

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

Financial Statements
and Supplementary Information

June 30, 2020 and 2019

Second Harvest Foodbank of Southern Wisconsin, Inc.

Table of Contents
June 30, 2020 and 2019

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	8
Other Independent Auditors' Reports	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	22
Independent Auditors' Report on Compliance for Each Major Federal Program and Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and the <i>State Single Audit Guidelines</i>	24
Supplementary Information	
Schedule of Expenditures of Federal Awards	26
Notes to Schedule of Expenditures of Federal Awards	27
Schedule of Findings and Questioned Costs	28
Summary Schedule of Prior Audit Findings	32

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Foodbank of Southern Wisconsin, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows and functional expenses 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2020, 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.

Adjustments to Prior Period Financial Statements

The financial statements of the Organization as of June 30, 2019, were audited by other auditors whose report dated December 18, 2019, expressed an unmodified opinion on those statements. As discussed in Note 1 to the financial statements, the Organization has adjusted its 2019 financial statements to retrospectively apply Accounting Standards Update ("ASU") No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2020 financial statements, we also audited the adjustments to the 2019 financial statements to retrospectively apply ASU No. 2016-18 as described in Note 1. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Organization's 2019 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance of the 2019 financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* and the *State Single Audit Guidelines*, is presented for purposes of additional analysis 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 November 25, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Milwaukee, Wisconsin
November 25, 2020

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,734,100	\$ 4,620,321
Accounts receivable	17,289	172,307
Grants and pledges receivable, current portion	318,668	443,116
Other receivables	89,563	69,933
Inventory	4,538,475	997,333
Prepaid expenses	57,909	64,602
Total current assets	<u>13,756,004</u>	<u>6,367,612</u>
Fixed Assets		
Land	500,402	500,402
Building improvements	1,305,416	1,290,295
Building	3,835,366	3,835,366
Furniture, fixtures, and equipment	1,501,963	1,626,730
Vehicles	560,210	472,323
	<u>7,703,357</u>	<u>7,725,116</u>
Less: accumulated depreciation	<u>(2,790,056)</u>	<u>(2,615,924)</u>
Net fixed assets	<u>4,913,301</u>	<u>5,109,192</u>
Other Assets		
Investments held for endowment	1,708,594	1,751,467
Grants and pledges receivable, net of current portion	50,000	40,708
Lease acquisition costs, net	9,664	13,178
Cash designated for capital expenditures	500,000	500,000
Total other assets	<u>2,268,258</u>	<u>2,305,353</u>
Total assets	<u>\$ 20,937,563</u>	<u>\$ 13,782,157</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 549,128	\$ 272,880
Accrued payroll and payroll taxes	255,965	193,196
Other liabilities	101,103	56,015
Refundable advances	1,401,590	-
Capital lease obligation, current portion	22,394	22,901
Total current liabilities	<u>2,330,180</u>	<u>544,992</u>
Long-Term Liabilities		
Capital lease obligation, net of current portion	<u>28,389</u>	<u>49,998</u>
Total liabilities	<u>2,358,569</u>	<u>594,990</u>
Net Assets		
Net assets without donor restrictions	17,319,771	12,029,626
Net assets with donor restrictions	<u>1,259,223</u>	<u>1,157,541</u>
Total net assets	<u>18,578,994</u>	<u>13,187,167</u>
Total liabilities and net assets	<u>\$ 20,937,563</u>	<u>\$ 13,782,157</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Activities

