



Second Harvest Foodbank of Southern Wisconsin, Inc.

Financial Statements
(and Supplementary Information)
Years Ended June 30, 2018 and 2017

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

Financial Statements
(and Supplementary Information)
Years Ended June 30, 2018 and 2017

Second Harvest Foodbank of Southern Wisconsin, Inc.

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Tel: 608-836-7500
Fax: 608-836-7505
www.bdo.com

8383 Greenway Blvd., Suite 500
Middleton, WI 53562

Independent Auditor's Report

Board of Directors
Second Harvest Foodbank of Southern
Wisconsin, Inc.
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Foodbank of Southern Wisconsin, Inc. (a Wisconsin non-profit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Second Harvest Foodbank of Southern Wisconsin, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis as required by the *Department of Health Services Audit Guide*, issued by the State of Wisconsin Department of Health Services, and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2019, on our consideration of Second Harvest Foodbank of Southern Wisconsin, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Second Harvest Foodbank of Southern Wisconsin, Inc.'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 Second Harvest Foodbank of Southern Wisconsin, Inc.'s internal control over financial reporting and compliance.



Other Matter - Prior Period Financial Statements

The financial statements of Second Harvest Foodbank of Southern Wisconsin, Inc. as of June 30, 2017, were audited by Smith & Gesteland, LLP ("S&G"), whose partners and professional staff joined BDO USA, LLP as of July 1, 2018, and has subsequently ceased operations. S&G expressed an unmodified opinion on those statements in their report dated November 10, 2017.

BDO USA, LLP

February 19, 2019

Financial Statements

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

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,664,444	\$ 2,646,235
Accounts receivable	146,318	99,365
Grants and pledges receivable, current portion	404,858	531,420
Other receivables	45,448	30,695
Inventory	1,433,668	1,468,501
Prepaid expenses	53,170	69,041
Total Current Assets	5,747,906	4,845,257
Fixed Assets		
Land	500,402	500,402
Building improvements	1,170,132	1,080,687
Building	3,835,366	3,835,366
Furniture, fixtures, and equipment	1,472,451	1,307,478
Vehicles	524,993	567,135
	7,503,344	7,291,068
Less: accumulated depreciation	2,322,352	2,040,769
Net Fixed Assets	5,180,992	5,250,299
Other Assets		
Investments held for endowment	474,989	452,890
Grants and pledges receivable, long-term	205,120	445,460
Lease acquisition costs, net of accumulated amortization	16,692	20,206
Assets restricted for long-term purposes		
Cash designated for capital expansion	431,785	500,000
Total Other Assets	1,128,586	1,418,556
Total Assets	\$ 12,057,484	\$ 11,514,112

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

Statements of Financial Position

<i>June 30,</i>	2018	2017
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 37,971	\$ 102,818
Accrued payroll and payroll taxes	154,990	135,949
Other liabilities	28,671	74,582
Capital lease obligation - current portion	21,841	-
Total Current Liabilities	243,473	313,349
Long Term Liabilities		
Capital lease obligation - net of current portion	72,899	-
Total Liabilities	316,372	313,349
Net Assets		
Unrestricted	10,080,891	9,682,429
Unrestricted - board designated	755,120	793,172
Total Unrestricted Net Assets	10,836,011	10,475,601
Temporarily Restricted	758,584	578,645
Permanently Restricted	146,517	146,517
Total Net Assets	11,741,112	11,200,763
Total Liabilities and Net Assets	\$ 12,057,484	\$ 11,514,112

See accompanying notes to financial statements.

