

Second Harvest Foodbank of Southern Wisconsin, Inc.

Financial Statements
June 30, 2021 and 2020

Second Harvest Foodbank of Southern Wisconsin, Inc.

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Independent Auditors' Report

To the Board of Directors of
Second Harvest Foodbank of Southern Wisconsin, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Foodbank of Southern Wisconsin, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, cash flows and functional expenses 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Organization as of June 30, 2021 and 2020, 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 November 19, 2021 on our consideration of the Organization'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 solely 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 the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Milwaukee, Wisconsin
November 19, 2021

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 14,982,765	\$ 8,734,100
Accounts receivable	40,556	17,289
Grants and pledges receivable, current portion	242,813	318,668
Other receivables	9,019	89,563
Inventory	3,281,749	4,538,475
Prepaid expenses	135,973	57,909
Total current assets	<u>18,692,875</u>	<u>13,756,004</u>
Fixed Assets		
Land	500,402	500,402
Building improvements	1,313,540	1,305,416
Building	3,835,366	3,835,366
Furniture, fixtures and equipment	1,672,125	1,501,963
Vehicles	653,119	560,210
	<u>7,974,552</u>	<u>7,703,357</u>
Less accumulated depreciation	(3,081,143)	(2,790,056)
Net fixed assets	<u>4,893,409</u>	<u>4,913,301</u>
Other Assets		
Investments held for endowment	2,126,447	1,708,594
Grants and pledges receivable, net of current portion	7,500	50,000
Lease acquisition costs, net	6,150	9,664
Cash designated for capital expenditures and reserves	500,000	500,000
Total other assets	<u>2,640,097</u>	<u>2,268,258</u>
Total assets	<u>\$ 26,226,381</u>	<u>\$ 20,937,563</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 266,294	\$ 549,128
Accrued payroll and payroll taxes	315,868	255,965
Other liabilities	122,150	101,103
Refundable advances	392,951	1,401,590
Capital lease obligation, current portion	22,901	22,394
Total current liabilities	<u>1,120,164</u>	<u>2,330,180</u>
Long-Term Liabilities		
Capital lease obligation, net of current portion	5,488	28,389
Total liabilities	<u>1,125,652</u>	<u>2,358,569</u>
Net Assets		
Net assets without donor restrictions	22,638,146	17,319,771
Net assets with donor restrictions	2,462,583	1,259,223
Total net assets	<u>25,100,729</u>	<u>18,578,994</u>
Total liabilities and net assets	<u>\$ 26,226,381</u>	<u>\$ 20,937,563</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Activities