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Change in Net Assets without Donor Restrictions		
Revenues and Other Support		
Contributions without donor restrictions	\$ 11,224,429	\$ 5,607,977
Donated food	28,615,039	22,313,831
United Way	292,248	234,735
Government grants	1,410,384	178,774
Food maintenance fees	1,284,226	1,657,351
Special events	60,050	61,670
Investment income, net	44,590	94,876
Rental income	66,530	64,851
Gain on disposal of fixed assets	1,500	6,633
Other income	-	13,222
	<u>42,998,996</u>	<u>30,233,920</u>
Net Assets Released from Restrictions		
Satisfaction of program restrictions	<u>1,073,741</u>	<u>1,132,548</u>
Total revenues and other support without donor restrictions and net assets released from restrictions	<u>44,072,737</u>	<u>31,366,468</u>
Expenses		
Program services	36,664,563	28,229,077
Management and general	877,868	673,231
Fundraising	<u>1,240,161</u>	<u>1,270,545</u>
Total expenses	<u>38,782,592</u>	<u>30,172,853</u>
Change in net assets without donor restrictions	<u>5,290,145</u>	<u>1,193,615</u>
Change in Net Assets with Donor Restrictions		
Contributions	1,175,758	1,377,354
Endowment earnings	(335)	7,634
Net assets released from restrictions	<u>(1,073,741)</u>	<u>(1,132,548)</u>
Change in net assets with donor restrictions	<u>101,682</u>	<u>252,440</u>
Change in Net Assets	5,391,827	1,446,055
Net Assets, Beginning	<u>13,187,167</u>	<u>11,741,112</u>
Net Assets, Ending	<u>\$ 18,578,994</u>	<u>\$ 13,187,167</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u> <u>(As Adjusted)</u>
Cash Flow from Operating Activities		
Change in net assets	\$ 5,391,827	\$ 1,446,055
Adjustments to reconcile management and general to net cash flows from operating activities:		
Depreciation	346,334	342,074
Amortization	3,514	3,514
Gain on disposal of fixed assets	(1,500)	(6,633)
Realized and unrealized losses (gains) on investments	53,237	(40,055)
Provision for bad debts	3,201	-
Interest and dividends reinvested, net of investment expenses	(53,768)	(42,275)
Changes in assets and liabilities:		
Accounts receivable	151,817	(25,989)
Grants and pledges receivable	115,156	126,154
Other receivables	(19,630)	(24,485)
Inventory	(3,541,142)	436,335
Prepaid expenses	6,693	(11,432)
Accounts payable	230,878	234,909
Accrued payroll and payroll taxes	62,769	38,206
Other liabilities	45,088	27,344
Refundable advances	1,401,590	-
Net cash flows from operating activities	<u>4,196,064</u>	<u>2,503,722</u>
Cash Flows from Investing Activities		
Purchases of fixed assets	(105,073)	(274,441)
Proceeds from sale of fixed assets	1,500	10,800
Purchase of investments	(658,273)	(1,922,991)
Proceeds from sale of investments	701,677	728,843
Net cash flows from investing activities	<u>(60,169)</u>	<u>(1,457,789)</u>
Cash Flows from Financing Activities		
Payments on capital lease obligation	(22,116)	(21,841)
Net change in cash, cash equivalents and restricted cash	4,113,779	1,024,092
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, Beginning of Year	<u>5,120,321</u>	<u>4,096,229</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, End of Year	<u>\$ 9,234,100</u>	<u>\$ 5,120,321</u>
Noncash Investing Activities		
Fixed asset additions included within accounts payable	<u>\$ 45,370</u>	<u>\$ -</u>
Reconciliation of Cash, Cash Equivalents and Restricted Cash to the Statements of Financial Position:		
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 8,734,100	\$ 4,620,321
Cash designated for capital expenditures	500,000	500,000
Total cash, cash equivalents and restricted cash	<u>\$ 9,234,100</u>	<u>\$ 5,120,321</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statement of Functional Expenses
Year Ended June 30, 2020

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Food	\$ 30,408,051	\$ -	\$ -	\$ 30,408,051
Grants	351,436	-	-	351,436
Salaries and wages	1,916,217	330,986	456,301	2,703,504
Employee benefits	396,919	67,085	95,037	559,041
Payroll taxes	146,020	24,679	34,963	205,662
Vehicles	364,483	-	-	364,483
Insurance	70,233	23,514	16,816	110,563
Professional services	371,996	79,498	361,405	812,899
Office supplies and equipment	340,609	59,263	1,841	401,713
Postage and shipping	1,293	3,656	154,746	159,695
Printing	7,850	14,116	7,269	29,235
Ads, dues, and subscriptions	12,818	36,054	12,540	61,412
Bank charges	22	21,568	87,271	108,861
Telephone	13,484	24,641	1,178	39,303
Repairs and maintenance	66,871	73,927	9,570	150,368
Travel	94,733	2,377	-	97,110
Occupancy	1,770,093	40,210	550	1,810,853
Conferences	21,243	29,154	674	51,071
Depreciation	305,417	40,917	-	346,334
Other	4,775	6,223	-	10,998
Total expenses	<u>\$ 36,664,563</u>	<u>\$ 877,868</u>	<u>\$ 1,240,161</u>	<u>\$ 38,782,592</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Statement of Functional Expenses