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

Statements of Activities

<i>Year ended June 30,</i>	2018	2017
Changes in Unrestricted Net Assets		
Revenues and Other Support		
Contributions	\$ 4,198,083	\$ 4,041,816
Donated food	26,546,886	26,507,771
United Way	226,879	236,247
Food maintenance fees	1,564,341	1,347,703
Special events	77,910	62,265
Interest and dividends	22,088	16,180
Unrealized gain (loss) on investments	(12,241)	38,556
Realized gain on investments	22,858	1,556
Rental income	63,223	61,642
Gain (loss) on disposal of fixed assets	5,535	(25,652)
Total Unrestricted Revenues and Other Support	32,715,562	32,288,084
Net Assets Released from Restrictions		
Satisfaction of program restrictions	1,158,576	2,995,159
Total Unrestricted Revenues and Other Support and Net Assets Released from Restrictions	33,874,138	35,283,243
Expenses		
Program services	31,683,378	31,188,638
Management and general	663,042	707,996
Fundraising	1,167,308	1,193,505
Total Expenses	33,513,728	33,090,139
Change in Unrestricted Net Assets	360,410	2,193,104
Change in Temporarily Restricted Net Assets		
Contributions	1,334,515	889,002
Capital campaign contributions	4,000	1,763,036
Net assets released from restrictions	(1,158,576)	(2,995,159)
Change in Temporarily Restricted Net Assets	179,939	(343,121)
Change in Net Assets	540,349	1,849,983
Net Assets - Beginning of Year	11,200,763	9,350,780
Net Assets - End of Year	\$ 11,741,112	\$ 11,200,763

See accompanying notes to financial statements.

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

Statement of Functional Expenses

<i>Year ended June 30, 2018</i>	Program Services	Management and General	Fundraising	Total
Food expenses	\$ 28,063,744	\$ -	\$ -	\$ 28,063,744
Grant expense	360,045	-	-	360,045
Salaries and wages	1,581,216	234,461	421,402	2,237,079
Employee benefits	432,577	67,976	117,414	617,967
Payroll taxes	117,473	18,460	31,885	167,818
Truck expense	254,108	-	-	254,108
Insurance	17,497	80,143	9,230	106,870
Professional services	72,375	40,860	341,103	454,338
Office supplies and equipment	111,020	23,221	1,602	135,843
Postage and shipping	2,500	1,588	137,694	141,782
Printing expense	6,619	9,988	8,660	25,267
Ads, dues, and subscriptions	22,453	31,673	12,641	66,767
Bank charges	-	10,469	36,786	47,255
Telephone	11,407	26,215	798	38,420
Repairs and maintenance	91,220	45,803	24,725	161,748
Travel	54,389	5,152	73	59,614
Occupancy expense	162,087	25,533	10,694	198,314
Conference expense	14,295	15,342	96	29,733
Depreciation	305,600	21,198	12,315	339,113
Other expense	2,753	4,960	190	7,903
Total Functional Expenses	\$ 31,683,378	\$ 663,042	\$ 1,167,308	\$ 33,513,728

See accompanying notes to financial statements.

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

Statement of Functional Expenses

<i>Year ended June 30, 2017</i>	Program Services	Management and General	Fundraising	Total
Food expenses	\$27,725,747	\$ -	\$ -	\$27,725,747
Grant expense	297,779	-	-	297,779
Salaries and wages	1,539,795	266,129	424,340	2,230,264
Employee benefits	461,837	80,319	127,172	669,328
Payroll taxes	118,333	20,580	32,584	171,497
Truck expense	231,014	-	-	231,014
Insurance	71,904	17,565	8,049	97,518
Professional services	53,316	53,965	316,885	424,166
Office supplies and equipment	86,462	34,187	-	120,649
Postage and shipping	3,297	1,321	147,463	152,081
Printing expense	1,376	8,164	8,868	18,408
Ads, dues, and subscriptions	22,417	33,779	14,506	70,702
Bank charges	-	11,208	34,533	45,741
Telephone	9,879	26,377	-	36,256
Repairs and maintenance	59,748	73,508	1,393	134,649
Travel	42,986	4,318	113	47,417
Occupancy expense	184,112	25,046	11,031	220,189
Conference expense	8,006	17,653	40	25,699
Depreciation	268,382	17,142	8,974	294,498
Capital campaign expenses	-	10,542	57,480	68,022
Other expense	2,248	6,193	74	8,515
Total Functional Expenses	\$ 31,188,638	\$ 707,996	\$ 1,193,505	\$ 33,090,139

See accompanying notes to financial statements.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows

