

Second Harvest Foodbank of Southern Wisconsin, Inc.

Financial Statements

June 30, 2024 and 2023

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.

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, 2024 and 2023, 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, 2024 and 2023, 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 (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the 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 GAAP, 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Baker Tilly US, LLP

Milwaukee, Wisconsin
November 15, 2024

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Financial Position
June 30, 2024 and 2023

| | 2024 | 2023 |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,688,112 | \$ 15,085,640 |
| Short-term investments | 4,827,487 | - |
| Accounts receivable | 532,010 | 211,773 |
| Grants and pledges receivable, current portion | 856,082 | 1,599,288 |
| Other receivables | 16,739 | 21,474 |
| Inventory | 1,536,349 | 943,612 |
| Prepaid expenses | 325,569 | 429,497 |
| | | |
| Total current assets | <u>11,782,348</u> | <u>18,291,284</u> |
| Other Assets | | |
| Property and equipment, net | 7,530,051 | 4,873,273 |
| Operating lease right-of-use assets | 229,794 | 396,094 |
| Finance lease right-of-use assets | 380,837 | 451,213 |
| Investments held for endowment | 2,382,083 | 2,043,139 |
| Grants and pledges receivable, net of current portion | 15,000 | 10,000 |
| Restricted cash and cash designated for capital expenditures and reserves | 515,000 | 500,000 |
| | | |
| Total other assets | <u>11,052,765</u> | <u>8,273,719</u> |
| | | |
| Total assets | <u><u>\$ 22,835,113</u></u> | <u><u>\$ 26,565,003</u></u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 249,826 | \$ 262,498 |
| Accrued payroll and payroll taxes | 563,224 | 487,460 |
| Deferred revenue | 69,400 | 83,393 |
| Refundable advances | 382,031 | 394,149 |
| Current maturities of operating lease liabilities | 159,545 | 137,926 |
| Current maturities of finance lease liabilities | 73,228 | 112,000 |
| | | |
| Total current liabilities | <u>1,497,254</u> | <u>1,477,426</u> |
| Long-Term Liabilities | | |
| Operating lease liabilities, less current maturities | 223,121 | 352,995 |
| Finance lease liabilities, less current maturities | 182,012 | 256,131 |
| | | |
| Total liabilities | <u>1,902,387</u> | <u>2,086,552</u> |
| Net Assets | | |
| Net assets without donor restrictions | 18,747,710 | 21,351,600 |
| Net assets with donor restrictions | 2,185,016 | 3,126,851 |
| | | |
| Total net assets | <u>20,932,726</u> | <u>24,478,451</u> |
| | | |
| Total liabilities and net assets | <u><u>\$ 22,835,113</u></u> | <u><u>\$ 26,565,003</u></u> |

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Activities

Years Ended June 30, 2024 and 2023

| | 2024 | 2023 |
|--|----------------------|----------------------|
| Change in Net Assets Without Donor Restrictions | | |
| Revenues and other support: | | |
| Contributions of financial assets | \$ 9,006,641 | \$ 8,568,416 |
| Donated food | 31,802,047 | 26,025,110 |
| United Way | 221,446 | 261,567 |
| Government grants | 6,862,049 | 10,023,544 |
| Food maintenance fees | 2,581,955 | 2,004,581 |
| Investment income, net | 828,368 | 483,316 |
| Rental income | 71,363 | 71,632 |
| Gain on disposal of fixed assets | <u>22,360</u> | <u>36,131</u> |
| | 51,396,229 | 47,474,297 |
| | <u>1,724,527</u> | <u>1,841,678</u> |
| | <u>53,120,756</u> | <u>49,315,975</u> |
| Expenses: | | |
| Program services | 51,800,308 | 46,986,771 |
| Management and general | 2,021,333 | 1,784,376 |
| Fundraising | <u>1,903,005</u> | <u>1,449,657</u> |
| | <u>55,724,646</u> | <u>50,220,804</u> |
| | <u>(2,603,890)</u> | <u>(904,829)</u> |
| Change in Net Assets With Donor Restrictions | | |
| Contributions of financial assets | 760,868 | 1,665,067 |
| Endowment investment earnings, net | 21,824 | 19,059 |
| Net assets released from restrictions | <u>(1,724,527)</u> | <u>(1,841,678)</u> |
| | <u>(941,835)</u> | <u>(157,552)</u> |
| | <u>(3,545,725)</u> | <u>(1,062,381)</u> |
| Net Assets, Beginning | <u>24,478,451</u> | <u>25,540,832</u> |
| Net Assets, Ending | <u>\$ 20,932,726</u> | <u>\$ 24,478,451</u> |