Year Ended June 30, 2019

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Food	\$ 24,356,214	\$ -	\$ -	\$ 24,356,214
Grants	399,704	-	-	399,704
Salaries and wages	1,647,766	249,739	481,524	2,379,029
Employee benefits	414,810	59,259	118,517	592,586
Payroll taxes	125,382	17,912	35,823	179,117
Vehicles	325,455	-	-	325,455
Insurance	77,479	22,317	21,335	121,131
Professional services	31,344	90,040	362,609	483,993
Office supplies and equipment	109,879	28,564	835	139,278
Postage and shipping	2,661	1,178	139,009	142,848
Printing	3,995	9,576	6,012	19,583
Ads, dues, and subscriptions	9,671	34,914	12,424	57,009
Bank charges	1,352	5,269	41,220	47,841
Telephone	13,442	26,945	892	41,279
Repairs and maintenance	69,321	42,457	21,347	133,125
Travel	129,985	4,714	253	134,952
Occupancy	177,674	31,147	15,241	224,062
Conferences	22,303	19,499	227	42,029
Depreciation	308,414	20,464	13,196	342,074
Other	2,226	9,237	81	11,544
Total expenses	<u>\$ 28,229,077</u>	<u>\$ 673,231</u>	<u>\$ 1,270,545</u>	<u>\$ 30,172,853</u>

See notes to financial statements

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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

Nature of Activities

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

Basis of Accounting

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

Basis of Presentation

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

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

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

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all money market accounts and certificates of deposit with a maturity of three months or less from the date of purchase to be cash equivalents, except those held in brokerage accounts. The Board of Directors has designated \$500,000 as of June 30, 2020 and 2019 for capital expenditures, which are classified as long-term assets on the statements of financial position at June 30, 2020 and 2019.

Investments Held for Endowment

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

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

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

Accounts Receivable - After July 1, 2019

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 - Before July 1, 2019

Accounts receivable are stated at face value, net of the allowance for bad debts. 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 to expense when the individual balances are determined to be uncollectible. No allowance for bad debts has been made at June 30, 2019, as management considers all accounts fully collectible.

Grants and Pledges Receivable

Unconditional grants and pledges receivable are at stated fair value at the date of initial recognition, net of the allowance for bad debts. Grants and pledges receivable expected to be collected beyond one year are recorded at their present values, discounted at a risk free rate based on the duration of the date the grant or pledge is received. No discount was deemed necessary as of June 30, 2020 and 2019.

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, 2020 and 2019, as management considers all amounts fully collectible.

Inventory

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

	<u>2020</u>	<u>2019</u>
Inventory - Donated	\$ 1,385,309	\$ 821,886
Inventory - Purchased	747,437	175,447
Inventory - Government Grants	992,821	-
Inventory - Mixed Boxes	1,412,908	-
Total	<u>\$ 4,538,475</u>	<u>\$ 997,333</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

Fixed Assets

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

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

The Organization reviews long-lived assets, including land, building, building improvements, and other fixed assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There have been no such losses as of June 30, 2020 and 2019.

Refundable Advances

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

Income Tax Status

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

The Organization must recognize the tax benefit associated with the tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions, and, accordingly, they did not recognize any liability for unrecognized tax benefits. For the years ended June 30, 2020 and 2019, there were no interest or penalties recorded or included in the financial statements.

