

Second Harvest Foodbank of Southern Wisconsin, Inc.

Financial Statements

June 30, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022, 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 December 1, 2023 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
December 1, 2023

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 15,085,640	\$ 15,215,594
Accounts receivable	211,773	65,821
Grants and pledges receivable, current portion	1,599,288	1,950,222
Other receivables	21,474	39,901
Inventory	943,612	1,632,172
Prepaid expenses	429,497	112,840
Total current assets	<u>18,291,284</u>	<u>19,016,550</u>
Other Assets		
Property and equipment, net	4,873,273	4,649,085
Operating lease right-of-use assets	396,094	-
Finance lease right-of-use assets	451,213	-
Investments held for endowment	2,043,139	1,765,641
Grants and pledges receivable, net of current portion	10,000	365,000
Cash designated for capital expenditures and reserves	500,000	500,000
Total other assets	<u>8,273,719</u>	<u>7,279,726</u>
Total assets	<u><u>\$ 26,565,003</u></u>	<u><u>\$ 26,296,276</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 262,498	\$ 264,218
Accrued payroll and payroll taxes	487,460	430,137
Deferred revenue	83,393	55,376
Refundable advances	394,149	-
Current maturities of capital lease obligations	-	5,713
Current maturities of operating lease liabilities	137,926	-
Current maturities of finance lease liabilities	112,000	-
Total current liabilities	1,477,426	755,444
Long-Term Liabilities		
Operating lease liabilities, less current maturities	352,995	-
Finance lease liabilities, less current maturities	256,131	-
Total liabilities	<u>2,086,552</u>	<u>755,444</u>
Net Assets		
Net assets without donor restrictions	21,351,600	22,256,429
Net assets with donor restrictions	3,126,851	3,284,403
Total net assets	<u>24,478,451</u>	<u>25,540,832</u>
Total liabilities and net assets	<u><u>\$ 26,565,003</u></u>	<u><u>\$ 26,296,276</u></u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Activities

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Change in Net Assets Without Donor Restrictions		
Revenues and other support:		
Contributions of financial assets	\$ 8,568,416	\$ 9,090,608
Donated food	26,025,110	21,154,486
United Way	261,567	305,171
Government grants	10,023,544	11,140,374
Food maintenance fees	2,004,581	468,059
Investment income (loss), net	489,914	(310,994)
Rental income	71,632	69,187
Gain (loss) on disposal of fixed assets	36,131	(52,554)
Total revenues and other support without donor restrictions	47,480,895	41,864,337
Net assets released from restrictions:		
Satisfaction of program and time restrictions	1,835,080	914,278
Total revenues and other support without donor restrictions and net assets released from restrictions	49,315,975	42,778,615
Expenses:		
Program services	46,986,771	40,193,535
Management and general	1,784,376	1,633,153
Fundraising	1,449,657	1,333,644
Total expenses	50,220,804	43,160,332
Change in net assets without donor restrictions	(904,829)	(381,717)
Change in Net Assets With Donor Restrictions		
Contributions of financial assets	1,665,067	1,802,621
Endowment investment earnings (loss), net	12,461	(66,523)
Net assets released from restrictions	(1,835,080)	(914,278)
Change in net assets with donor restrictions	(157,552)	821,820
Change in net assets	(1,062,381)	440,103
Net Assets, Beginning	25,540,832	25,100,729
Net Assets, Ending	<u>\$ 24,478,451</u>	<u>\$ 25,540,832</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flow From Operating Activities		
Change in net assets	\$ (1,062,381)	\$ 440,103
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	382,151	352,512
Loss (gain) on disposal of fixed assets	(36,131)	52,554
Realized and unrealized (gains) losses on investments	(186,875)	472,329
Contributions restricted for the endowment	(7,600)	(2,000)
Interest and dividends reinvested, net of investment expenses	(33,023)	(70,742)
Lease costs	108,210	-
Changes in assets and liabilities:		
Accounts receivable	(145,952)	(25,265)
Grants and pledges receivable	705,934	(2,064,909)
Other receivables	18,427	(30,882)
Inventory	688,560	1,649,577
Prepaid expenses	(316,657)	29,283
Accounts payable	(1,720)	(2,076)
Accrued payroll and payroll taxes	57,323	114,269
Deferred Revenue	28,017	(66,774)
Refundable advance	394,149	(392,951)
Net cash flows from operating activities	<u>592,432</u>	<u>455,028</u>
Cash Flows From Investing Activities		
Purchases of fixed assets	(606,339)	(190,038)
Proceeds from sale of fixed assets	36,131	29,296
Purchases of investments	(925,486)	(529,701)
Proceeds from sale of investments	<u>867,886</u>	<u>488,920</u>
Net cash flows from investing activities	<u>(627,808)</u>	<u>(201,523)</u>
Cash Flows From Financing Activities		
Cash received restricted for the endowment	7,600	2,000
Principal payments on finance leases	(102,178)	-
Principal payments on capital leases	<u>-</u>	<u>(22,676)</u>
Net cash flows from financing activities	<u>(94,578)</u>	<u>(20,676)</u>
Net change in cash, cash equivalents and restricted cash	(129,954)	232,829
Cash, Cash Equivalents and Restricted Cash, Beginning	<u>15,715,594</u>	<u>15,482,765</u>
Cash, Cash Equivalents and Restricted Cash, Ending	<u><u>\$ 15,585,640</u></u>	<u><u>\$ 15,715,594</u></u>
Noncash Investing and Financing Activities		
Operating lease right-of-use assets financed with operating lease liability at July 1, 2022	<u>\$ 114,272</u>	<u>\$ -</u>
Finance lease right-of-use assets financed with finance lease liability at July 1, 2022	<u>\$ 138,387</u>	<u>\$ -</u>
Operating lease right-of-use assets finance with operating lease liability	<u>\$ 500,926</u>	<u>\$ -</u>
Finance lease right-of-use assets finance with operating lease liability	<u>\$ 326,209</u>	<u>\$ -</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Statements of Financial Position		
Cash and cash equivalents	\$ 15,085,640	\$ 15,215,594
Cash designated for capital expenditures and reserves	<u>500,000</u>	<u>500,000</u>
Total cash, cash equivalents and restricted cash	<u>\$ 15,585,640</u>	<u>\$ 15,715,594</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statement of Functional Expenses