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows
Years Ended June 30, 2024 and 2023

| | 2024 | 2023 |
|---|---------------------|----------------------|
| Cash Flow From Operating Activities | | |
| Change in net assets | \$ (3,545,725) | \$ (1,062,381) |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Depreciation | 407,736 | 382,151 |
| Gain on disposal of fixed assets | (22,360) | (36,131) |
| Realized and unrealized gains on investments | (307,580) | (186,875) |
| Contributions restricted for the capital campaign | (15,000) | - |
| Contributions restricted for the endowment | - | (7,600) |
| Interest and dividends reinvested, net of investment expenses | (31,930) | (33,023) |
| Lease costs | 128,421 | 108,210 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (320,237) | (145,952) |
| Grants and pledges receivable | 738,206 | 705,934 |
| Other receivables | 4,735 | 18,427 |
| Inventory | (592,737) | 688,560 |
| Prepaid expenses | 103,928 | (316,657) |
| Accounts payable | (12,672) | (1,720) |
| Accrued payroll and payroll taxes | 75,764 | 57,323 |
| Deferred revenue | (13,993) | 28,017 |
| Refundable advances | (12,118) | 394,149 |
| Net cash flows from operating activities | <u>(3,415,562)</u> | <u>592,432</u> |
| Cash Flows From Investing Activities | | |
| Purchases of fixed assets | (3,064,514) | (606,339) |
| Proceeds from sale of fixed assets | 22,360 | 36,131 |
| Purchases of investments | (7,685,804) | (925,486) |
| Proceeds from sale of investments | 2,858,883 | 867,886 |
| Net cash flows from investing activities | <u>(7,869,075)</u> | <u>(627,808)</u> |
| Cash Flows From Financing Activities | | |
| Contributions restricted for the capital campaign | 15,000 | - |
| Contributions restricted for the endowment | - | 7,600 |
| Principal payments on finance leases | (112,891) | (102,178) |
| Net cash flows from financing activities | <u>(97,891)</u> | <u>(94,578)</u> |
| Net change in cash, cash equivalents and restricted cash | (11,382,528) | (129,954) |
| Cash, Cash Equivalents and Restricted Cash, Beginning | <u>15,585,640</u> | <u>15,715,594</u> |
| Cash, Cash Equivalents and Restricted Cash, Ending | <u>\$ 4,203,112</u> | <u>\$ 15,585,640</u> |
| Noncash Investing and Financing Activities | | |
| Operating lease right-of-use assets financed with operating lease liability at July 1, 2022 | \$ - | \$ 114,272 |
| Finance lease right-of-use assets financed with finance lease liability at July 1, 2022 | \$ - | \$ 138,387 |
| Operating lease right-of-use assets financed with operating lease liability | \$ 57,097 | \$ 500,926 |
| Finance lease right-of-use assets financed with operating lease liability | \$ - | \$ 326,209 |

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows
Years Ended June 30, 2024 and 2023

| | <u>2024</u> | <u>2023</u> |
|---|----------------------------|-----------------------------|
| Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Statements of Financial Position | | |
| Cash and cash equivalents | \$ 3,688,112 | \$ 15,085,640 |
| Restricted cash and cash designated for capital expenditures and reserves | <u>515,000</u> | <u>500,000</u> |
| Total cash, cash equivalents and restricted cash | <u><u>\$ 4,203,112</u></u> | <u><u>\$ 15,585,640</u></u> |

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statement of Functional Expenses