Contributions and Grants

The Organization recognizes all unconditional contributions and grants as income in the period the unconditional contributions and grants are received. Contributions and grants are considered unconditional when the Organization meets any barriers or conditions communicated in the agreement. Contributions and grants received are recorded without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor limitations on use of the funds. Grants where the conditions and restrictions are met simultaneously are presented as without donor restrictions on the statements of activities. There were \$1,401,590 and \$0 of conditional contributions and grants received and included in refundable advances at June 30, 2020 and 2019, respectively. As of June 30, 2020 there was \$2,851,547 of conditional grant revenue, which is expected to be recognized in future years when the conditions are met.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

Food Maintenance Fees

The Organization bills member agencies food maintenance fees based on the products distributed to the member agencies. Pricing of the food maintenance fees are set by the Feeding America. The Organization utilized the portfolio approach, an allowable practical expedient in the guidance, to analyze the contracts with members related to food maintenance fees. The transaction price is net of any stated or implied discount and determined at the time of purchase. The Organization is obligated to provide products as ordered by the member, and completion of this performance obligation occurs upon delivery or receipt of the product by the member. Payment is due 30 days from the date of purchase. Food products are typically nonrefundable. The net realizable value of receivables from members are \$16,533 and \$172,275 as of June 30, 2020 and 2019, respectively, and included in accounts receivable on the statements of financial position. Member agencies may pay in advance or receive payment from others on their behalf which are recorded as credits in their individual purchasing accounts with the Organization. The member credits are \$101,103 and \$56,015 as of June 30, 2020 and 2019, respectively, and presented as other liabilities on the statements of financial position.

Use of Estimates

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

Expense Allocation

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

Reclassification

For comparability, certain 2019 amounts have been reclassified to conform with classifications adopted in 2020. 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, 2020 and 2019

Adopted Accounting Pronouncements

The Organization adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU No. 2014-09"), and all related amendments during the year ending June 30, 2020, using the modified retrospective transition method. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Adoption of ASU No. 2014-09 did not have a significant impact on the financial statements, but disclosures related to revenue recognition were enhanced.

The Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* during the year ending June 30, 2020, using the modified prospective transition method. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Unconditional contributions or grants are recognized when cash, securities, other assets, or promises to give are received. Conditional contributions or 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. Adopting ASU No. 2018-08 did not have a significant impact on the financial statements.

In 2020, the Organization adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explains the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash. Amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The Organization has adjusted the presentation of these financial statements accordingly. ASU No. 2016-18 has been applied retrospectively to all periods presented.

The effect of the change due to ASU No. 2016-18 on the June 30, 2019 statement of cash flows is as follows:

	After Adoption of ASU No. 2016-18	As Originally Presented	Effect of Change
(Increase) decrease in cash designated for capital expenditures	\$ -	\$ (68,215)	\$ 68,215
Net cash flows from investing activities	(1,457,789)	(1,526,004)	68,215
Net change in cash and cash equivalents	N/A	955,877	(955,877)
Cash and cash equivalents - beginning of year	N/A	3,664,444	(3,664,444)
Cash and cash equivalents - end of year	N/A	4,620,321	(4,620,321)
Net change in cash, cash equivalents and restricted cash	1,024,092	N/A	1,024,092
Cash, cash equivalents and restricted cash - Beginning of Year	4,096,229	N/A	4,096,229
Cash, cash equivalents and restricted cash - End of Year	5,120,321	N/A	5,120,321

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU No. 2018-03"). ASU No. 2018-13 updates the disclosure requirements regarding fair value. ASU No. 2018-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently evaluating the impact of ASU No. 2018-13 on the Organization's financial statements.

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

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

2. Grants and Pledges Receivable

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

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 318,668	\$ 443,116
One to five years	50,000	40,708
Total	<u>\$ 368,668</u>	<u>\$ 483,824</u>

3. Fair Value Measurements and Investments

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

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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:

	2020			
	Level 1	Level 2	Level 3	Total
Domestic common stocks	\$ 345,595	\$ -	\$ -	\$ 345,595
Foreign common stocks	14,622	-	-	14,622
Domestic equity funds	504,611	-	-	504,611
Foreign equity funds	520,229	-	-	520,229
Domestic fixed income funds	295,568	-	-	295,568
Total assets measured at fair value	<u>\$ 1,680,625</u>	<u>\$ -</u>	<u>\$ -</u>	1,680,625
Money market funds				<u>27,969</u>
Total investments held for endowment				<u>\$ 1,708,594</u>