Year Ended June 30, 2023

	Program Services	Management and General	Fundraising	Total
Food	\$ 40,180,228	\$ -	\$ -	\$ 40,180,228
Grants	362,677	-	-	362,677
Salaries and wages	3,168,574	901,851	594,981	4,665,406
Employee benefits	656,517	183,438	125,510	965,465
Payroll taxes	253,836	70,925	48,527	373,288
Vehicles	287,967	-	-	287,967
Insurance	113,869	23,954	5,703	143,526
Professional services	384,367	162,219	367,438	914,024
Office supplies and equipment	305,884	32,971	4,802	343,657
Postage and shipping	4,745	1,318	117,355	123,418
Printing	47,027	42,722	5,384	95,133
Ads, dues and subscriptions	28,133	50,913	1,696	80,742
Bank charges	-	149	100,705	100,854
Telephone	24,489	21,315	221	46,025
Repairs and maintenance	144,134	123,586	11,440	279,160
Transportation	59,724	-	-	59,724
Occupancy	561,328	38,387	14,455	614,170
Conferences and travel	66,535	24,995	163	91,693
Depreciation	311,390	60,553	10,208	382,151
Interest/Lease	8,315	-	-	8,315
Capital campaign	-	45,080	41,069	86,149
Other	17,032	-	-	17,032
Total expenses	<u>\$ 46,986,771</u>	<u>\$ 1,784,376</u>	<u>\$ 1,449,657</u>	<u>\$ 50,220,804</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statement of Functional Expenses

Year Ended June 30, 2022

	Program Services	Management and General	Fundraising	Total
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.

Notes to Financial Statements
June 30, 2023 and 2022

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, 2023 and 2022 for capital expenditures and reserves, which are classified as long-term assets on the statements of financial position at June 30, 2023 and 2022.

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, 2023 and 2022

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, 2023 and 2022.

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, 2023 and 2022, 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>2023</u>	<u>2022</u>
Inventory, donated	\$ 535,448	\$ 826,520
Inventory, purchased	396,607	547,277
Inventory, purchased government grants	11,557	258,375
Total	<u>\$ 943,612</u>	<u>\$ 1,632,172</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, 2023 and 2022.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2023 and 2022

Refundable Advances

Refundable advances represent payments received from grantors to be used for programs in future years. The Organization expects to overcome any barriers on refundable advances in the following fiscal year.

