



**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors

### **SECOND HARVEST COMMUNITY FOOD BANK, INC.**

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Second Harvest Community Food Bank, Inc., which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, 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.

#### ***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. 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 auditors consider 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.

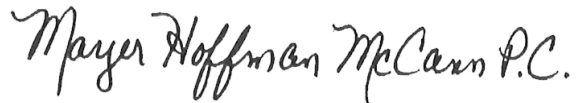
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Community Food Bank, 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.

**Other Matters***Report on Summarized Comparative Information*

We have previously audited Second Harvest Community Food Bank, Inc.'s 2017 financial statements, and our report dated November 3, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive script.

Kansas City, Missouri  
December 19, 2018

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><u>ASSETS</u></b>		
CURRENT ASSETS		
Cash	\$ 199,670	\$ 259,703
Investments	1,816,755	1,747,739
Accounts receivable, less allowance for uncollectibles	152,140	226,801
Unconditional promises to give	46,000	40,500
Inventory	545,876	613,532
Prepaid expenses and other assets	14,388	10,733
TOTAL CURRENT ASSETS	<u>2,774,829</u>	<u>2,899,008</u>
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	867,744	957,724
INVESTMENTS - ENDOWMENT	150,000	150,000
TOTAL ASSETS	<u>\$ 3,792,573</u>	<u>\$ 4,006,732</u>
<b><u>LIABILITIES</u></b>		
CURRENT LIABILITIES		
Accounts payable	\$ 92,581	\$ 129,882
Accrued expenses	77,751	68,155
TOTAL CURRENT LIABILITIES	<u>170,332</u>	<u>198,037</u>
<b><u>NET ASSETS</u></b>		
UNRESTRICTED NET ASSETS		
Foodbank		
Undesignated	1,258,254	1,285,508
Board designated - reserve	1,816,755	1,747,739
Total foodbank	<u>3,075,009</u>	<u>3,033,247</u>
Contributed food	260,695	420,141
TOTAL UNRESTRICTED NET ASSETS	<u>3,335,704</u>	<u>3,453,388</u>
TEMPORARILY RESTRICTED NET ASSETS	136,537	205,307
PERMANENTLY RESTRICTED NET ASSETS	150,000	150,000
TOTAL NET ASSETS	<u>3,622,241</u>	<u>3,808,695</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,792,573</u>	<u>\$ 4,006,732</u>

See Notes to Financial Statements

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

Years Ended June 30, 2018 and 2017

	2018					2017	
	Unrestricted			Temporarily Restricted	Permanently Restricted	Total	Total
	Total Foodbank	Contributed Food	Total				
OPERATING SUPPORT AND REVENUE							
Contributions received	\$ 887,406	\$ -	\$ 887,406	\$ 588,889	\$ -	\$ 1,476,295	\$ 1,795,754
Government income	1,503,714	-	1,503,714	-	-	1,503,714	1,420,797
Contributed food received	-	6,377,087	6,377,087	-	-	6,377,087	7,458,838
Handling fees and other revenues	307,066	-	307,066	-	-	307,066	299,538
Investment income	75,900	-	75,900	-	-	75,900	118,353
Net assets released from restriction	657,659	-	657,659	(657,659)	-	-	-
<b>TOTAL OPERATING SUPPORT AND REVENUE</b>	<b>3,431,745</b>	<b>6,377,087</b>	<b>9,808,832</b>	<b>(68,770)</b>	<b>-</b>	<b>9,740,062</b>	<b>11,093,280</b>
EXPENSES							
Foodbank program	2,917,676	-	2,917,676	-	-	2,917,676	3,110,850
Contributed food distributed	-	6,536,533	6,536,533	-	-	6,536,533	7,420,308
Management and general	93,608	-	93,608	-	-	93,608	103,767
Fund development	378,699	-	378,699	-	-	378,699	316,999
<b>TOTAL EXPENSES</b>	<b>3,389,983</b>	<b>6,536,533</b>	<b>9,926,516</b>	<b>-</b>	<b>-</b>	<b>9,926,516</b>	<b>10,951,924</b>
CHANGE IN OPERATIONS	41,762	(159,446)	(117,684)	(68,770)	-	(186,454)	141,356
OTHER REVENUE (EXPENSE)							
Blacksnake Creek project	-	-	-	-	-	-	197,334
Gain on disposal of assets	-	-	-	-	-	-	25,544
<b>TOTAL OTHER REVENUE (EXPENSE)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>222,878</b>
CHANGES IN NET ASSETS	41,762	(159,446)	(117,684)	(68,770)	-	(186,454)	364,234
NET ASSETS, BEGINNING OF YEAR	3,033,247	420,141	3,453,388	205,307	150,000	3,808,695	3,444,461
NET ASSETS, END OF YEAR	\$ 3,075,009	\$ 260,695	\$ 3,335,704	\$ 136,537	\$ 150,000	\$ 3,622,241	\$ 3,808,695