	2019			
	Level 1	Level 2	Level 3	Total
Domestic common stocks	\$ 287,752	\$ -	\$ -	\$ 287,752
Foreign common stocks	32,343	-	-	32,343
Domestic equity funds	338,007	-	-	338,007
Foreign equity funds	503,589	-	-	503,589
Domestic fixed income funds	461,360	-	-	461,360
Total assets measured at fair value	<u>\$ 1,623,051</u>	<u>\$ -</u>	<u>\$ -</u>	1,623,051
Money market funds				<u>128,416</u>
Total investments held for endowment				<u>\$ 1,751,467</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, 2020 and 2019. 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
June 30, 2020 and 2019

Net investment income is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends - general	\$ 57,406	\$ 23,988
Interest and dividends - endowment fund	57,139	50,109
Net realized and unrealized gains (losses)	(53,237)	40,055
Expenses	(17,053)	(11,642)
Total	<u>\$ 44,255</u>	<u>\$ 102,510</u>

4. Paycheck Protection Program ("PPP")

The Organization participated in and received funds in April 2020 under the PPP through the Coronavirus Aid, Relief, and Economic Security ("CARES") Act in the amount of \$633,930. The PPP is designed to provide a direct financial incentive for small businesses to keep their workers on the payroll. The program will forgive loan balances to the extent employees are kept on the payroll and the loan principal is used for payroll, rent, mortgage interest, or utilities during the eight or twenty-four week period following receipt. Any portion of the loan that is not forgiven will carry interest at 1% and is due to be paid back within two years. The first payment can be deferred until ten months after the end of the twenty-four week covered period.

The Organization determined this was a conditional contribution when received and concluded that the right of return and barriers associated with forgiveness were not met prior to June 30, 2020. As a result, the Organization considers the PPP funding to be a refundable advance as of June 30, 2020. The refundable advance is reflected as a liability on the statements of financial position. The Organization's management believes that it will comply with the requirements for forgiveness and fully expects this amount to be recognized as a contribution in 2021.

5. Net Assets

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

	<u>2020</u>	<u>2019</u>
Time or Purpose Restrictions		
Drive out hunger	\$ 83,019	\$ 128,966
Kids café fund	476,727	288,414
Mobile pantry	243,724	336,510
Foodshare outreach	73,945	19,380
Share your holidays	112,500	166,500
Endowment fund earnings	9,919	10,254
Pandemic relief	100,000	-
Other	12,872	61,000
Held in perpetuity	146,517	146,517
Total	<u>\$ 1,259,223</u>	<u>\$ 1,157,541</u>

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

	<u>2020</u>	<u>2019</u>
Endowment fund	\$ 1,552,158	\$ 1,594,696
Capital expenditures	500,000	500,000
Total	<u>\$ 2,052,158</u>	<u>\$ 2,094,696</u>

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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.

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

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

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

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

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

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

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

The following table shows the composition of endowment net assets by restriction as of June 30, 2019, 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	\$ -	\$ 10,254	\$ 146,517	\$ 156,771
Board designated endowment funds	1,594,696	-	-	1,594,696
Total Endowment Funds	<u>\$ 1,594,696</u>	<u>\$ 10,254</u>	<u>\$ 146,517</u>	<u>\$ 1,751,467</u>

The endowment related activities for the year ended June 30, 2019, were as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Available for Appropriation	Perpetual in Nature	
Beginning balance	\$ 323,335	\$ 5,137	\$ 146,517	\$ 474,989
Contributions	1,194,148	-	-	1,194,148
Net investment income (loss)	74,696	7,634	-	82,330
Appropriated for distribution	2,517	(2,517)	-	-
Ending Balance	<u>\$ 1,594,696</u>	<u>\$ 10,254</u>	<u>\$ 146,517</u>	<u>\$ 1,751,467</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. These deficiencies can result from unfavorable market fluctuations that occur after the investment of contributions with donor restrictions and continued appropriation for certain programs that were deemed prudent by the Board of Directors. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported as net assets with donor restrictions. There were no such deficiencies as of June 30, 2020 and 2019.