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, 2023 and 2022, 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 \$394,149 and \$0 of conditional contributions and grants received and included in refundable advances at June 30, 2023 and 2022, respectively. As of June 30, 2022 there was \$384,060 of conditional grant revenue, which was recognized during 2023 when the conditions were met. There was no conditional grant revenue as of June 30, 2023.

Food Maintenance Fees

The Organization bills agencies for product that was purchased by agencies, at the purchased product cost with no markup. The Organization utilizes 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 \$209,667, \$65,039 and \$38,282 as of June 30, 2023, 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 \$83,393, \$55,376, \$122,150 as of June 30, 2023, 2022 and 2021, respectively, and presented as deferred revenue on the statements of financial position. No revenue was recorded in 2023 and 2022 related to performance obligations met in prior fiscal years.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

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

During June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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). The Organization is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its financial statements.

Reclassifications

For comparability, certain 2022 amounts have been reclassified to conform with classifications adopted in 2023. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Adopted Accounting Pronouncements

Effective July 1, 2022, the Organization adopted FASB ASU No. 2016-02, *Leases (Topic 842)*, and all related amendments using the modified retrospective approach. The Organization's 2022 financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the statements of financial position. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the non-cancelable lease term. Expenses for finance leases are comprised of the amortization of the right-to-use asset and interest expense recognized based on the effective interest method. At the date of adoption, the Organization recorded operating lease right-of-use assets and operating lease liabilities of \$114,272. The Organization recorded finance lease right-of-use assets and finance liabilities of \$138,387 at July 1, 2022.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Organization elected:

- The package of practical expedients permitted under the transition guidance which does not require the Organization to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.
- The practical expedient to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease or to purchase the underlying asset) and in assessing impairment of the Organization's right-of-use assets.

The new standard also provides for several accounting policy elections, as follows:

- The Organization has elected the policy not to separate lease and nonlease components for all leases.
- When the rate implicit in the lease is not determinable, rather than use the Organization's incremental borrowing rate, the Organization elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all leases.
- The Organization elected to not apply the recognition requirements to leases with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.

Additional required disclosures are contained in Note 10.

2. Grants and Pledges Receivable

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

	<u>2023</u>	<u>2022</u>
Less than one year	\$ 1,599,288	\$ 1,950,222
One to five years	<u>10,000</u>	<u>365,000</u>
Total	<u>\$ 1,609,288</u>	<u>\$ 2,315,222</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

3. Property and Equipment, Net

Property and equipment and construction in progress are comprised of the following assets at June 30:

	2023	2022
Land	\$ 505,427	\$ 500,402
Buildings improvements	1,527,534	1,400,248
Building	3,835,366	3,835,366
Furniture, fixtures and equipment	1,671,875	1,612,684
Vehicles	754,587	704,593
Construction in progress	146,775	-
	8,441,564	8,053,293
Less accumulated depreciation	(3,568,291)	(3,404,208)
Total	<u>\$ 4,873,273</u>	<u>\$ 4,649,085</u>

Depreciation expense was \$382,151 and \$352,512 for the years ended June 30, 2023 and 2022, respectively.

4. 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.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2023 and 2022

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:

	2023			
	Level 1	Level 2	Level 3	Total
Domestic common stocks and equity funds	\$ 1,154,701	\$ -	\$ -	\$ 1,154,701
Foreign common stocks and equity funds	470,247	-	-	470,247
Domestic fixed income funds	326,401	-	-	326,401
Total assets measured at fair value	<u>\$ 1,951,349</u>	<u>\$ -</u>	<u>\$ -</u>	1,951,349
Money market funds				<u>91,790</u>
Total investments held for endowment				<u>\$ 2,043,139</u>

	2022			
	Level 1	Level 2	Level 3	Total
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>

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, 2023 and 2022. 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 return is comprised of the following:

	2023	2022
Interest and dividends, general	\$ 282,477	\$ 24,070
Interest and dividends, endowment fund	49,315	89,791
Net realized and unrealized gains (losses)	186,875	(472,329)
Expenses	<u>(16,292)</u>	<u>(19,049)</u>
Total	<u>\$ 502,375</u>	<u>\$ (377,517)</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

