

# **Second Harvest Foodbank of Southern Wisconsin, Inc.**

Financial Statements  
June 30, 2022 and 2021

# 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 Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Second Harvest Foodbank of Southern Wisconsin, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, cash flows, and functional expenses 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 the Organization as of June 30, 2022 and 2021, 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.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## ***Auditors' 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 auditors' 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 the Organization'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 the Organization'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.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022 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 18, 2022

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Financial Position  
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 15,215,594	\$ 14,982,765
Accounts receivable	65,821	40,556
Grants and pledges receivable, current portion	1,950,222	242,813
Other receivables	39,901	9,019
Inventory	1,632,172	3,281,749
Prepaid expenses	110,205	135,973
Total current assets	<u>19,013,915</u>	<u>18,692,875</u>
<b>Fixed Assets</b>		
Land	500,402	500,402
Building improvements	1,400,248	1,313,540
Building	3,835,366	3,835,366
Furniture, fixtures and equipment	1,612,684	1,672,125
Vehicles	704,593	653,119
	<u>8,053,293</u>	<u>7,974,552</u>
Less accumulated depreciation	<u>(3,404,208)</u>	<u>(3,081,143)</u>
Net fixed assets	<u>4,649,085</u>	<u>4,893,409</u>
<b>Other Assets</b>		
Investments held for endowment	1,765,641	2,126,447
Grants and pledges receivable, net of current portion	365,000	7,500
Lease acquisition costs, net	2,635	6,150
Cash designated for capital expenditures and reserves	500,000	500,000
Total other assets	<u>2,633,276</u>	<u>2,640,097</u>
Total assets	<u>\$ 26,296,276</u>	<u>\$ 26,226,381</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 264,218	\$ 266,294
Accrued payroll and payroll taxes	430,137	315,868
Deferred revenue	55,376	122,150
Refundable advances	-	392,951
Capital lease obligation, current portion	5,713	22,901
Total current liabilities	<u>755,444</u>	<u>1,120,164</u>
<b>Long-Term Liabilities</b>		
Capital lease obligation, net of current portion	<u>-</u>	<u>5,488</u>
Total liabilities	<u>755,444</u>	<u>1,125,652</u>
<b>Net Assets</b>		
Net assets without donor restrictions	22,256,429	22,638,146
Net assets with donor restrictions	<u>3,284,403</u>	<u>2,462,583</u>
Total net assets	<u>25,540,832</u>	<u>25,100,729</u>
Total liabilities and net assets	<u>\$ 26,296,276</u>	<u>\$ 26,226,381</u>

See notes to financial statements

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Activities

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Change in Net Assets Without Donor Restrictions</b>		
<b>Revenues and Other Support</b>		
Contributions of financial assets	\$ 9,090,608	\$ 12,549,308
Donated food	21,154,486	32,774,107
United Way	305,171	297,117
Government grants	11,140,374	14,428,934
In-kind facility contribution	-	6,045,000
Food maintenance fees	468,059	609,377
Investment income (loss), net	(310,994)	421,818
Rental income	69,187	68,256
Loss on disposal of fixed assets	(52,554)	(6,188)
	<u>41,864,337</u>	<u>67,187,729</u>
<b>Net Assets Released From Restrictions</b>		
Satisfaction of program and time restrictions	914,278	831,404
	<u>42,778,615</u>	<u>68,019,133</u>
<b>Expenses</b>		
Program services	40,193,535	59,988,290
Management and general	1,633,153	1,294,749
Fundraising	1,333,644	1,417,719
	<u>43,160,332</u>	<u>62,700,758</u>
Change in net assets without donor restrictions	<u>(381,717)</u>	<u>5,318,375</u>
<b>Change in Net Assets With Donor Restrictions</b>		
Contributions of financial assets	1,802,621	1,992,229
Endowment investment earnings (loss), net	(66,523)	42,535
Net assets released from restrictions	(914,278)	(831,404)
	<u>821,820</u>	<u>1,203,360</u>
Change in net assets	440,103	6,521,735
<b>Net Assets, Beginning</b>	<u>25,100,729</u>	<u>18,578,994</u>
<b>Net Assets, Ending</b>	<u>\$ 25,540,832</u>	<u>\$ 25,100,729</u>