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Change in Net Assets without Donor Restrictions		
Revenues and Other Support		
Contributions without donor restrictions	\$ 12,549,308	\$ 9,621,708
Donated food	32,774,107	28,615,039
United Way	297,117	292,248
Government grants	14,428,934	1,410,384
In-kind facility contribution	6,045,000	1,602,721
Food maintenance fees	609,377	1,284,226
Special events	-	60,050
Investment income, net	421,818	44,590
Rental income	68,256	66,530
Gain (loss) on disposal of fixed assets	<u>(6,188)</u>	<u>1,500</u>
Total revenues without donor restrictions and other support	67,187,729	42,998,996
Net Assets Released from Restrictions		
Satisfaction of program restrictions	<u>831,404</u>	<u>1,073,741</u>
Total revenues and other support without donor restrictions and net assets released from restrictions	<u>68,019,133</u>	<u>44,072,737</u>
Expenses		
Program services	59,988,290	36,664,563
Management and general	1,294,749	877,868
Fundraising	<u>1,417,719</u>	<u>1,240,161</u>
Total expenses	<u>62,700,758</u>	<u>38,782,592</u>
Change in net assets without donor restrictions	<u>5,318,375</u>	<u>5,290,145</u>
Change in Net Assets with Donor Restrictions		
Contributions	1,992,229	1,175,758
Endowment earnings (loss)	42,535	(335)
Net assets released from restrictions	<u>(831,404)</u>	<u>(1,073,741)</u>
Change in net assets with donor restrictions	<u>1,203,360</u>	<u>101,682</u>
Change in Net Assets	6,521,735	5,391,827
Net Assets, Beginning	<u>18,578,994</u>	<u>13,187,167</u>
Net Assets, Ending	<u>\$ 25,100,729</u>	<u>\$ 18,578,994</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flow from Operating Activities		
Change in net assets	\$ 6,521,735	\$ 5,391,827
Adjustments to reconcile management and general to net cash flows from operating activities:		
Depreciation	363,166	346,334
Amortization	3,514	3,514
(Gain) loss on disposal of fixed assets	6,188	(1,500)
Realized and unrealized (gains) losses on investments	(394,755)	53,237
Bad debt expense	4,000	3,201
Contributions restricted for the endowment	(30,554)	-
Interest and dividends reinvested, net of investment expenses	(45,840)	(53,768)
Changes in assets and liabilities:		
Accounts receivable	(23,267)	151,817
Grants and pledges receivable	114,355	115,156
Other receivables	80,544	(19,630)
Inventory	1,256,726	(3,541,142)
Prepaid expenses	(78,064)	6,693
Accounts payable	(237,464)	230,878
Accrued payroll and payroll taxes	59,903	62,769
Other liabilities	21,047	45,088
Refundable advances	(1,008,639)	1,401,590
Net cash flows from operating activities	<u>6,612,595</u>	<u>4,196,064</u>
Cash Flows from Investing Activities		
Purchases of fixed assets	(397,832)	(105,073)
Proceeds from sale of fixed assets	3,000	1,500
Purchase of investments	(677,123)	(658,273)
Proceeds from sale of investments	699,865	701,677
Net cash flows from investing activities	<u>(372,090)</u>	<u>(60,169)</u>
Cash Flows from Financing Activities		
Contributions restricted for the endowment	30,554	-
Payments on capital lease obligation	(22,394)	(22,116)
Net cash flows from financing activities	<u>8,160</u>	<u>(22,116)</u>
Net change in cash, cash equivalents and restricted cash	6,248,665	4,113,779
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	<u>9,234,100</u>	<u>5,120,321</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 15,482,765</u>	<u>\$ 9,234,100</u>
Noncash Investing Activities		
Fixed asset additions included within accounts payable	<u>\$ -</u>	<u>\$ 45,370</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Statements of Financial Position:		
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 14,982,765	\$ 8,734,100
Cash designated for capital expenditures and reserves	500,000	500,000
Total cash, cash equivalents and restricted cash	<u>\$ 15,482,765</u>	<u>\$ 9,234,100</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statement of Functional Expenses

Year Ended June 30, 2021

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Food	\$ 47,669,623	\$ -	\$ -	\$ 47,669,623
Grants	220,937	-	-	220,937
Salaries and wages	2,321,670	414,413	568,384	3,304,467
Employee benefits	454,526	84,413	110,385	649,324
Payroll taxes	165,096	30,661	40,095	235,852
Vehicles	392,825	-	-	392,825
Insurance	84,877	27,850	19,893	132,620
Professional services	1,072,396	435,542	370,147	1,878,085
Office supplies and equipment	550,307	31,809	2,895	585,011
Postage and shipping	2,015	1,154	161,874	165,043
Printing	7,057	13,343	6,732	27,132
Ads, dues and subscriptions	9,662	52,649	854	63,165
Bank charges	106	7,287	115,665	123,058
Telephone	19,123	21,468	471	41,062
Repairs and maintenance	139,760	85,029	1,741	226,530
Transportation	46,435	-	-	46,435
Occupancy	6,488,116	27,818	9,253	6,525,187
Conferences and travel	30,683	9,000	-	39,683
Depreciation	302,327	51,606	9,233	363,166
Other	10,749	707	97	11,553
Total expenses	<u>\$ 59,988,290</u>	<u>\$ 1,294,749</u>	<u>\$ 1,417,719</u>	<u>\$ 62,700,758</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statement of Functional Expenses