5. Net Assets

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

	2023	2022
Time or purpose restrictions:		
Kids café fund	\$ 460,241	\$ 492,413
Mobile pantry	729,516	648,262
Foodshare outreach	57,912	57,912
Share your holidays	135,000	120,650
School pantries	879,835	865,463
Endowment fund earnings	(1,608)	(14,069)
Pandemic relief	400,000	700,000
Other	279,284	234,701
Held in perpetuity	186,671	179,071
Total	<u>\$ 3,126,851</u>	<u>\$ 3,284,403</u>

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

	2023	2022
Endowment fund	\$ 1,858,076	\$ 1,600,639
Capital expenditures and reserves	500,000	500,000
Operating reserve	10,569,344	8,760,000
Total	<u>\$ 12,927,420</u>	<u>\$ 10,860,639</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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Notes to Financial Statements

June 30, 2023 and 2022

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, 2023 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	\$ -	\$ (1,608)	\$ 186,671	\$ 185,063
Board designated endowment funds	1,858,076	-	-	1,858,076
Total endowment funds	<u>\$ 1,858,076</u>	<u>\$ (1,608)</u>	<u>\$ 186,671</u>	<u>\$ 2,043,139</u>

The endowment related activities for the year ended June 30, 2023, were as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Available for Appropriation	Perpetual in Nature	
Beginning balance	\$ 1,600,639	\$ (14,069)	\$ 179,071	\$ 1,765,641
Contributions	50,000	-	7,600	57,600
Net investment income	207,437	19,059	-	226,496
Amount appropriated for expenditure	-	(6,598)	-	(6,598)
Ending balance	<u>\$ 1,858,076</u>	<u>\$ (1,608)</u>	<u>\$ 186,671</u>	<u>\$ 2,043,139</u>

The following table shows the composition of endowment net assets by donor restriction as of June 30, 2022, 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	\$ -	\$ (14,069)	\$ 179,071	\$ 165,002
Board designated endowment funds	1,600,639	-	-	1,600,639
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, 2023 and 2022

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

	Without Donor Restrictions	With Donor Restrictions		
		Available for Appropriation	Perpetual in Nature	Total
Beginning balance	\$ 1,902,476	\$ 52,454	\$ 177,071	\$ 2,132,001
Contributions	33,226	-	2,000	35,226
Net investment loss	(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>

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 \$1,608 and \$14,069 as of June 30, 2023 and 2022, respectively. There is one fund with a deficiency as of June 30, 2023 and 2022 with total gifts that are perpetual in nature of \$186,671 and \$179,071, respectively. 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.

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.

7. Contributed Nonfinancial Assets

Contributed nonfinancial assets are comprised of donated product and services. 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 years ended June 30, 2023 and 2022, the Organization did not monetize donated product through shared food maintenance fees and only utilized 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 2023 and 2022 was \$1.93 and \$1.92, 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.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2023 and 2022

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.

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% of employee contributions up to a total of 5% of a participant's compensation. Amounts contributed under this plan totaled \$186,262 and \$142,168 for the years ended June 30, 2023 and 2022, respectively.

9. Concentrations

The Organization receives food donations from retail stores, wholesalers and producers. One national retailer accounted for 22% of donated food in 2023 and 32% in 2022.

The Organization receives grants from government entities. Two grantors accounted for 98% and 95% of grant revenue in 2023 and 2022, respectively, and 27% and 62% of grants receivable as of June 30, 2023 and 2022, respectively.

10. Leases

The Organization has real property operating leases for warehouse space with original terms that vary from one to four years. The real property leases generally require the fixed monthly base rent payments which may escalate over the term of the leases.

The Organization has vehicle leases used in the Organization's operations that are classified as either finance or operating leases. These leases have original terms ranging from three to five years.

The Organization leases equipment used in operations that are either classified as finance or operating leases. These leases have original terms ranging from five to six years.

Prior to July 1, 2022

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 are included in vehicles expense on the statement of functional expenses for the year ended June 30, 2022.

The Organization was the lessor of office space under operating lease that expired in March 2023. Rental income related to this lease was \$59,971 for the year ending June 30, 2022.