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.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

7. Contributed Services

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

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

During 2020, the Alliant Energy Center provided in-kind rent and services to the Organization to support operations during the pandemic. The value of in-kind rent and services is included as contributions and the corresponding rent expenses on the statements of activities for the years ending June 30, 2020 and 2019 were \$1,602,721 and \$0, respectively.

8. Retirement Plan

The Organization has a profit-sharing plan covering all full-time employees over the age of 21 and having at least six months of service. The Organization matches 100% of employee contributions up to a total of 5% of a participant's compensation. Benefits paid under this plan totaled \$98,130 and \$100,637 for the years ended June 30, 2020 and 2019, respectively.

9. Major Donor

The Organization receives food donations from retail stores, wholesalers, and producers. One national retailer accounted for 22% of donated food in 2020 and 23% in 2019.

10. Operating Leases

The Organization has entered into several leases for semi-tractors. The leases require fixed monthly payments plus additional mileage charges with expirations through 2025. The leases are cancelable at certain intervals during the terms of the leases. Lease expenses of \$121,394 and \$63,846 are included in vehicles expense on the statements of functional expenses for the years ended June 30, 2020 and 2019, respectively.

Future minimum payments under this lease are as follows:

2021	\$	72,636
2022		72,636
2023		72,636
2024		48,927
2025		12,908
Total	\$	<u>279,743</u>

The Organization is the lessor of office space under two operating leases. The Organization has a lease agreement with one tenant ending on March 30, 2023. Rental income related to this lease was \$57,584 and \$55,905 for the years ended June 30, 2020 and 2019, respectively.

The Organization also rents office space to another tenant. The Organization rented the space under a month-to-month operating lease with monthly rental payments of \$746. During fiscal year 2020, the Organization entered into a lease agreement with the tenant commencing on January 1, 2020 and ending on June 25, 2025. Rental income related to this lease was \$8,946 for the years ended June 30, 2020 and 2019.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

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

2021	\$	68,262
2022		70,305
2023		56,332
2024		9,780
Thereafter		10,080
Total	\$	<u>214,759</u>

11. Capital Lease Obligation

The Organization leases a semi-tractor under a 5-year capital lease that commenced in September 2017 and expires in September 2022. The lease requires fixed monthly payments of \$1,908 plus additional mileage charges. The economic substance of this lease is that the Organization is financing the acquisition of the semi-truck through the lease and, accordingly, it is recorded in the Organization's assets and liabilities. The cost of the asset under the lease was \$110,943 and the accumulated depreciation was \$55,471 and \$33,282 at June 30, 2020 and 2019, respectively.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of June 30, 2020:

2021	\$	22,901
2022		22,901
2023		5,725
Total minimum payments		<u>51,527</u>
Less: amount representing interest		<u>(744)</u>
Present value of net minimum lease payments		50,783
Less: current portion		<u>(22,394)</u>
Capital lease obligation - net of current portion	\$	<u>28,389</u>

12. Lease Acquisition Costs

The Organization incurred certain costs in obtaining a tenant operating lease described in Note 10. Gross capitalized lease acquisition fees of \$24,599 are being amortized on a straight-line basis over 84 months, which is the term of the related lease. Amortization expense was \$3,514 for the years ended June 30, 2020 and 2019.

Future amortization of lease acquisition costs are as follows:

2021	\$	3,514
2022		3,514
2023		2,636
Total	\$	<u>9,664</u>

13. Concentration of Credit Risk

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

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

14. Related Parties

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

15. Liquidity and Availability of Financial Assets

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 8,734,100	\$ 4,620,321
Accounts receivable	17,289	172,307
Grant and pledge receivables, current portion	318,668	443,116
Other receivables	<u>89,563</u>	<u>69,933</u>
Total financial assets	9,159,620	5,305,677
Less those unavailable for general expenditures within one year:		
Purpose or time restricted net assets, net of endowment fund	<u>(1,102,787)</u>	<u>(1,000,770)</u>
Total financial assets available to meet cash needs within one year	<u>\$ 8,056,833</u>	<u>\$ 4,304,907</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), which are on average approximately \$678,000 per month. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Organization has investments held for endowment that are \$1,708,594 and \$1,751,467 as of June 30, 2020 and 2019, respectively. The investments held for endowment consist of a donor-restricted endowment of \$156,436 and \$156,771 as of June 30, 2020 and 2019, respectively, and a board designated endowment of \$1,552,158 and \$1,594,696 as of June 30, 2020 and 2019, respectively. 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. This Board designated fund can be used cover costs of major capital expenditures as necessary.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Financial Statements
June 30, 2020 and 2019