<i>Year ended June 30,</i>	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 540,349	\$ 1,849,983
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	339,113	294,498
Amortization	3,514	3,514
(Gain) loss on disposal of fixed assets	(5,535)	25,652
Interest and dividends reinvested, net of investment expenses	4,560	(6,680)
Realized and unrealized gains on investments	(10,617)	(40,112)
Changes in assets and liabilities:		
Accounts receivable	(46,953)	49,175
Grants and pledges receivable	366,902	(677,094)
Other receivables	(14,753)	3,582
Inventory	34,833	(114,540)
Prepaid expenses	15,871	(720)
Pledges receivable for capital expansion	-	159,400
Accounts payable	(64,847)	(117,401)
Accrued payroll and payroll taxes	19,041	26,017
Other liabilities	(45,911)	(5,854)
Net cash provided by operating activities	1,135,567	1,449,420
Cash Flows from Investing Activities		
Purchases of fixed assets	(158,863)	(1,759,365)
Purchases of investments	(16,042)	(294,762)
Proceeds from sale of investments	-	146,331
Proceeds from sale of fixed assets	5,535	16,650
Decrease in cash restricted for capital expansion	-	107,794
Decrease in cash restricted for endowment	-	146,517
(Increase) decrease in cash designated for capital expansion	68,215	(500,000)
Net cash used in investing activities	(101,155)	(2,136,835)
Cash Flows from Financing Activities		
Payments on capital lease obligation	(16,203)	-
Net cash used in financing activities	(16,203)	-
Net Change in Cash and Cash Equivalents	1,018,209	(687,415)
Cash and Cash Equivalents - Beginning of Year	2,646,235	3,333,650
Cash and Cash Equivalents - End of Year	\$ 3,664,444	\$ 2,646,235
Supplemental Disclosure of Noncash Investing and Financing Activities		
Construction in progress in accounts payable	\$ -	\$ 64,217
Fixed assets acquired through capital lease	110,943	-

See accompanying notes to financial statements.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

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

Second Harvest Foodbank of Southern Wisconsin ("SHF" or 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. SHF, a certified affiliate of the Feeding America network, 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.

A summary of the significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

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 and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to the three classes of net assets:

Unrestricted Net Assets - Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

Temporarily Restricted Net Assets - Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently Restricted Net Assets - Net assets that have been restricted by the donors to be maintained by the Organization in perpetuity.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all money market accounts and certificates of deposit to be cash equivalents.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

Investments

Investments consist of common stock, mutual funds, and money market funds. Investments are carried at fair value, with realized and unrealized gains and losses reflected in the statements of activities. Common stocks are valued at the daily closing price reported by the exchange on which the securities are traded. Mutual funds are valued at the daily closing price as reported by the fund. 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 a stable \$1.00 net asset value per share.

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.

Receivables and Allowance for Bad Debts

Accounts, grants, and pledges receivable are stated at face value, net of the allowance for bad debts. Multi-year pledges receivable are discounted to net present value if the discount is material. The Organization has determined that any discount associated with multi-year pledges receivable is immaterial to the financial statements taken as a whole at June 30, 2018 and 2017.

The allowance for bad debts is maintained at a level that is management's best estimate of probable bad debts incurred as of the statement of financial position date. Management's determination of the adequacy of the allowance is based on an evaluation of the receivables, past collection experience, current economic conditions, volume, growth, and composition of the receivables, and other relevant factors. Receivables are charged off to expense when the individual balances are determined to be uncollectible. No allowance for bad debts has been made at June 30, 2018 and 2017, as management considers all accounts fully collectible.

Inventory

Donated inventory items are valued at the approximate average wholesale cost as determined by an annual study done by Feeding America. Purchased inventory is valued at cost. Inventory consisted of the following at June 30:

	2018	2017
Inventory - Donated	\$ 1,335,050	\$ 1,310,006
Inventory - Purchased	98,618	158,495
Total	\$ 1,433,668	\$ 1,468,501

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

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 unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. 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, 2018 and 2017.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Income Taxes

Second Harvest Foodbank of Southern Wisconsin, Inc. is an exempt charity under Section 501(c)(3) of the Internal Revenue Code and therefore not subject to federal or state income tax. The Organization is subject to income tax regulations in the United States federal jurisdiction. Tax regulations are subject to the interpretation of the related tax laws within the jurisdiction and require significant judgment to apply.

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.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense was \$22,245 and \$24,727 for the years ended June 30, 2018 and 2017, respectively.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

Functional Classification of Expenses

The cost of providing the Organization's programs and other activities has been summarized on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited, based upon predetermined allocation rates. 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.