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 for the for the year ending June 30, 2022.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
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The Organization leased a semi-tractor under a 5-year capital lease that commenced in September 2017 and expired in September 2022. The lease required fixed monthly payments of \$1,908 plus additional mileage charges. The economic substance of this lease was that the Organization was 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 for the year ending June 30, 2022.

Leases, July 1, 2022 and After

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Organization's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Organization includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease, or if not readily available, the Organization uses a risk-free rate based on U.S. Treasury note rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Organization made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;
- Determined whether contracts contain embedded lease; and
- Determined the discount rate used to measure the lease liability.

The Organization does not have any material leasing transactions with related parties.

The following table summarizes the operating right-of-use assets and operating lease liabilities as of June 30, 2023:

Operating lease right-of-use assets	<u>\$ 396,094</u>
Operating lease liabilities:	
Current	\$ 137,926
Long-term	<u>352,995</u>
Total operating lease liabilities	<u>\$ 490,921</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2023 and 2022

The following table summarizes the finance right-of-use assets and finance lease liabilities as of June 30, 2023:

Finance lease right-of-use assets	\$ 451,213
Finance lease liabilities:	
Current	\$ 112,000
Long-term	256,131
Total finance lease liabilities	\$ 368,131

The operating lease expense incurred during the year ending June 30, 2023 was \$134,396. The amortization of the finance lease right-of-use assets totaled \$98,113 for the year ending June 30, 2023. The interest expense on finance leases was \$8,315 for the year ending June 30, 2023.

The following table presents supplemental information related to leases:

Weighted average remaining lease term (in years):

Operating leases	4.59
Finance leases	3.39

Weighted average discount rate:

Operating leases	3.25%
Finance leases	3.47%

The table below summarizes the Organization's scheduled future minimum lease payments for years ending after June 30, 2023.

	Operating	Finance	Total
Years ending June 30:			
2024	\$ 152,345	\$ 112,618	\$ 264,963
2025	154,477	78,397	232,874
2026	144,697	63,364	208,061
2027	68,383	60,386	128,769
2028	-	60,386	60,386
Thereafter	-	18,450	18,450
Total lease payments	519,902	393,601	913,503
Less present value discount	(28,981)	(25,470)	(54,451)
Total lease liabilities	490,921	368,131	859,052
Less current portion	(137,926)	(112,000)	(249,926)
Long-term lease liabilities	\$ 352,995	\$ 256,131	\$ 609,126

Second Harvest Foodbank of Southern Wisconsin, Inc.

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The following table includes supplemental cash flow and noncash information related to the leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	132,654
Operating cash flows from finance leases		8,315
Financing cash flows from finance leases		102,178
Finance right-of-use-assets obtained in exchange for lease liabilities at July 1, 2022		138,387
Operating right-of-use assets obtained in exchange for lease liabilities at July 1, 2022		114,272
Operating right-of-use assets obtained in exchange for lease liabilities during 2023		500,926
Finance right-of-use assets obtained in exchange for lease liabilities during 2023		326,209

11. 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.

12. 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.

The Organization's Chief Executive Officer is a member of Feeding Wisconsin's, a related party, Board of Directors. Feeding Wisconsin has procedures outlined in their conflict of interest policy that are followed when appropriate. There are no situations in which a conflict of interest has a material impact to the financial statements.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2023 and 2022

13. Liquidity and Availability of Financial Assets

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 15,085,640	\$ 15,215,594
Accounts receivable	211,773	65,821
Grant and pledge receivables, current portion	1,599,288	1,950,222
Other receivables	<u>21,474</u>	<u>39,901</u>
Total current financial assets	16,918,175	17,271,538
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>(2,930,180)</u>	<u>(2,740,332)</u>
Total financial assets available to meet cash needs within one year	<u>\$ 13,987,995</u>	<u>\$ 14,531,206</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, 2023 and 2022, the Organization had designated \$10,569,344 and \$8,760,000, 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 \$2,043,139 and \$1,765,641 as of June 30, 2023 and 2022, 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, 2023 and 2022. This Board designated fund can be used cover costs of major capital expenditures as necessary.

14. 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.

15. Subsequent Events

Management has evaluated subsequent events through December 1, 2023, the date which the financial statements were available to be issued.