16. Impact of the Coronavirus Pandemic

In March of 2020 the Coronavirus pandemic caused significant shifts in how the Organization meets the needs of those facing hunger in southwestern Wisconsin. These shifts have been accompanied by significant increases in short and long-term operating expenses as a result. The shifts include:

- An unprecedented spike in the number of those facing hunger as a result of the economy shutting down, and the slow economic recovery for those hit hardest
- A dramatic decrease in the amount of food donated to the Organization; which is forcing the Organization to significantly increase the amount of food it purchases to meet the need
- The need to add a large number of temporary full-time staff to process millions of pounds of food more than previous years
- Transitioning our standard food distribution processes to adhere to new social distancing guidelines

The impact of the Coronavirus pandemic on the Organization, our partner agencies in the emergency food network, and those who are looking for help – many for the first time – is profound. The only constant is the need to adapt and pivot to the unpredictable nature of the pandemic to make sure that the needs of those we serve are being met now, and in the weeks and months ahead. Increased need will be a reality long after the pandemic has subsided.

17. 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.

18. Subsequent Events

Management has evaluated subsequent events through November 25, 2020, the date which the financial statements were available to be issued.

**Independent Auditors' 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***

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

We have audited, in accordance with the 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, the financial statements of Second Harvest Foodbank of Southern Wisconsin, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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*.

The Organization's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, and 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* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Milwaukee, Wisconsin
November 25, 2020

**Independent Auditors' Report on Compliance
for Each Major Federal and Major State Program and Report on
Internal Control Over Compliance Required
by the Uniform Guidance and the *State Single Audit Guidelines***

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

Report on Compliance for Each Major Federal and Major State Program

We have audited Second Harvest Foodbank of Southern Wisconsin, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of the Organization's major federal and major state programs for the year ended June 30, 2020. The Organization's major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance); and the *State Single Audit Guidelines*. Those standards, the Uniform Guidance and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or a major state program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and major state program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal and Major State Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-002, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

Baker Tilly US, LLP

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
Milwaukee, Wisconsin
June 16, 2021

Second Harvest Foodbank of Southern Wisconsin, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Awards Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Pass- Through Grantor's Number	Federal Expenditures	Subrecipient Awards
U.S. Department of Agriculture				
Passed through Wisconsin Department of Health Services and Feeding Wisconsin, Inc.				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	445404	\$ 178,044	\$ -
Total SNAP Cluster			<u>178,044</u>	<u>-</u>
U.S. Department of Treasury				
Passed through Dane County				
COVID-19 - Coronavirus Relief Fund	21.019	Unknown	<u>1,232,340</u>	<u>-</u>
Total expenditures of federal awards			<u>\$ 1,410,384</u>	<u>\$ -</u>

See notes to schedule of expenditures of federal awards

Second Harvest Foodbank of Southern Wisconsin, Inc.

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

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. (the "Organization") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. Indirect Cost Rate

The Organization has not elected to use the 10-percent de minimis Indirect Cost Rate as allowed under the Uniform Guidance.

4. Local Matching Expenditures

During the administration of the federal program, the Organization incurred costs which were not reimbursed by the granting agency. The local matching expenditures incurred by the Organization during the year ended June 30, 2020, are as follows:

<u>Program Title</u>	<u>Federal Expenditures</u>	<u>Local Matching Expenditures</u>	<u>Total Expenditures</u>
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	\$ 178,044	\$ 178,044	\$ 356,088

Second Harvest Foodbank of Southern Wisconsin, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal and state programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> no

Type of auditors' report issued on compliance for major federal and major state programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
21.019	COVID-19 - Coronavirus Relief Fund

Identification of major state program:

<u>CFDA / State ID Number(s)</u>	<u>Name of State Program or Cluster</u>
10.561	SNAP Cluster

Dollar threshold used to distinguish between federal Type A and Type B programs \$750,000

Dollar threshold used to distinguish between state Type A and Type B programs \$250,000

Auditee qualified as low-risk auditee? yes X no

Second Harvest Foodbank of Southern Wisconsin, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section II - Financial Statement Findings

2020-001

Statement of condition: In response to the pandemic, the Organization received new grant funding and significantly modified the method of distributing food to pantries and those in need to include pre-made boxes of assorted donated and purchased food items. These changes in operations limited physical interactions and increased the number of places food could be distributed in response to the increased demand. The additional grant and program modifications began in the final quarter of the fiscal year and the guidance regarding the accounting treatment related to the grants has been evolving since receiving the award.

Criteria: The Organization is required to value inventory in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Effect: The pre-made boxes and additional activity related to the grant funds were tracked correctly by weight and item number by the Organization during the year, however, the amounts recorded in the general ledger required adjustment to correctly record the value of the items in inventory and grant revenue. Management made adjustments during the audit process to properly reflect the value of inventory at year end and revenue recognition during the year.

Cause: The Organization's internal controls did not detect that the amounts reflected within the general ledger were incorrect prior to completion of the audit.

Recommendation: We recommend that management update their internal controls as they continue to obtain new grants and implement new programs to properly record activity in the general ledger.

Management Response: Management agrees with the finding. Initially the response to the pandemic was very dynamic and new programs had to adapt quickly to respond to the crisis. As a result, not all of the controls were in place in June of 2020 that would normally be implemented during normal times. Since then, we have integrated a review process of inventory valuation that involves the Inventory Manager, Business Manager, and CFO. This process was previously handled only by the Business Manager, as the ERP system was set-up to properly handle inventory valuation. The review by the Inventory Manager and CFO will ensure that all aspects of inventory valuation are accounted for, even for dynamically changing programs.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section III - Federal Award Findings and Questioned Costs

2020-002

Agency and pass through entities: U.S. Department of Agriculture passed through the Wisconsin Department of Health Services and Feeding Wisconsin, Inc.

Federal program and award numbers: 10.561, SNAP Cluster. Award number 445404 for award year 2019 and 2020.

Criteria: Uniform Guidance and the *State Single Audit Guidelines* require the Organization to establish and maintain effective internal control over federal and state awards to provide assurance that the Organization is managing the federal and state awards in compliance with federal and state statutes, regulations, and the terms and conditions of the award.

Statement of condition: The Organization did not retain documentation supporting that effective internal controls over the matching and reporting compliance requirements were in place.

Questioned costs: The amount of questioned costs could not be determined.

Context: The Organization is required by the federal and state awards to comply with matching and reporting compliance requirements.

Effect: Without verifiable evidence of controls in place, the possibility exists that a control was not established or maintained during the period which could lead to noncompliance of matching or reporting not being identified by management.

Cause: Management did not have sufficient and verifiable documented evidence of the reviews that occurred during the year over matching and reporting compliance requirements.

Recommendation: We recommend management review current internal controls and implement a process where the preparer and reviewer retain verifiable evidence of the review.

Management Response: Management agrees with the finding. Previously the program expenses were approved by the program manager, and then an invoice was generated and sent for reimbursement to Feeding Wisconsin. We have since introduced an additional review process whereby the invoice is also reviewed by the program manager prior to submission for reimbursement. In addition, we have added an additional review process by the Director of the department for program expenses.

Second Harvest Foodbank of Southern Wisconsin, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section IV - Other Issues

Does the auditors' report or the notes to the financial statements include a disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? _____ yes X no

Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weaknesses, significant deficiencies, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:
Department of Health Services X yes _____ no

Was a management letter or other document conveying audit comments issued as a result of this audit? X yes _____ no

Name and signature of partner



Ryan J. Lay, CPA

Date of the report

June 16, 2021

Second Harvest Foodbank of Southern Wisconsin, Inc.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

The Organization was not required to have a single audit in the prior year, therefore, no uncorrected or unresolved findings exist.