See notes to financial statements

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows  
Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>Cash Flow From Operating Activities</b>		
Change in net assets	\$ 440,103	\$ 6,521,735
Adjustments to reconcile management and general to net cash flows from operating activities:		
Depreciation	352,512	363,166
Amortization	3,515	3,514
Loss on disposal of fixed assets	52,554	6,188
Realized and unrealized (gains) losses on investments	472,329	(394,755)
Bad debt expense	-	4,000
Contributions restricted for the endowment	(2,000)	(30,554)
Interest and dividends reinvested, net of investment expenses	(70,742)	(45,840)
Changes in assets and liabilities:		
Accounts receivable	(25,265)	(23,267)
Grants and pledges receivable	(2,064,909)	114,355
Other receivables	(30,882)	80,544
Inventory	1,649,577	1,256,726
Prepaid expenses	25,768	(78,064)
Accounts payable	(2,076)	(237,464)
Accrued payroll and payroll taxes	114,269	59,903
Deferred revenue	(66,774)	21,047
Refundable advances	(392,951)	(1,008,639)
Net cash flows from operating activities	<u>455,028</u>	<u>6,612,595</u>
<b>Cash Flows From Investing Activities</b>		
Purchases of fixed assets	(190,038)	(397,832)
Proceeds from sale of fixed assets	29,296	3,000
Purchases of investments	(529,701)	(677,123)
Proceeds from sale of investments	488,920	699,865
Net cash flows from investing activities	<u>(201,523)</u>	<u>(372,090)</u>
<b>Cash Flows From Financing Activities</b>		
Contributions restricted for the endowment	2,000	30,554
Payments on capital lease obligation	(22,676)	(22,394)
Net cash flows from financing activities	<u>(20,676)</u>	<u>8,160</u>
Net change in cash, cash equivalents and restricted cash	232,829	6,248,665
<b>Cash, Cash Equivalents and Restricted Cash, Beginning</b>	<u>15,482,765</u>	<u>9,234,100</u>
<b>Cash, Cash Equivalents and Restricted Cash, Ending</b>	<u>\$ 15,715,594</u>	<u>\$ 15,482,765</u>
<b>Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Statements of Financial Position:</b>		
	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 15,215,594	\$ 14,982,765
Cash designated for capital expenditures and reserves	500,000	500,000
Total cash, cash equivalents and restricted cash	<u>\$ 15,715,594</u>	<u>\$ 15,482,765</u>

See notes to financial statements

## Second Harvest Foodbank of Southern Wisconsin, Inc.

### Statement of Functional Expenses

Year Ended June 30, 2022

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Food	\$ 33,595,397	\$ -	\$ -	\$ 33,595,397
Grants	277,126	-	-	277,126
Salaries and wages	2,555,615	705,861	491,235	3,752,711
Employee benefits	567,851	158,664	108,560	835,075
Payroll taxes	209,451	58,523	40,042	308,016
Vehicles	333,149	-	-	333,149
Insurance	107,761	25,778	5,454	138,993
Professional services	1,061,069	407,572	366,845	1,835,486
Office supplies and equipment	407,297	40,184	2,901	450,382
Postage and shipping	8,913	632	138,818	148,363
Printing	8,310	26,982	1,501	36,793
Ads, dues and subscriptions	8,183	34,289	365	42,837
Bank charges	-	133	96,739	96,872
Telephone	20,211	21,219	322	41,752
Repairs and maintenance	118,315	99,663	58,008	275,986
Transportation	49,011	1,529	35	50,575
Occupancy	482,832	22,486	11,418	516,736
Conferences and travel	48,417	13,536	-	61,953
Depreciation	325,009	16,102	11,401	352,512
Other	9,618	-	-	9,618
Total expenses	<u>\$ 40,193,535</u>	<u>\$ 1,633,153</u>	<u>\$ 1,333,644</u>	<u>\$ 43,160,332</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.