Year Ended June 30, 2024

| | Program Services | Management and General | Fundraising | Total |
|-------------------------------|-----------------------------|-----------------------------------|--------------------|-------------------|
| Food | \$ 45,195,872 | \$ - | \$ - | \$ 45,195,872 |
| Grants | 88,723 | - | - | 88,723 |
| Salaries and wages | 3,474,969 | 967,385 | 797,454 | 5,239,808 |
| Employee benefits | 688,219 | 184,895 | 154,079 | 1,027,193 |
| Payroll taxes | 267,359 | 71,828 | 59,856 | 399,043 |
| Vehicles | 322,906 | - | - | 322,906 |
| Insurance | 105,272 | 27,392 | 5,562 | 138,226 |
| Professional services | 149,667 | 239,642 | 405,231 | 794,540 |
| Office supplies and equipment | 237,724 | 48,161 | 679 | 286,564 |
| Postage and shipping | 2,408 | 1,898 | 167,450 | 171,756 |
| Printing | 22,697 | 20,586 | 3,317 | 46,600 |
| Ads, dues and subscriptions | 20,313 | 127,327 | 13,051 | 160,691 |
| Bank charges | - | 1,028 | 103,485 | 104,513 |
| Telephone | 21,743 | 25,249 | - | 46,992 |
| Repairs and maintenance | 111,994 | 159,710 | 17,998 | 289,702 |
| Transportation | 120,599 | - | - | 120,599 |
| Occupancy | 532,298 | 23,901 | 11,717 | 567,916 |
| Conferences and travel | 93,530 | 31,886 | - | 125,416 |
| Depreciation | 330,567 | 67,707 | 9,462 | 407,736 |
| Interest/lease | 4,865 | 18,937 | - | 23,802 |
| Capital campaign | - | - | 153,598 | 153,598 |
| Other | 8,583 | 3,801 | 66 | 12,450 |
| Total expenses | \$ 51,800,308 | \$ 2,021,333 | \$ 1,903,005 | \$ 55,724,646 |

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 | \$ 46,986,771 | \$ 1,784,376 | \$ 1,449,657 | \$ 50,220,804 |

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2024 and 2023

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, U.S. treasuries 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, 2024 and 2023 for capital expenditures and reserves. In addition, a donor provided \$15,000 and \$0 as of June 30, 2024 and 2023, for the capital campaign. These funds are classified as long-term assets on the statements of financial position at June 30, 2024 and 2023.

Investments

Investments held for endowment consist of common stocks, mutual funds and money market funds. Short-term investments consist of U.S. treasury bills and notes with a maturity of greater than three months from the date of purchase. 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. U.S. treasury bills and notes are valued based on the actively traded market given the high level of daily trading volume.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

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.

Accounts Receivable

Accounts Receivable, June 30, 2023

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.

Accounts Receivable, After July 1, 2023

The Organization recognizes an allowance for credit losses for its receivables arising from reciprocal transactions to present the net amount expected to be collected as of the statements of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events. The Organization pools these receivables based on similar risk characteristics in estimating expected credit losses. In situations where a receivable does not share the same risk characteristics with other receivables, the Organization measures those receivables individually. As of June 30, 2024, the Organization did not individually assess any accounts receivable. Receivables are written off when the Organization determines that such receivables are deemed uncollectible.

The Organization utilizes the loss rate method in determining its lifetime expected credit losses on accounts receivable. In determining its loss rates, the Organization evaluates information related to its historical losses, adjusted for current conditions and further adjusted for the period of time that can be reasonably forecasted. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period consider all the following: past due receivables, payor type, customer creditworthiness and the effect of other external forces, such as economic conditions and legal and regulatory requirements, on the level of estimated credit losses in the existing receivables. No allowance for credit losses was considered necessary as of June 30, 2024.

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, 2024 and 2023.

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, 2024 and 2023, as management considers all amounts fully collectible.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

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 at June 30:

| | 2024 | 2023 |
|--|-------------------------|-----------------------|
| Inventory, donated | \$ 1,061,934 | \$ 535,448 |
| Inventory, purchased | 456,618 | 391,655 |
| Inventory, purchased government grants | <u>17,797</u> | <u>16,509</u> |
| Total | <u>\$ 1,536,349</u> | <u>\$ 943,612</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 \$5,000.

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, 2024 and 2023.

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, 2024 and 2023, there were no interest or penalties recorded or included in the financial statements.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

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 \$382,031 and \$394,149 of conditional contributions and grants received and included in refundable advances at June 30, 2024 and 2023, respectively.