Year Ended June 30, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Food	\$ 30,408,051	\$ -	\$ -	\$ 30,408,051
Grants	351,436	-	-	351,436
Salaries and wages	1,916,217	330,986	456,301	2,703,504
Employee benefits	396,919	67,085	95,037	559,041
Payroll taxes	146,020	24,679	34,963	205,662
Vehicles	364,483	-	-	364,483
Insurance	70,233	23,514	16,816	110,563
Professional services	371,996	79,498	361,405	812,899
Office supplies and equipment	340,609	59,263	1,841	401,713
Postage and shipping	1,293	3,656	154,746	159,695
Printing	7,850	14,116	7,269	29,235
Ads, dues and subscriptions	12,818	36,054	12,540	61,412
Bank charges	22	21,568	87,271	108,861
Telephone	13,484	24,641	1,178	39,303
Repairs and maintenance	66,871	73,927	9,570	150,368
Transportation	46,615	-	-	46,615
Occupancy	1,770,093	40,210	550	1,810,853
Conferences and travel	69,361	31,531	674	101,566
Depreciation	305,417	40,917	-	346,334
Other	4,775	6,223	-	10,998
Total expenses	<u>\$ 36,664,563</u>	<u>\$ 877,868</u>	<u>\$ 1,240,161</u>	<u>\$ 38,782,592</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

1. Information about the Organization and Summary of Significant Accounting Policies

Nature of Activities

Second Harvest Foodbank of Southern Wisconsin, Inc. (the Organization) is a not-for-profit organization and a certified affiliate of the Feeding America network, the nation's leading network of food banks. The Organization solicits, collects and stores donated food from manufacturers, wholesalers and others, and makes it available to Section 501(c)(3) not-for-profit agencies that provide food to the needy in 16 southwestern Wisconsin counties.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to the following two classes of net assets that are based upon the existence or absence of restrictions that are placed by its donors:

Net assets without donor restrictions – Net assets that are not restricted by donors. Designations are voluntary, board-approved segregations of net assets for specific purposes, projects or investments. The designated net assets can be modified at any time by the Board of Directors.

Net assets with donor restrictions – Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions, including net assets that have been restricted by donors to be maintained by the Organization in perpetuity.

When a restriction expires (that is, when a stipulated time restriction ends, or purpose restrictions are accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all money market accounts and certificates of deposit with a maturity of three months or less from the date of purchase to be cash equivalents, except those held in brokerage accounts. The Board of Directors has designated \$500,000 as of June 30, 2021 and 2020 for capital expenditures, which are classified as long-term assets on the statements of financial position at June 30, 2021 and 2020.

Investments Held for Endowment

Investments held for endowment consist of common stock, mutual funds and money market funds. Investments are carried at fair value, with realized and unrealized gains and losses reflected in the statements of activities. Common stocks are valued at the daily closing price reported by the exchange on which the securities are traded. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and transact at that price. The mutual funds held by the Organization are deemed to be actively traded. Money market funds are valued at cost.

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

Accounts Receivable

The Organization assesses collectibility of amounts due prior to the recognition of revenues. Accounts receivable are recorded at net realizable value when the amounts are due in accordance with contracts with customers. Accounts are written-off through bad debt expense when the Organization has exhausted all collection efforts and determines accounts are impaired based on changes in credit worthiness.

Grants and Pledges Receivable

Unconditional grants and pledges receivable are at stated fair value at the date of initial recognition, net of the allowance for bad debts. Grants and pledges receivable expected to be collected beyond one year are recorded at their present values, discounted at a risk free rate based on the duration of the date the grant or pledge is received. No discount was deemed necessary as of June 30, 2021 and 2020.

The allowance for bad debts is maintained at a level that is management's best estimate of probable bad debts incurred as of the statements of financial position date. Management's determination of the adequacy of the allowance is based on an evaluation of the grants and pledges receivables, past collection experience, current economic conditions, volume, growth and composition of the grants and pledges receivables, and other relevant factors. Receivables are charged to expense when the individual balances are determined to be uncollectible. No allowance for bad debts has been made at June 30, 2021 and 2020, as management considers all amounts fully collectible.

Inventory

Inventory items are valued either based on the approximate average wholesale cost as determined by an annual study done by Feeding America or by using the purchased cost using the first in first out basis. Inventory consisted of the following:

	<u>2021</u>	<u>2020</u>
Inventory - Donated	\$ 1,000,289	\$ 1,385,309
Inventory - Purchased	1,072,897	747,437
Inventory - Government Grants	1,208,563	992,821
Inventory - Mixed Boxes	-	1,412,908
Total	<u>\$ 3,281,749</u>	<u>\$ 4,538,475</u>

Fixed Assets

Fixed assets purchased are recorded at cost. Donations of fixed assets are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire fixed assets are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service or as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. The Organization has a capitalization policy to expense all items under \$1,000.