See Notes to Financial Statements

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES**

Years Ended June 30, 2018 and 2017

	2018				2017			
	<u>Foodbank Program</u>	<u>Management and General</u>	<u>Fund Development</u>	<u>Total</u>	<u>Foodbank Program</u>	<u>Management and General</u>	<u>Fund Development</u>	<u>Total</u>
Compensation	\$ 914,883	\$ 67,769	\$ 146,833	\$ 1,129,485	\$ 829,036	\$ 29,261	\$ 117,039	\$ 975,336
Insurance, contracts and leases	25,840	1,136	1,420	28,396	34,321	1,095	1,095	36,511
Fees and dues	196,436	8,635	10,793	215,864	188,171	61,028	5,086	254,285
Supplies, printing and postage	93,017	4,089	5,111	102,217	90,982	2,967	4,945	98,894
Repairs and maintenance	68,554	3,013	3,767	75,334	53,850	1,719	1,719	57,288
Services and staff support	36,385	1,599	144,610	182,594	28,155	1,173	154,014	183,342
Utilities and telephone	50,485	2,219	2,774	55,478	53,012	6,024	1,205	60,241
Vehicle cost and freight	50,942	-	-	50,942	86,108	-	-	86,108
Special events	-	-	56,955	56,955	-	-	31,396	31,396
Purchased food distributed	1,364,007	-	-	1,364,007	1,678,994	-	-	1,678,994
Depreciation expense	117,127	5,148	6,436	128,711	68,221	500	500	69,221
Expenses before contributed food distributed	2,917,676	93,608	378,699	3,389,983	3,110,850	103,767	316,999	3,531,616
Contributed food distributed	6,536,533	-	-	6,536,533	7,420,308	-	-	7,420,308
<b>TOTAL EXPENSES</b>	<b>\$ 9,454,209</b>	<b>\$ 93,608</b>	<b>\$ 378,699</b>	<b>\$ 9,926,516</b>	<b>\$ 10,531,158</b>	<b>\$ 103,767</b>	<b>\$ 316,999</b>	<b>\$ 10,951,924</b>
	<u>95.24%</u>	<u>0.94%</u>	<u>3.82%</u>	<u>100.00%</u>	<u>96.16%</u>	<u>0.95%</u>	<u>2.89%</u>	<u>100.00%</u>

See Notes to Financial Statements

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (186,454)	\$ 364,234
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food	(159,446)	38,530
Gain on sale of property and equipment	-	(25,544)
Realized and unrealized gain on investments	(41,967)	(78,477)
Depreciation	128,711	69,221
Contribution of property and equipment	(3,200)	-
Change in operating assets:		
Accounts receivable	74,661	(59,030)
Unconditional promises to give	(5,500)	(1,000)
Inventory	227,102	(53,856)
Prepaid expenses and other assets	(3,655)	5,323
Change in operating liabilities:		
Accounts payable	(37,301)	17,183
Accrued expenses	9,596	20,136
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>2,547</u>	<u>296,720</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	404,871	829,541
Purchase of investments	(431,920)	(1,098,027)
Purchase of property and equipment	(35,531)	(232,341)
Proceeds from disposal of property and equipment	-	93,323
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(62,580)</u>	<u>(407,504)</u>
 NET CHANGE IN CASH	(60,033)	(110,784)
 CASH, BEGINNING OF YEAR	<u>259,703</u>	<u>370,487</u>
 CASH, END OF YEAR	<u>\$ 199,670</u>	<u>\$ 259,703</u>

See Notes to Financial Statements

## SECOND HARVEST COMMUNITY FOOD BANK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies

**Organization** - Second Harvest Community Food Bank, Inc. (the "Organization") is a not-for-profit, tax-exempt (Section 501(c)(3)) food bank and was incorporated in 1981 for the purpose of collecting and distributing food products to regional food pantries and soup kitchens that provide assistance to low income and needy families and individuals. The Organization serves 15 counties in Missouri and 4 counties in Kansas and is a network member of Feeding America. The Organization receives revenues primarily from individual and corporate donations, the United Way, federal and state grants, and contracts with local not-for-profits.

The Organization operates a food distribution program. The Organization receives donated food from individuals, corporations, other nonprofit organizations, and the United States Department of Agriculture. The Organization also purchases food with grant funds and proceeds from fundraising events. Food is delivered to qualified regional food banks, food pantries, and soup kitchens based on product availability and as needed.