2. Grants and Pledges Receivable

Grants and pledges receivable, including pledges receivable for capital expansion, are due as follows at June 30:

	2018	2017
Amounts Due In		
Less than one year	\$ 404,858	\$ 531,420
One to five years	205,120	445,460
Total	\$ 609,978	\$ 976,880

The Organization has determined that any discount associated with grants and pledges receivable due in one to five years is immaterial to the financial statements taken as a whole.

3. Fair Value Measurements and Investments

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

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

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

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

- Level Two: 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 Three: 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, 2018 and 2017:

<i>2018</i>	Fair Value Measurements Using Input Type			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 11,414	\$ -	\$ -	\$ 11,414
Domestic common stocks	126,892	-	-	126,892
Foreign common stocks	4,687	-	-	4,687
Domestic equity funds	57,060	-	-	57,060
Foreign equity funds	140,638	-	-	140,638
Domestic fixed income funds	134,298	-	-	134,298
Total	\$ 474,989	\$ -	\$ -	\$ 474,989

<i>2017</i>	Fair Value Measurements Using Input Type			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 6,149	\$ -	\$ -	\$ 6,149
Domestic common stocks	125,686	-	-	125,686
Foreign common stocks	7,104	-	-	7,104
Domestic equity funds	71,514	-	-	71,514
Foreign equity funds	115,817	-	-	115,817
Domestic fixed income funds	126,620	-	-	126,620
Total	\$ 452,890	\$ -	\$ -	\$ 452,890

The Organization's valuation methodologies used to measure fair values of its investments are described in Note 1. There have been no changes in the methodologies used at June 30, 2018 and 2017. 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.

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

Notes to Financial Statements

4. Net Assets

Temporarily restricted net assets were available as of June 30 for the following purposes:

	2018	2017
Golf Outing	\$ 176,670	\$ 182,503
Kids Café Fund	165,741	104,453
Mobile Pantry	105,110	60,000
FoodShare Outreach	40,253	2,888
Share Your Holidays	91,000	70,500
School Pantries	52,000	-
Go Orange Day	12,000	20,000
Million Pound Challenge	-	58,289
HungerCare Coalition	-	32,561
Diabetes Wellness Program	23,410	32,250
Walmart Infrastructure Grant	24,763	-
Adopt-a-Cow	-	2,000
Endowment Fund	5,137	13,201
Backup Generator	61,000	-
Agency Payments	1,500	-
Total	\$ 758,584	\$ 578,645

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

Notes to Financial Statements

Net assets were released from donor restrictions in 2018 and 2017, by incurring expense satisfying the restricted purposes specified by the donors as follows:

	2018	2017
Golf Outing	\$ 182,504	\$ 168,140
Kids Café Fund	107,637	91,455
Mobile Pantry	265,332	208,446
FoodShare Outreach	298,350	209,153
Share Your Holidays	70,500	48,500
School Pantries	-	1,273
Million Pound Challenge	58,289	100,000
HungerCare Coalition	59,811	148,092
Go Orange Day	20,000	5,000
Diabetes Wellness Program	86,089	41,664
Share Our Strength	-	3,000
Walmart Infrastructure Grant	-	25,000
Google MealConnect Grant	-	3,000
Costco Grant	-	20,000
Adopt a Cow	2,000	-
Endowment Fund	8,064	-
Capital Expansion	-	1,922,436
Total	\$ 1,158,576	\$ 2,995,159

Net assets were board designated as of June 30 for the following purposes:

	2018	2017
Endowment fund	\$ 323,335	\$ 293,172
Capital expansion	431,785	500,000
Total	\$ 755,120	\$ 793,172

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

5. Endowment

The Organization's endowment consists of a fund established by the Board of Directors to serve as a permanent capital base, through acceptance of donor-restricted endowment gifts, in support of the Organization's mission to end hunger in southwestern Wisconsin through community partnerships. The balance includes funds designated by the Board of Directors to function as an endowment and donor restricted contributions for endowment. As required by generally accepted accounting principles, 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent 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 permanently-restricted net assets is classified as temporarily-restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence described by UPMIFA.