Depreciation is provided for by the straight-line method over the estimated useful lives of the assets.

The Organization reviews long-lived assets, including land, building, building improvements and other fixed assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There have been no such losses as of June 30, 2021 and 2020.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

Refundable Advances

Refundable advances represent advance payments received from grantors to be used for programs in future years and funds received from the Paycheck Protection Program (PPP) discussed further in note 4.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and corresponding provisions of Wisconsin law, and accordingly, is not subject to federal or state income taxes. However, income from certain activities not directly related to the tax-exempt purpose may be subject to taxation as unrelated business income.

The Organization must recognize the tax benefit associated with the tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions, and, accordingly, they did not recognize any liability for unrecognized tax benefits. For the years ended June 30, 2021 and 2020, there were no interest or penalties recorded or included in the financial statements.

Contributions and Grants

The Organization recognizes all unconditional contributions and grants as income in the period the unconditional contributions and grants are received. Conditional contributions and grants, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. Contributions and grants received are recorded without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor limitations on use of the funds. Grants where the conditions and restrictions are met simultaneously are presented as without donor restrictions on the statements of activities. There were \$392,951 and \$1,401,590 of conditional contributions and grants received and included in refundable advances at June 30, 2021 and 2020, respectively. As of June 30, 2021 there was an additional \$10,679,844 of conditional grant revenue, which is expected to be recognized in future years when the conditions are met. As of June 30, 2020 there was \$2,851,547 of conditional grant revenue, which was recognized during 2021 when the conditions were met.

Food Maintenance Fees

The Organization bills member agencies food maintenance fees based on the products distributed to the member agencies. Pricing of the food maintenance fees are set by the Feeding America. The Organization utilized the portfolio approach, an allowable practical expedient in the accounting guidance, to analyze the contracts with members related to food maintenance fees. The transaction price is net of any stated or implied discount and determined at the time of purchase. The Organization is obligated to provide products as ordered by the member, and completion of this performance obligation occurs upon delivery or receipt of the product by the member. Payment is due 30 days from the date of purchase. Food products are typically nonrefundable. The net realizable value of receivables from members are \$38,282 and \$16,533 as of June 30, 2021 and 2020, respectively, and included in accounts receivable on the statements of financial position. Member agencies may pay in advance, receive payment from others on their behalf, or receive grants from the Organization which are recorded as credits in their individual purchasing accounts with the Organization. The member credits are \$122,150 and \$101,103 as of June 30, 2021 and 2020, respectively, and presented as other liabilities on the statements of financial position.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

Use of Estimates

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

Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs common to multiple functions have been allocated among the various functions benefited based upon estimates of time expended (salaries and wages, employee benefits and payroll taxes), square footage of space utilized (occupancy expenses, depreciation, and repairs and maintenance), and program headcounts (office supplies and equipment). Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization. Fundraising costs are expensed as incurred, even though they may result in contribution received in future years. The Organization generally does not conduct its fundraising activities in conjunction with its other activities.

Reclassification

For comparability, certain 2020 amounts have been reclassified to conform with classifications adopted in 2021. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Recent Accounting Pronouncements

In September 2020, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (ASU No. 2020-07). ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The standard will be required to be applied retrospectively for annual periods beginning after June 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2020-07 will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The Organization will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2021 (2023). Early adoption is permitted. Management is currently evaluating the impact of the ASU on the Organization's financial statements.

2. Grants and Pledges Receivable

Grants and pledges receivable are due as follows as of June 30:

	<u>2021</u>	<u>2020</u>
Less than one year	\$ 242,813	\$ 318,668
One to five years	<u>7,500</u>	<u>50,000</u>
Total	<u>\$ 250,313</u>	<u>\$ 368,668</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

3. Fair Value Measurements and Investments

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. When determining fair value, the Organization considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability; such as, inherent risk, transfer restrictions and risk of nonperformance.

The framework for measuring fair value provides a fair value hierarchy that requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization in the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy establishes three levels of inputs that may be used to measure fair value:

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

Level 2 - Inputs other than level one that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities 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 are significant to the fair value of the assets or liabilities.