**Basis of presentation** - The Organization's financial statements are prepared on the accrual basis of accounting. Balances and transactions are presented in accordance with the existence or absence of donor-imposed restrictions. The Organization maintains its financial accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives of the Organization.

- Unrestricted Net Assets are net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this category of net assets primarily consist of program service fees (handling fees) paid on a per-pound basis by member agencies, and related expenses associated with the core activities of the Organization. In addition to these exchange transactions, changes to this category of net assets include certain types of philanthropic support - namely, unrestricted contributions and grants, including those designated by the Board to function as reserves, and income from investments.
- Temporarily Restricted Net Assets are net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. Items that affect this category of net assets are restricted contributions and grants. Contributions and grants received with donor-imposed restrictions are reported as support in the temporarily restricted net assets class. These amounts are reclassified to unrestricted net assets when such restrictions are met or have expired.
- Permanently Restricted Net Assets are net assets subject to donor-imposed stipulations, which, as interpreted by the Board of Directors, according to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requirements, require the Organization to permanently maintain the value of the original gift as of the gift date. Generally, the donors of these assets permit the Organization to use all or part of the income earned on these assets. These net assets are permanent endowment funds being held by the Organization such that the Organization has a perpetual interest in the earnings.



SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies (continued)**

**Revenues and other support** - Contributions and grants, including unconditional promises to give, represent amounts raised from the public and are recognized in the period received. Contributions other than cash, including unconditional promises to give and donated materials with clearly measurable bases, are recorded at their estimated fair value at the date of receipt. Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement. Any funding received for exchange transactions in advance of expenditure is recorded as deferred revenue on the statement of financial position. Revenue from program service fees (handling fees) are recognized as earned from member agencies who receive food.

Revenue from contributed food received, as well as the related food distributed expense and the contributed food inventory accounts, are computed by valuing the Organization's respective pounds of food at a weighted average wholesale price per pound as determined by the Feeding America national food bank network. The Organization treats contributed food as an unrestricted contribution.

Donated assets are reflected as contributions at their estimated fair value at the date of receipt. A substantial number of volunteers have donated hundreds of hours during the year ended June 30, 2018, which do not meet the requirements of the Not-For-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) related to revenue recognition of contributions received and, accordingly, are not recorded in these financial statements. The Organization received \$40,820 and \$12,230 for the years ended June 30, 2018 and 2017, respectively, for donated services and goods other than contributed food.

**Cash** - Cash consists of available cash balances on deposit at financial institutions. At times, balances in these accounts are in excess of federally insured limits. At June 30, 2018 the Organization's balances were fully insured. At June 30, 2017 the Organization's uninsured balances totaled \$95,181. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

**Investments** - Investments consist of money market funds, equity securities, fixed income securities, and alternative investment securities which are recorded at their fair value.

**Accounts receivable** - Accounts receivable are carried at cost, less allowance for uncollectibles. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on history and past write-offs and collections and current credit conditions. An account is written off when it is determined that all collection efforts have been exhausted. Allowance for doubtful accounts as of June 30, 2018 and 2017, was \$500.

**Inventory** - Contributed food is valued on a first-in, first-out basis using a weighted average wholesale price per pound as determined by the Feeding America national food bank network. For each of the years ended June 30, 2018 and 2017 respectively, contributed food was valued at \$1.68 and \$1.73 per pound. Purchased food is valued on a first-in, first-out basis.

**Property and equipment** - Property and equipment are stated at cost or the fair value at the date of gift for donated assets, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<b><u>Assets</u></b>	<b><u>Estimated Useful Lives</u></b>
Buildings and building improvements	5 – 30 years
Equipment and vehicles	3 – 20 years

## SECOND HARVEST COMMUNITY FOOD BANK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies (continued)

**Functional expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and change in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statement of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source. Direct benefit to donor costs have been included in fund development costs on the statement of functional expenses as the associated costs are not material in relation to the financial statements taken as a whole.

**Income taxes** - The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, it believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at June 30, 2018 and 2017, as management does not believe any material uncertainties exist. The Organization is no longer subject to federal or state income tax examinations by tax authorities before 2015.

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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** - Advertising costs are charged to operations when incurred. Advertising expenses totaled \$113,048 and \$116,696 for the years ended June 30, 2018 and 2017, respectively.

**Summarized comparative information** - The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

**Reclassifications** - Certain items in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation. There was no impact on the change in net assets.

