into for both locations on April 1, 2022, with 36-month lease terms and monthly escalating base rents between \$1,804 and \$3,132. These leases have two two-year options to extend that management deemed probable. The monthly payments are set to increase by 3% from the previous year's base rent. Lastly, the Organization rents warehouse space in Ventura County on a month-to-month lease with monthly rent expense of \$720 and \$688 in 2022 and 2021, respectively. This is considered a short-term lease and not included in the schedule below. Lease expense for the years ended December 31, 2022 and 2021, was \$147,525 and \$137,364, respectively.

For the year ended December 31, 2022, the Organization reported lease liabilities in accordance with ASU Topic 842, *Leases*. The future minimum payments due on all lease agreements and optional extensions that management deemed probable are due as follows:

Years Ending December 31,

2023	\$ 144,313
2024	156,383
2025	159,517
2026	166,373
2027	168,260
Thereafter	<u>109,529</u>
Total lease payments	904,375
Less: imputed interest	<u>35,563</u>
Lease liabilities as of December 31, 2022	<u><u>\$ 868,812</u></u>

Additional information for the Organization's leases at December 31, 2022, are summarized below:

Weighted-average remaining lease term	70 months
Weighted-average discount rate	1.52%

Food Forward, Inc.
Notes to Financial Statements

For the year ended December 31, 2021, the Organization reported lease liabilities in accordance with ASU Topic 840, *Leases*. Minimum annual rental payments, excluding any future inflation adjustments, were as follows:

Years Ending December 31,	
2022	\$ 139,310
2023	144,313
2024	80,483
2025	<u>18,757</u>
Lease liabilities as of December 31, 2021	<u><u>\$ 382,863</u></u>

Note 8 – Net Assets

The Organization’s Board of Directors established an Operating Reserve Policy and fund in 2020 to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization. The target operating reserve fund balance is six months of average operating costs for the current year’s operating budget and is re-calculated after approval of the annual operating budget. The balance of the operating reserve at December 31, 2022, is \$2,692,239 and is based on the annual operating budget for the year ended December 31, 2022. The balance of the operating reserve at December 31, 2021, is \$1,913,072 and is based on the annual operating budget for the year ended December 31, 2021.

Net assets without donor restrictions were as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Board-designated operating reserve fund	\$ 2,692,239	\$ 1,913,072
Undesignated	<u>11,864,520</u>	<u>8,403,935</u>
Total	<u><u>\$ 14,556,759</u></u>	<u><u>\$ 10,317,007</u></u>

Food Forward, Inc.
Notes to Financial Statements

Net assets with donor restrictions were as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose		
Community programs	\$ 403,555	\$ 435,428
Wholesale produce recovery program	500,000	1,070,600
Contributions receivable, the proceeds from which have been restricted by donors for		
Capacity building and program expansion	<u>35,075</u>	<u>75,000</u>
	<u>938,630</u>	<u>1,581,028</u>
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but are unavailable for expenditure until received	145,000	506,389
Restricted by donor to be spent at a future date	<u>125,000</u>	<u>250,000</u>
	<u>270,000</u>	<u>756,389</u>
Total	<u>\$ 1,208,630</u>	<u>\$ 2,337,417</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or the passage of time or other events specified by donors.

Net assets with donor restrictions are restricted for the following purposes or periods at December 31:

	<u>2022</u>	<u>2021</u>
Expiration of time restrictions	\$ 546,314	\$ 452,774
Satisfaction of purpose restrictions		
Community Programs	606,701	1,284,805
Wholesale Produce Recovery program	<u>700,600</u>	<u>807,780</u>
	<u>\$ 1,853,615</u>	<u>\$ 2,545,359</u>

Note 9 – In-Kind Contributions

In-kind Contributions are summarized as follows at December 31:

	<u>2022</u>	<u>2021</u>
Recovered produce	\$ 138,917,169	\$ 120,148,139
Auction donations	25,561	13,165
Professional services	22,985	7,072
Supplies	<u>22,947</u>	<u>21,629</u>
	<u>\$ 138,988,662</u>	<u>\$ 120,190,005</u>

Food Forward, Inc.

Notes to Financial Statements

Recovered produce – The Organization receives in-kind produce from corporate and individual donors that is granted to other local organizations and agencies that distribute the produce to people in need. The donated food is recorded in the financial statements as in-kind revenue – recovered produce and as an expense at the estimated average fair value of one pound of donated food product at the industry standard rates of \$1.92 and \$1.79, for the years ended December 31, 2022 and 2021, respectively. The industry standard rates are evaluated and revised annually by Feeding America, the nation's largest domestic hunger-relief organization, and are based on analysis of data collected from USDA and other publicly available sources. Approximately 26% and 28% of the total recovered produce for the years ended December 31, 2022 and 2021, respectively, was provided by five produce providers.

Auction donations – The Organization received various auction donations including gift cards, experiences, services, and goods to be held at the special event auction to raise funds for the Organization. Auction donations value is originally assigned based upon donor provided information verified by market comparisons. Auction items are monetized and their value is updated to be recorded at the amount the item sells for at the auction.

Professional services – The Organization receives donated professional services that would typically be purchased if not provided as an in-kind contribution. These services include photography, chefs, and website design, which require specialized skills, are recognized as in-kind contributions at fair value when the services are rendered. The estimated fair value of these professional services is provided by the service provider, who estimates the fair value based on the date, time, and market in which each service is rendered. The Organization did not monetize any contributed professional services and they did not have donor restrictions.

Supplies – Food Forward reports goods meeting recognition criteria under GAAP based on estimated fair values based on going rate for similar supplies. The Organization did not monetize any contributed supplies and they did not have donor restrictions.

Note 10 – Retirement Plan

The Organization maintains a defined contribution retirement plan covering all eligible employees. The Organization matches employee contributions up to 3%. Employees who received at least \$5,000 in annual compensation in the immediately preceding plan year and are expected to be paid at least \$5,000 in the current plan year are eligible to participate. Retirement expense for the years ended December 31, 2022 and 2021, was \$41,378 and \$40,669, respectively.

Note 11 – Related-Party Transactions

During the years ended December 31, 2022 and 2021, members of the Board of Directors contributed to the Organization. The Organization rents office spaces and remits payments to a LLC. The Chief Executive Officer of the Organization and the owners of LLC are related. The Organization incurred rent expense for the office spaces of \$67,310 and \$57,072 for the years ended December 31, 2022 and 2021, respectively.