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Notes to Financial Statements  
June 30, 2022 and 2021

## 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

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, 2022 and 2021 for capital expenditures and reserves, which are classified as long-term assets on the statements of financial position at June 30, 2022 and 2021.

### Investments Held for Endowment

Investments held for endowment consist of common stocks, 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, 2022 and 2021

### 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 recorded when received, net of an 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 until the date the grant or pledge is received. No discount was deemed necessary as of June 30, 2022 and 2021.

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, 2022 and 2021, 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 for donated inventory or by using the purchased cost using the first in first out basis. Inventory consisted of the following:

	<u>2022</u>	<u>2021</u>
Inventory, donated	\$ 826,520	\$ 1,000,289
Inventory, purchased	547,277	1,072,897
Inventory, purchased government grants	<u>258,375</u>	<u>1,208,563</u>
Total	<u>\$ 1,632,172</u>	<u>\$ 3,281,749</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 use of 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, 2022 and 2021.

## **Second Harvest Foodbank of Southern Wisconsin, Inc.**

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Notes to Financial Statements  
June 30, 2022 and 2021

### **Refundable Advances**

Refundable advances represent payments received from grantors to be used for programs in future years.

### **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, 2022 and 2021, 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 in the same year are presented as without donor restrictions on the statements of activities. There were \$0 and \$392,951 of conditional contributions and grants received and included in refundable advances at June 30, 2022 and 2021, respectively. As of June 30, 2022 there was an additional \$384,060 of conditional grant revenue, which is expected to be recognized in future years when the conditions are met. As of June 30, 2021 there was \$10,679,844 of conditional grant revenue, which was recognized during 2022 when the conditions were met.

### **Food Maintenance Fees**

For the year ended June 30, 2022, the Organization billed agencies for product that was purchased by agencies, at the purchased product cost with no markup. In years prior, the Organization utilized shared maintenance fees for donated product with amounts set by the Organization up to the maximum amount allowed by the Internal Revenue Service. 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 product sales are typically nonrefundable. The net realizable value of receivables from members are \$65,039 and \$38,282 as of June 30, 2022 and 2021, 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 \$55,376 and \$122,150 as of June 30, 2022 and 2021, respectively, and presented as deferred revenue on the statements of financial position.

## Second Harvest Foodbank of Southern Wisconsin, Inc.

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Notes to Financial Statements  
June 30, 2022 and 2021

### 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 contributions received in future years. The Organization generally does not conduct its fundraising activities in conjunction with its other activities.

### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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). Management is currently evaluating the impact of the ASU on the Organization's financial statements.

During June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectibility of the reported amount. FASB has issued subsequent standards to clarify, correct errors in or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022 (2024). Early adoption is permitted. The Organization is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its financial statements.

### Adopted Accounting Pronouncements

In 2022, the Organization adopted ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. 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. ASU No. 2020-07 was adopted using the retrospective method. Adopting ASU No. 2020-07 did not have an impact to the amounts recognized in the financial statements, beginning net assets or prior year amounts. The adoption of ASU No. 2020-07 expanded disclosures for contributed nonfinancial assets (Note 6).

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements  
June 30, 2022 and 2021

### 2. Grants and Pledges Receivable

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

	<u>2022</u>	<u>2021</u>
Less than one year	\$ 1,950,222	\$ 242,813
One to five years	365,000	7,500
Total	<u>\$ 2,315,222</u>	<u>\$ 250,313</u>

### 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 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:

	<u>2022</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic common stocks and equity funds	\$ 1,044,030	\$ -	\$ -	\$ 1,044,030
Foreign common stocks and equity funds	293,872	-	-	293,872
Domestic fixed income funds	250,803	-	-	250,803
Total assets measured at fair value	<u>\$ 1,588,705</u>	<u>\$ -</u>	<u>\$ -</u>	1,588,705
Money market funds				<u>176,936</u>
Total investments held for endowment				<u>\$ 1,765,641</u>

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements  
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	2021			Total
	Level 1	Level 2	Level 3	
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>