The following tables present financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of June 30:

	2021			
	Level 1	Level 2	Level 3	Total
Domestic common stocks and equity funds	\$ 1,114,631	\$ -	\$ -	\$ 1,114,631
Foreign common stocks and equity funds	602,507	-	-	602,507
Domestic fixed income funds	378,991	-	-	378,991
Total assets measured at fair value	<u>\$ 2,096,129</u>	<u>\$ -</u>	<u>\$ -</u>	2,096,129
Money market funds				<u>30,318</u>
Total investments held for endowment				<u>\$ 2,126,447</u>

	2020			
	Level 1	Level 2	Level 3	Total
Domestic common stocks and equity funds	\$ 850,206	\$ -	\$ -	\$ 850,206
Foreign common stocks and equity funds	534,851	-	-	534,851
Domestic fixed income funds	295,568	-	-	295,568
Total assets measured at fair value	<u>\$ 1,680,625</u>	<u>\$ -</u>	<u>\$ -</u>	1,680,625
Money market funds				<u>27,969</u>
Total investments held for endowment				<u>\$ 1,708,594</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2021 and 2020

The Organization's calculation methodologies used to measure fair values of its investments are described in Note 1. The valuation of money market funds are determined using cost and are therefore excluded from the fair value hierarchy. There have been no changes in the methodologies used at June 30, 2021 and 2020. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Net investment income is comprised of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends - general	\$ 23,758	\$ 57,406
Interest and dividends - endowment fund	60,670	57,139
Net realized and unrealized gains (losses)	394,755	(53,237)
Expenses	(14,830)	(17,053)
Total	<u>\$ 464,353</u>	<u>\$ 44,255</u>

4. Paycheck Protection Program (PPP)

In 2020, the Organization received proceeds in the amount of \$633,930 under the PPP which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provided loans to qualifying non-profit organizations in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying non-profit organizations to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA. Advances from the PPP are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25 percent during the covered period. During 2020, the Organization initially recorded the funds as a refundable advance and recorded the forgiveness in accordance with guidance for conditional contributions in 2021 when there was no longer a measurable performance or other barrier and a right of return of the PPP loan, or when such conditions were explicitly waived. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

During 2020, the Organization determined this was a conditional contribution when received and concluded that the right of return and barriers associated with forgiveness were not met prior to June 30, 2020. As a result, the Organization considered the PPP funding to be a refundable advance as of June 30, 2020. The refundable advance was reflected as a liability on the statements of financial position. During 2021, the Organization determined it met the barriers and conditions of the program, received notice from SBA that the PPP loan had been forgiven in full and recognized government grants revenue.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

Second Harvest Foodbank of Southern Wisconsin, Inc.

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5. Net Assets

Net assets with donor restrictions were as follows at June 30:

	<u>2021</u>	<u>2020</u>
Time or purpose restrictions		
Drive out hunger	\$ -	\$ 83,019
Kids café fund	504,028	476,727
Mobile pantry	663,832	243,724
Foodshare outreach	64,022	73,945
Share your holidays	30,000	112,500
School pantries	724,277	12,872
Endowment fund earnings	52,454	9,919
Pandemic relief	200,000	100,000
Other	46,899	-
Held in perpetuity	177,071	146,517
Total	<u>\$ 2,462,583</u>	<u>\$ 1,259,223</u>

Net assets without donor restrictions were board designated for the following purposes:

	<u>2021</u>	<u>2020</u>
Endowment fund	\$ 1,902,476	\$ 1,552,158
Capital expenditures	500,000	500,000
Operating reserve	6,102,000	6,102,000
Total	<u>\$ 8,504,476</u>	<u>\$ 8,154,158</u>

6. Endowment

The Organization's endowment consists of a fund of donor-restricted endowment gifts and a fund established by the Board of Directors to serve as a permanent capital base in support of the Organization's mission to end hunger in southwestern Wisconsin through community partnerships. The balances include funds designated by the Board of Directors to function as an endowment and donor restricted contributions for endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions that are perpetual in nature is classified as net assets with donor restrictions available for appropriation until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence described by UPMIFA.