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

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

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Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

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

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 5,137	\$ 146,517	\$ 151,654
Board-designated endowment funds	323,335	-	-	323,335
Total Endowment Funds	\$ 323,335	\$ 5,137	\$ 146,517	\$ 474,989

The endowment related activities for the year ended June 30, 2018, were as follows:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Beginning balance	\$ 293,172	\$ 13,201	\$ 146,517	\$ 452,890
Net investment income	14,121	7,978	-	22,099
Appropriation of earnings	16,042	(16,042)	-	-
Ending Balance	\$ 323,335	\$ 5,137	\$ 146,517	\$ 474,989

The following table shows the composition of endowment net assets by restriction as of June 30, 2017, for those endowments under the control of the Organization:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 13,201	\$ 146,517	\$ 159,718
Board-designated endowment funds	293,172	-	-	293,172
Total Endowment Funds	\$ 293,172	\$ 13,201	\$ 146,517	\$ 452,890

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Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

The endowment related activities for the year ended June 30, 2017, were as follows:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Beginning balance	\$ 257,667	\$ -	\$ 146,517	\$ 404,184
Net investment income	35,505	13,201	-	48,706
Ending Balance	\$ 293,172	\$ 13,201	\$ 146,517	\$ 452,890

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Directors. In accordance with generally accepted accounting principles, deficiencies of this nature would be reported as unrestricted net assets. There were no such deficiencies as of June 30, 2018 and 2017.

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

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

At least annually, the board of directors determines the amount available for distribution.

6. Contributed Services

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

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's program. 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.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

7. Retirement Plan

The Organization has a profit-sharing plan covering all full-time employees over the age of 21 and having at least six months of service. The Organization matches 100% of employee contributions up to a total of 5% of a participant's compensation. Benefits paid under this plan totaled \$93,791 and \$90,643 for the years ended June 30, 2018 and 2017, respectively.

8. Major Donor

The Organization receives food donations from retail stores, wholesalers, and producers. One national retailer accounted for 31% of donated food in 2018 and 30% in 2017.

9. Operating Leases

The Organization entered into a seven-year lease agreement for a new semi-tractor commencing on August 3, 2016. The lease requires fixed monthly payments of \$1,950 plus additional mileage charges. The lease is cancellable after one, three, and five years. Fixed monthly rental payments totaling \$23,400 related to this lease are included in Truck Expense for the year ended June 30, 2018.

Future minimum payments under this lease are as follows:

<i>Years ending June 30,</i>	
2019	\$ 23,400
2020	23,400
2021	23,400
2022	23,400
2023	23,400
Thereafter	1,950
Total	\$ 118,950

The Organization is the lessor of office space under two operating leases. The Organization has a lease agreement with one tenant commencing on April 1, 2016 and ending on March 30, 2023. Monthly lease payments are \$4,624. The lease contains an annual rent escalation provision whereby monthly payments increase by 3%. Rental income related to this lease was \$54,277 and \$52,696 for the years ended June 30, 2018 and 2017, respectively.

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

Notes to Financial Statements

Future minimum payments to be received under this lease are as follows:

<i>Years ending June 30,</i>	
2019	\$ 55,905
2020	57,582
2021	59,310
2022	61,089
2023	46,840
<hr/>	
Total	\$ 280,726

The Organization also rents office space to another tenant under a month-to-month operating lease that began on November 1, 2015. Monthly payments are \$746. Rental income related to this lease was \$8,946 for the years ended June 30, 2018 and 2017.

10. Capital Lease Obligation

The Organization leases a semi-tractor under a 5-year capital lease that commenced in September 2017 and expires in September 2022. The lease requires fixed monthly payments of \$1,908 plus additional mileage charges. The economic substance of this lease is that the Organization is financing the acquisition of the semi-truck through the lease and, accordingly, it is recorded in the Organization's assets and liabilities. The cost of the asset under the lease was \$110,943 and the accumulated depreciation was \$16,641 at June 30, 2018.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of June 30, 2018:

<i>Years ending June 30,</i>	
2019	\$ 22,901
2020	22,901
2021	22,901
2022	22,901
2023	5,725
<hr/>	
Total minimum payments	97,329
Less: amount representing interest	2,589
<hr/>	
Present Value of Net Minimum Lease Payments	\$ 94,740

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements

11. Lease Acquisition Costs

The Organization incurred certain costs in obtaining a tenant operating lease described in Note 9. Gross capitalized lease acquisition fees of \$24,599 are being amortized on a straight-line basis over 84 months, which is the term of the related lease. Amortization expense was \$3,514 for the years ended June 30, 2018 and 2017.