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, 2022 and 2021. 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:

	2022	2021
Interest and dividends, general	\$ 24,070	\$ 23,758
Interest and dividends, endowment fund	89,791	60,670
Net realized and unrealized gains (losses)	(472,329)	394,755
Expenses	(19,049)	(14,830)
Total	<u>\$ (377,517)</u>	<u>\$ 464,353</u>

#### 4. Net Assets

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

	2022	2021
Time or purpose restrictions:		
Kids café fund	\$ 492,413	\$ 504,028
Mobile pantry	648,262	663,832
Foodshare outreach	57,912	64,022
Share your holidays	120,650	30,000
School pantries	865,463	724,277
Endowment fund earnings	(14,069)	52,454
Pandemic relief	700,000	200,000
Other	234,701	46,899
Held in perpetuity	<u>179,071</u>	<u>177,071</u>
Total	<u>\$ 3,284,403</u>	<u>\$ 2,462,583</u>

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements  
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Net assets without donor restrictions were board designated for the following purposes:

	<u>2022</u>	<u>2021</u>
Endowment fund	\$ 1,600,639	\$ 1,902,476
Capital expenditures and reserves	500,000	500,000
Operating reserve	<u>8,760,000</u>	<u>6,102,000</u>
Total	<u>\$ 10,860,639</u>	<u>\$ 8,504,476</u>

### 5. 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.

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 donor restriction as June 30, 2022 for those endowments under the control of the Organization:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Available for Appropriation</u>	<u>Perpetual in Nature</u>	
Donor restricted endowment funds	\$ -	\$ (14,069)	\$ 179,071	\$ 165,002
Board designated endowment funds	<u>1,600,639</u>	<u>-</u>	<u>-</u>	<u>1,600,639</u>
Total endowment funds	<u>\$ 1,600,639</u>	<u>\$ (14,069)</u>	<u>\$ 179,071</u>	<u>\$ 1,765,641</u>



## Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements  
June 30, 2022 and 2021

The endowment related activities for the year ended June 30, 2022, were as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		
		<b>Available for Appropriation</b>	<b>Perpetual in Nature</b>	<b>Total</b>
Beginning balance	\$ 1,902,476	\$ 52,454	\$ 177,071	\$ 2,132,001
Contributions	33,226	-	2,000	35,226
Net investment income	(335,063)	(66,523)	-	(401,586)
Ending balance	<u>\$ 1,600,639</u>	<u>\$ (14,069)</u>	<u>\$ 179,071</u>	<u>\$ 1,765,641</u>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		
		<b>Available for Appropriation</b>	<b>Perpetual in Nature</b>	<b>Total</b>
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:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>		
		<b>Available for Appropriation</b>	<b>Perpetual in Nature</b>	<b>Total</b>
Beginning balance	\$ 1,552,158	\$ 9,919	\$ 146,517	\$ 1,708,594
Contributions	-	-	30,554	30,554
Net investment loss	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. Contributions restricted for the endowment during 2022 were transferred to investments during the year.

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. In accordance with current accounting guidance, deficiencies of this nature that are reported in net assets with donor restrictions were \$14,069 as of June 30, 2022. There is one fund with a deficiency as of June 30, 2022 with total gifts that are perpetual in nature of \$179,071. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions. There were no such deficiencies as of June 30, 2021.

## Second Harvest Foodbank of Southern Wisconsin, Inc.

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Notes to Financial Statements  
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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 greater 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.

### 6. Contributed Nonfinancial Assets

Contributed nonfinancial assets are comprised of donated product and rent. Donated product is utilized via distribution to food pantries, as well as via distribution to individual recipients at mobile and school pantries operated by the Organization. For the year ended June 30, 2022, the Organization did not monetize donated product through shared food maintenance fees and only utilized the donated product in operations. In years prior, the Organization monetized a portion of donated product distributed through shared maintenance fees and utilized the remainder of the donated product in operations.

Donated product inventory is valued using the average wholesale value of one pound of product as reported by the Feeding America National Organization product valuation report. The report provides a value for donated product on a calendar year basis. The per pound rate in 2022 and 2021 was \$1.92 and \$1.79, respectively.