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

- The duration and preservation of the endowment
- The purposes of the Organization and the endowment
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policy of the Organization

The following table shows the composition of endowment net assets by restriction as June 30, 2021 for those endowments under the control of the Organization:

	Without Donor Restrictions	With Donor Restrictions		Total
		Available for Appropriation	Perpetual in Nature	
Donor restricted endowment funds	\$ -	\$ 52,454	\$ 177,071	\$ 229,525
Board designated endowment funds	1,902,476	-	-	1,902,476
Total Endowment Funds	<u>\$ 1,902,476</u>	<u>\$ 52,454</u>	<u>\$ 177,071</u>	<u>\$ 2,132,001</u>

The endowment related activities for the year ended June 30, 2021, were as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Available for Appropriation	Perpetual in Nature	
Beginning balance	\$ 1,552,158	\$ 9,919	\$ 146,517	\$ 1,708,594
Contributions	-	-	30,554	30,554
Net investment income	398,060	42,535	-	440,595
Appropriated for distribution	(47,742)	-	-	(47,742)
Ending Balance	<u>\$ 1,902,476</u>	<u>\$ 52,454</u>	<u>\$ 177,071</u>	<u>\$ 2,132,001</u>

At June 30, 2021 \$5,554 of the contributions restricted for the endowment during 2021 had not been transferred to investments and is within cash and cash equivalents at year end.

The following table shows the composition of endowment net assets by restriction as of June 30, 2020, for those endowments under the control of the Organization:

	Without Donor Restrictions	With Donor Restrictions		Total
		Available for Appropriation	Perpetual in Nature	
Donor restricted endowment funds	\$ -	\$ 9,919	\$ 146,517	\$ 156,436
Board designated endowment funds	1,552,158	-	-	1,552,158
Total Endowment Funds	<u>\$ 1,552,158</u>	<u>\$ 9,919</u>	<u>\$ 146,517</u>	<u>\$ 1,708,594</u>

The endowment related activities for the year ended June 30, 2020, were as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Available for Appropriation	Perpetual in Nature	
Beginning balance	\$ 1,594,696	\$ 10,254	\$ 146,517	\$ 1,751,467
Contributions	109	-	-	109
Net investment loss	(12,817)	(335)	-	(13,152)
Appropriated for distribution	(29,830)	-	-	(29,830)
Ending Balance	<u>\$ 1,552,158</u>	<u>\$ 9,919</u>	<u>\$ 146,517</u>	<u>\$ 1,708,594</u>

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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur after the investment of contributions with donor restrictions and continued appropriation for certain programs that were deemed prudent by the Board of Directors. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported as net assets with donor restrictions. There were no such deficiencies as of June 30, 2021 and 2020.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a diversified equity-related benchmark while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return that outpaces spending, inflation and expenses annually. Actual returns in any given year will vary.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

At least annually, the Board of Directors determines the amount available for distribution.

7. Contributed Services

Donated services are recognized if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Organization.

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's programs. The value of this contributed time is not reflected in the accompanying financial statements since it does not meet the criteria above and it is not susceptible to objective measurement or valuation.

The Alliant Energy Center provided in-kind rent and services to the Organization to support operations during the pandemic. The value of in-kind rent and services is included as in-kind facilities revenue and the corresponding occupancy expense on the statements of activities for the years ending June 30, 2021 and 2020 were \$6,045,000 and \$1,602,721, respectively.

8. Retirement Plan

The Organization has a profit-sharing plan covering all full-time employees over the age of 21 and having at least six months of service. The Organization matches 100 percent of employee contributions up to a total of 5 percent of a participant's compensation. Benefits paid under this plan totaled \$102,228 and \$98,130 for the years ended June 30, 2021 and 2020, respectively.

9. Major Donor

The Organization receives food donations from retail stores, wholesalers and producers. One national retailer accounted for 26 percent of donated food in 2021 and 22 percent in 2020.

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10. Operating Leases

The Organization has entered into several leases for semi-tractors. The leases require fixed monthly payments plus additional mileage charges with expirations through 2025. The leases are cancelable at certain intervals during the terms of the leases. Lease expenses of \$125,107 and \$121,394 are included in vehicles expense on the statements of functional expenses for the years ended June 30, 2021 and 2020, respectively.