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 \$279,729, \$209,667 and \$65,039 as of June 30, 2024, 2023, and 2022, respectively, and are 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 \$69,400, \$83,393, \$55,376 as of June 30, 2024, 2023, and 2022, respectively, and presented as deferred revenue on the statements of financial position. No revenue was recorded in 2024 and 2023 related to performance obligations met in prior fiscal years.

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.

Reclassification

For comparability, certain 2023 amounts have been reclassified to conform with classifications adopted in 2024. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

June 30, 2024 and 2023

Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. For financial instruments included in the scope, the CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces the multiple existing impairment methods in current accounting principles generally accepted in the United States of America, which generally require that a loss be incurred before it is recognized. On July 1, 2023, the Organization adopted the ASU using the modified retrospective approach. The adoption of ASU 2016-13 had no impact on the financial statements except for expanded disclosures.

2. Grants and Pledges Receivable

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

| | 2024 | 2023 |
|--------------------|-------------------|---------------------|
| Less than one year | \$ 856,082 | \$ 1,599,288 |
| One to five years | 15,000 | 10,000 |
| Total | \$ 871,082 | \$ 1,609,288 |

3. Property and Equipment, Net

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

| | 2024 | 2023 |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 2,858,118 | \$ 505,427 |
| Buildings improvements | 1,543,672 | 1,527,534 |
| Building | 3,835,366 | 3,835,366 |
| Furniture, fixtures and equipment | 1,707,314 | 1,671,875 |
| Vehicles | 1,066,554 | 754,587 |
| Construction in progress | 491,679 | 146,775 |
| | 11,502,703 | 8,441,564 |
| Less accumulated depreciation | (3,972,652) | (3,568,291) |
| Total | \$ 7,530,051 | \$ 4,873,273 |

Depreciation expense was \$407,736 and \$382,151 for the years ended June 30, 2024 and 2023, respectively.

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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.

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:

| | 2024 | | | |
|--|--------------|---------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investments held for endowment and short-term investments: | | | | |
| Domestic common stocks and equity funds | \$ 1,431,115 | \$ - | \$ - | \$ 1,431,115 |
| Foreign common stocks and equity funds | 355,863 | - | - | 355,863 |
| U.S. Treasury notes and bills | 4,827,487 | - | - | 4,827,487 |
| Domestic fixed income funds | 337,340 | - | - | 337,340 |
| Total assets measured at fair value | \$ 6,951,805 | \$ - | \$ - | \$ 6,951,805 |
| Money market funds | | | | 257,765 |
| Total assets at fair value | | | | \$ 7,209,570 |

Second Harvest Foodbank of Southern Wisconsin, Inc.

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| | 2023 | | | |
|---|----------------------------|--------------------|--------------------|----------------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investments held for endowment: | | | | |
| 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 | <u>326,401</u> | <u>-</u> | <u>-</u> | <u>326,401</u> |
| Total assets measured at fair value | <u><u>\$ 1,951,349</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>1,951,349</u></u> |
| Money market funds | | | | 91,790 |
| Total investments held for endowment | | | | <u><u>\$ 2,043,139</u></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, 2024 and 2023. 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:

| | 2024 | 2023 |
|-----------------------------------|--------------------------|--------------------------|
| Interest and dividends | \$ 568,471 | \$ 331,792 |
| Net realized and unrealized gains | 307,580 | 186,875 |
| Expenses | <u>(25,859)</u> | <u>(16,292)</u> |
| Total | <u><u>\$ 850,192</u></u> | <u><u>\$ 502,375</u></u> |

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

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5. Net Assets

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

| | 2024 | 2023 |
|-------------------------------|-------------------------|-------------------------|
| Time or purpose restrictions: | | |
| Kids café fund | \$ 378,988 | \$ 460,241 |
| Mobile pantry | 431,093 | 729,516 |
| Foodshare outreach | 68,878 | 57,912 |
| Share your holidays | 90,000 | 135,000 |
| School pantries | 789,554 | 879,835 |
| Capital campaign | 15,000 | - |
| Endowment fund earnings | 10,694 | (1,608) |
| Pandemic relief | - | 400,000 |
| Other | 214,138 | 279,284 |
| Held in perpetuity | 186,671 | 186,671 |
| Total | <u>\$ 2,185,016</u> | <u>\$ 3,126,851</u> |