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 COVID-19 pandemic. The space was used solely to distribute food and was all program expense. The Organization did not use the space during the year ending June 30, 2022. The value of in-kind rent and services included as in-kind facilities contribution and program services expense on the statements of activities for the year ending June 30, 2021 was \$6,045,000. Management determined the value of the space provided using estimates from the Alliant Energy Center for how much would be charged if the space were to be rented.

### 7. 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% of employee contributions up to a total of 5% of a participant's compensation. Amounts contributed under this plan totaled \$142,168 and \$102,228 for the years ended June 30, 2022 and 2021, respectively.

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements  
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### 8. Concentrations

The Organization receives food donations from retail stores, wholesalers and producers. One national retailer accounted for 32% of donated food in 2022 and 26% in 2021.

The Organization receives grants from government entities. Two grantors accounted for 95% and 96% of grant revenue in 2022 and 2021, respectively, and 62% and 9% of grants receivable as of June 30, 2022 and 2021, respectively.

### 9. 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 \$85,685 and \$125,107 are included in vehicles expense on the statements of functional expenses for the years ended June 30, 2022 and 2021, respectively.

Future minimum non-cancelable payments under this lease are as follows:

2023	\$	72,636
2024		48,927
2025		<u>12,908</u>
Total	\$	<u>134,471</u>

The Organization is the lessor of office space under operating leases. The Organization has a lease agreement with one tenant ending on March 30, 2023. Rental income related to this lease was \$59,971 and \$59,310 for the years ended June 30, 2022 and 2021, respectively.

The Organization also rents office space to another tenant. The Organization rented the space under an operating lease with initial monthly rental payments of \$768. The lease commenced on January 1, 2020 and ends on June 25, 2025. Rental income related to this lease was \$9,216 and \$8,946 for the years ended June 30, 2022 and 2021, respectively.

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

2023	\$	56,332
2024		9,780
2025		<u>10,080</u>
Total	\$	<u>76,192</u>

### 10. 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 \$99,849 and \$77,660 at June 30, 2022 and 2021, respectively.

## Second Harvest Foodbank of Southern Wisconsin, Inc.

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The following is a schedule by years of future minimum payments required under the lease together with their present value as of June 30, 2022:

2023	\$	5,725
Less amount representing interest		<u>(12)</u>
Present value of net minimum lease payments		5,713
Less current portion		<u>(5,713)</u>
Capital lease obligation, net of current portion	\$	<u><u>-</u></u>

In August 2022, the Organization entered into a new lease for a semi-tractor that requires fixed monthly payments of \$2,712 for 72 months. The cost of the asset under the lease is \$152,669.

### 11. 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 \$3,515 and \$3,514 for the years ended June 30, 2022 and 2021, respectively. Future amortization of lease acquisition costs are \$2,635 in 2023.

### 12. 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.

### 13. 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.

## Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements  
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### 14. 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 15,215,594	\$ 14,982,765
Accounts receivable	65,821	40,556
Grant and pledge receivables, current portion	1,950,222	242,813
Other receivables	<u>39,901</u>	<u>9,019</u>
Total current financial assets	17,271,538	15,275,153
Less those unavailable for general expenditures within one year:		
Purpose or time restricted net assets, net of endowment fund with donor restrictions and long-term grants and pledges receivable	<u>(2,740,332)</u>	<u>(2,233,058)</u>
Total financial assets available to meet cash needs within one year	<u>\$ 14,531,206</u>	<u>\$ 13,042,095</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, 2022 and 2021 the Organization had designated \$8,760,000 and \$6,102,000, respectively, 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.

The Organization has investments held for endowment that are \$1,765,641 and \$2,126,447 as of June 30, 2022 and 2021, 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, 2022 and 2021. This Board designated fund can be used cover costs of major capital expenditures as necessary.

### 15. 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.

### 16. Subsequent Events

Management has evaluated subsequent events through November 18, 2022, the date which the financial statements were available to be issued.