Future minimum payments under this lease are as follows:

2022	\$	72,636
2023		72,636
2024		48,927
2025		<u>12,908</u>
Total	\$	<u>207,107</u>

The Organization is the lessor of office space under two operating leases. The Organization has a lease agreement with one tenant ending on March 30, 2023. Rental income related to this lease was \$59,310 and \$57,584 for the years ended June 30, 2021 and 2020, respectively.

The Organization also rents office space to another tenant. The Organization rented the space under a month-to-month operating lease with monthly rental payments of \$746. During fiscal year 2020, the Organization entered into a lease agreement with the tenant commencing on January 1, 2020 and ending on June 25, 2025. Rental income related to this lease was \$8,946 for the years ended June 30, 2021 and 2020.

Future minimum payments to be received under the leases are as follows:

2022	\$	70,305
2023		56,332
2024		9,780
2025		<u>10,080</u>
Total	\$	<u>146,497</u>

11. Capital Lease Obligation

The Organization leases a semi-tractor under a 5-year capital lease that commenced in September 2017 and expires in September 2022. The lease requires fixed monthly payments of \$1,908 plus additional mileage charges. The economic substance of this lease is that the Organization is financing the acquisition of the semi-truck through the lease and, accordingly, it is recorded in the Organization's assets and liabilities. The cost of the asset under the lease was \$110,943 and the accumulated depreciation was \$77,660 and \$55,471 at June 30, 2021 and 2020, respectively.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of June 30, 2021:

2022	22,901
2023	<u>5,725</u>
Total minimum payments	28,626
Less amount representing interest	<u>(237)</u>
Present value of net minimum lease payments	28,389
Less current portion	<u>(22,901)</u>
Capital lease obligation, net of current portion	<u>\$ 5,488</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

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12. Lease Acquisition Costs

The Organization incurred certain costs in obtaining a tenant operating lease described in Note 10. Gross capitalized lease acquisition fees of \$24,599 are being amortized on a straight-line basis over 84 months, which is the term of the related lease. Amortization expense was \$3,514 for the years ended June 30, 2021 and 2020.

Future amortization of lease acquisition costs are as follows:

2022	\$	3,514
2023		2,636
Total	\$	<u>6,150</u>

13. Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization places its cash and temporary cash investments with high credit quality financial institutions. At times such balances may be in excess of the FDIC insurance limit. Investments held at investment companies are not insured and are subject to market risk.

14. Related Parties

Board members may be employees of firms with which the Organization has business relationships. Board members may also be with firms or foundations that contribute funds or provide contributed services to the Organization. The Organization has a policy for its Board of Directors and staff members that requires disclosure of any and all conflicts of interest that may exist.

15. Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the statement of financial position dates for general expenditure are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 14,982,765	\$ 8,734,100
Accounts receivable	40,556	17,289
Grant and pledge receivables, current portion	242,813	318,668
Other receivables	9,019	89,563
Total financial assets	15,275,153	9,159,620
Less those unavailable for general expenditures within one year:		
Purpose or time restricted net assets, net of endowment fund	<u>(2,233,058)</u>	<u>(1,102,787)</u>
Total financial assets available to meet cash needs within one year	<u>\$ 13,042,095</u>	<u>\$ 8,056,833</u>

The Organization has a goal of maintaining cash and cash equivalent balances on hand to meet 9 months of ordinary business operating expenses (exclusive of food costs and depreciation). At June 30, 2021 and 2020 the Organization had designated \$6,102,000 related to this operating reserve goal. As these designations are for operations, it is included in financial assets available to meet cash needs. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

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The Organization has investments held for endowment that are \$2,126,447 and \$1,708,594 as of June 30, 2021 and 2020, respectively. The investments held for endowment consist of a donor-restricted endowment and a board designated endowment. Income from the donor restricted endowments is available for general expenditures. Although the Organization does not intend to spend from its board designated endowment, other than investment income appropriated for general expenditures, amounts from the board designated endowment could be made available if necessary.

In addition, the Organization maintains \$500,000 in a facility and equipment expansion/replacement fund at June 30, 2021 and 2020. This Board designated fund can be used cover costs of major capital expenditures as necessary.

16. Grants and Contracts

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.

17. Subsequent Events

Management has evaluated subsequent events through November 19, 2021, the date which the financial statements were available to be issued.