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

| | 2024 | 2023 |
|-----------------------------------|--------------------------|--------------------------|
| Endowment fund | \$ 2,184,718 | \$ 1,858,076 |
| Capital expenditures and reserves | 500,000 | 500,000 |
| Operating reserve | 8,010,000 | 10,569,344 |
| Total | <u>\$ 10,694,718</u> | <u>\$ 12,927,420</u> |

6. Endowment

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

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

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

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

The following table shows the composition of endowment net assets by donor restriction as June 30, 2024 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 | \$ - | \$ 10,694 | \$ 186,671 | \$ 197,365 | |
| Board designated endowment funds | <u>2,184,718</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,184,718</u> |
| Total endowment funds | <u>\$ 2,184,718</u> | <u>\$ 10,694</u> | <u>\$ 186,671</u> | <u>\$ 2,382,083</u> | |

The endowment related activities for the year ended June 30, 2024, were as follows:

| | Without Donor Restrictions | With Donor Restrictions | | | Total |
|-------------------------------------|---|--|--------------------------------|----------------------------|----------------|
| | | Available for Appropriation | Perpetual in Nature | | |
| Beginning balance | \$ 1,858,076 | \$ (1,608) | \$ 186,671 | \$ 2,043,139 | |
| Contributions | 85,204 | - | - | - | 85,204 |
| Net investment income | 241,438 | 21,824 | - | - | 263,262 |
| Amount appropriated for expenditure | <u>-</u> | <u>(9,522)</u> | <u>-</u> | <u>-</u> | <u>(9,522)</u> |
| Ending balance | <u>\$ 2,184,718</u> | <u>\$ 10,694</u> | <u>\$ 186,671</u> | <u>\$ 2,382,083</u> | |

The following table shows the composition of endowment net assets by donor restriction as of 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 | <u>1,858,076</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,858,076</u> |
| Total endowment funds | <u>\$ 1,858,076</u> | <u>\$ (1,608)</u> | <u>\$ 186,671</u> | <u>\$ 2,043,139</u> | |

Second Harvest Foodbank of Southern Wisconsin, Inc.

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June 30, 2024 and 2023

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 distribution | - | (6,598) | - | | (6,598) |
| Ending balance | <u>\$ 1,858,076</u> | <u>\$ (1,608)</u> | <u>\$ 186,671</u> | <u>\$ 2,043,139</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 \$0 and \$1,608 as of June 30, 2024 and 2023, respectively. There was one fund with a deficiency as of June 30, 2023 with total gifts that are perpetual in nature of \$186,671. These deficiencies resulted from unfavorable market fluctuations. Subsequent gains in fiscal year 2024 restored the fair value of the assets of the endowment fund to the required level and is 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, 2024 and 2023, 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 2024 and 2023 was \$1.97 and \$1.93, 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.

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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 \$193,146 and \$186,262 for the years ended June 30, 2024 and 2023, respectively.

9. Concentrations

The Organization receives food donations from retail stores, wholesalers and producers. One national retailer accounted for 23% of donated food in 2024 and 22% in 2023.

The Organization receives grants from government entities. Two grantors accounted for 100% and 98% of grant revenue in 2024 and 2023, respectively, and 74% and 27% of grants receivable as of June 30, 2024 and 2023, respectively.

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.

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 escalate over the term of the leases.

In addition, 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 also 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.

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.

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.

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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 following are accounting policy elections related to leases:

- 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.

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:

| | 2024 | 2023 |
|-------------------------------------|--------------------------|--------------------------|
| Operating lease right-of-use assets | <u><u>\$ 229,794</u></u> | <u><u>\$ 396,094</u></u> |
| Operating lease liabilities: | | |
| Current | <u><u>\$ 159,545</u></u> | <u><u>\$ 137,926</u></u> |
| Long-term | <u><u>223,121</u></u> | <u><u>352,995</u></u> |
| Total operating lease liabilities | <u><u>\$ 382,666</u></u> | <u><u>\$ 490,921</u></u> |