Future amortization of lease acquisition costs are as follows:

<i>Years ending June 30,</i>	
2019	\$ 3,514
2020	3,514
2021	3,514
2022	3,514
2023	2,636
Total	\$ 16,692

12. Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization places its cash and temporary cash investments with high credit quality financial institutions. At times such balances may be in excess of the FDIC insurance limit. Investments held at investment companies are not insured and are subject to market risk (see Note 1).

13. Subsequent Events

Management has evaluated subsequent events through February 19, 2019, the date which the financial statements were available to be issued.

Supplementary Information

Second Harvest Foodbank of Southern Wisconsin, Inc.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Provided To Sub- Recipients	Total Federal Expenditures
Federal Awards				
U.S. Department of Agriculture				
Food and Nutrition Service				
Pass-through from State of Wisconsin				
Department of Health Services:				
Supplemental Nutrition Assistance Program	10.561	445404	\$ -	\$ 34,049
Pass-through from Feeding Wisconsin, Inc.:				
Supplemental Nutrition Assistance Program	10.561	Not Available	-	113,336
Total U.S. Department of Agriculture			-	147,385
Total Expenditures of Federal Awards			\$ -	\$ 147,385

The accompanying notes are an integral part of this schedule.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Second Harvest Foodbank of Southern Wisconsin, Inc., under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the *Department of Health Services Audit Guide*, issued by the State of Wisconsin Department of Health Services. Because the Schedule presents only a selected portion of the operations of Second Harvest Foodbank of Southern Wisconsin, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Second Harvest Foodbank of Southern Wisconsin, Inc.

2. Federal Expenditures

Expenditures consist of direct costs. Direct costs are those that can be directly identified with an individual federal award.

3. Contingency

All federal awards are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement by the grantor agency for costs disallowed under the terms of the award. It is the opinion of management that all costs charged against federal awards are allowable under the regulations of those programs.

4. Local Matching Expenditures

During the administration of the federal program, Second Harvest Foodbank of Southern Wisconsin, Inc. incurred costs which were not reimbursed by the granting agency. The local matching expenditures incurred by Second Harvest Foodbank of Southern Wisconsin, Inc. during the year ended June 30, 2018, are as follows:

Program Title	Federal Expenditures	Local Matching Expenditures	Total Expenditures
Supplemental Nutrition Assistance Program	\$ 147,385	\$ 147,385	\$ 294,770

5. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Department of Health Services Audit Guide*, issued by the State of Wisconsin Department of Health Services, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



Tel: 608-836-7500
Fax: 608-836-7505
www.bdo.com

8383 Greenway Blvd., Suite 500
Middleton, WI 53562

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and the *Department of Health Services and Audit Guide*

Board of Directors
Second Harvest Foodbank of Southern Wisconsin, Inc.
Madison, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Department of Health Services Audit Guide*, issued by the State of Wisconsin Department of Health Services, the financial statements of Second Harvest Foodbank of Southern Wisconsin, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Foodbank of Southern Wisconsin, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Foodbank of Southern Wisconsin, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Foodbank of Southern Wisconsin, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Foodbank of Southern Wisconsin, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the *Department of Health Services Audit Guide*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *Department of Health Services Audit Guide* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

February 19, 2019

Second Harvest Foodbank of Southern Wisconsin, Inc.

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

I. Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal program:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Any audit findings disclosed that are required to be reported in accordance with the <i>Department Health Services Audit Guide</i> ?	No

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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10.561	Supplemental Nutrition Assistance Program
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Dollar threshold used to determine audit requirement in accordance with the <i>Department of Health Services Audit Guide</i> , issued by the State of Wisconsin Department of Health Services	\$25,000
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II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

None

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

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

IV. Other Issues

Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? No

Does the audit report show audit issues (i.e., material noncompliance, non-material noncompliance, questioned costs, material weakness, reportable condition, management letter comment) related to grants/contracts with funding agencies that require audits to be in accordance with the *Department of Health Services Audit Guide*? No

Was a management letter or other document conveying audit comments issued as a result of this audit? No

Signature of Partner in Charge:

Kent Bayartus

Date of report: February 19, 2019