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

| | 2024 | 2023 |
|-----------------------------------|--------------------------|--------------------------|
| Finance lease right-of-use assets | <u><u>\$ 380,837</u></u> | <u><u>\$ 451,213</u></u> |
| Finance lease liabilities: | | |
| Current | <u><u>\$ 73,228</u></u> | <u><u>\$ 112,000</u></u> |
| Long-term | <u><u>182,012</u></u> | <u><u>256,131</u></u> |
| Total finance lease liabilities | <u><u>\$ 255,240</u></u> | <u><u>\$ 368,131</u></u> |

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The operating lease expense incurred during the years ending June 30, 2024 and 2023 was \$155,619 and \$134,396, respectively. The amortization of the finance lease right-of-use assets totaled \$70,376 and \$98,113 for the years ending June 30, 2024 and 2023, respectively.

The following table presents supplemental information related to leases:

| | 2024 | 2023 |
|---|-------|-------|
| Weighted average remaining lease term (in years): | | |
| Operating leases | 2.42 | 4.59 |
| Finance leases | 4.08 | 3.39 |
| | | |
| | 2024 | 2023 |
| Weighted average discount rate: | | |
| Operating leases | 3.47% | 3.25% |
| Finance leases | 3.48% | 3.47% |

The table below summarizes the Organization's scheduled future minimum lease payments for years ending after June 30, 2024.

| | Operating | Finance | Total |
|-----------------------------|-------------------|-------------------|-------------------|
| Years ending June 30: | | | |
| 2025 | \$ 170,393 | \$ 73,291 | \$ 243,684 |
| 2026 | 157,183 | 60,386 | 217,569 |
| 2027 | 68,383 | 60,386 | 128,769 |
| 2028 | - | 60,386 | 60,386 |
| 2029 | - | 18,654 | 18,654 |
| Total lease payments | 395,959 | 273,103 | 669,062 |
| Less present value discount | <u>(13,293)</u> | <u>(17,863)</u> | <u>(31,156)</u> |
| Total lease liabilities | 382,666 | 255,240 | 637,906 |
| Less current portion | <u>(159,545)</u> | <u>(73,228)</u> | <u>(232,773)</u> |
| Long-term lease liabilities | <u>\$ 223,121</u> | <u>\$ 182,012</u> | <u>\$ 405,133</u> |

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

| | 2024 | 2023 |
|---|-------------------|-------------------|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 152,345 | \$ 132,654 |
| Operating cash flows from finance leases | <u>\$ 10,120</u> | <u>\$ 8,315</u> |
| Financing cash flows from finance leases | <u>\$ 112,891</u> | <u>\$ 102,178</u> |

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11. 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.

12. 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:

| | 2024 | 2023 |
|--|-------------------------|--------------------------|
| Cash and cash equivalents | \$ 3,688,112 | \$ 15,085,640 |
| Short-term investments | 4,827,487 | - |
| Accounts receivable | 532,010 | 211,773 |
| Grant and pledge receivables, current portion | 856,082 | 1,599,288 |
| Other receivables | <u>16,739</u> | <u>21,474</u> |
| Total current financial assets | 9,920,430 | 16,918,175 |
| 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>(1,972,651)</u> | <u>(2,930,180)</u> |
| Total financial assets available to meet cash needs within one year | <u>\$ 7,947,779</u> | <u>\$ 13,987,995</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, 2024 and 2023, the Organization had designated \$8,010,000 and \$10,569,344, 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 \$2,382,083 and \$2,043,139 as of June 30, 2024 and 2023, 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, 2024 and 2023. This Board designated fund can be used cover costs of major capital expenditures as necessary.

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13. 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.

In March 2024, the Organization received a letter from Dane County (County) stating that if the Organization completes construction of a facility, the County would purchase a portion of it for \$4,000,000 and lease back to the Organization for a nominal fee. Construction has not yet begun as of the audit report date on the facility.

14. Litigation

The Organization is subject to possible legal actions in the normal course of business. Although litigation is subject to many uncertainties and the ultimate exposure cannot be ascertained, management does not believe the final outcome of any actions will have a material adverse effect on the financial position or results of operations of the Organization.

15. Subsequent Events

Management has evaluated subsequent events through November 15, 2024, the date which the financial statements were available to be issued.