#### (2) Investments

Investments are comprised of the following:

	June 30,	
	2018	2017
Money market funds	\$ 36,860	\$ 32,394
Equity securities	896,111	719,075
Fixed income securities	893,503	988,010
Alternative investment securities	140,281	158,260
Total investments	<u>\$ 1,966,755</u>	<u>\$ 1,897,739</u>

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(2) Investments (continued)**

Investment income is comprised of the following:

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
Interest and dividend income	\$ 44,715	\$ 49,408
Investment fees	(10,782)	(9,532)
Unrealized gain	17,869	46,316
Realized gain	24,098	32,161
<b>Total investment income</b>	<b>\$ 75,900</b>	<b>\$ 118,353</b>

FASB ASC 820, *Fair Value Measurements and Disclosures* provides the framework for measuring fair value. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization endeavors to utilize the best available information in measuring fair value. The fair values of the Organization's investments can be determined using the following valuation methods as of June 30, 2018 and 2017:

	<b>June 30, 2018</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds	\$ 36,860	\$ 36,860	-	-
Equity securities	896,111	896,111	-	-
Fixed income securities	893,503	893,503	-	-
Alternative investment securities	140,281	140,281	-	-
<b>Total investments</b>	<b>\$ 1,966,755</b>	<b>\$ 1,966,755</b>	<b>\$ -</b>	<b>\$ -</b>

	<b>June 30, 2017</b>			
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Money market funds	\$ 32,394	\$ 32,394	-	-
Equity securities	719,075	719,075	-	-
Fixed income securities	988,010	988,010	-	-
Alternative investment securities	158,260	158,260	-	-
<b>Total investments</b>	<b>\$ 1,897,739</b>	<b>\$ 1,897,739</b>	<b>\$ -</b>	<b>\$ -</b>

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(3) Unconditional promises to give**

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. No discount rate has been applied to the Organization for outstanding pledges at June 30, 2018 and 2017, as all unconditional promises are anticipated to be received in less than one year. No allowance was recorded at June 30, 2018 and 2017 as management considered all unconditional promises to give to be collectible. Unconditional promises to give at June 30, 2018 and 2017 were \$46,000 and \$40,500, respectively.

**(4) Property and equipment**

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Cost		
Land	\$ 338,255	\$ 332,775
Building and building improvements	795,175	782,675
Equipment and vehicles	852,795	832,045
Total cost	<u>1,986,225</u>	<u>1,947,495</u>
Less: Accumulated depreciation	<u>(1,118,481)</u>	<u>(989,771)</u>
 Net property and equipment	 <u>\$ 867,744</u>	 <u>\$ 957,724</u>

Depreciation expense charged to operations for the years ended June 30, 2018 and 2017 was \$128,711 and \$69,221, respectively.

**(5) Board designated reserve**

The Board of Directors authorized the establishment of an operating reserve fund. This fund, which is maintained in the Organization's investment account, consists of \$1,816,755 and \$1,747,739 at June 30, 2018 and 2017, respectively. Reserve funds are to be available as necessary for unexpected costs, loan payoffs, and capital expenditures based on Board approval.

**(6) Temporarily restricted net assets**

Temporarily restricted net assets consisted of donor restricted contributions received for the following:

	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>
Purpose restricted		
Backpack buddies	\$ 90,537	\$ 64,807
Time restricted	46,000	140,500
Total temporarily restricted net assets	<u>\$ 136,537</u>	<u>\$ 205,307</u>

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(6) Temporarily restricted net assets (continued)**

Temporarily restricted net assets released from restriction consisted of the following:

	<b>Year Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Purpose restricted		
Backpack buddies	\$ 367,159	\$ 484,966
Mobile food truck	-	75,000
Mobile food pantry	150,000	-
	<u>517,159</u>	<u>559,966</u>
Time restricted	140,500	39,500
Total	<u>\$ 657,659</u>	<u>\$ 599,466</u>

**(7) Endowments**

The Organization's endowment consists of one fund and only includes donor-restricted funds. In accordance with FASB ASC 958, net assets associated with endowment funds and funds designated by the Board of Directors are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment balance is included in endowment investments in the statements of financial position. Permanently restricted endowment balances include the original value at the date of gift. The earnings on these funds are temporarily restricted until appropriated for expenditure.

The Organization had the following endowment-related activities:

	<b>For the year ended June 30, 2018</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Beginning balance, July 1, 2017	\$ -	\$ 150,000	\$ 150,000
Interest and dividend income	4,259	-	4,259
Investment fees	(852)	-	(852)
Net unrealized gain	1,412	-	1,412
Realized gains	1,905	-	1,905
Amounts appropriated for expenditure	<u>(6,724)</u>	<u>-</u>	<u>(6,724)</u>
Total change in endowment funds	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance, June 30, 2018	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(7) Endowments (continued)**

	<b>For the year ended June 30, 2017</b>		
	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Beginning balance, July 1, 2016	\$ -	\$ 150,000	\$ 150,000
Interest and dividend income	5,439	-	5,439
Investment fees	(923)	-	(923)
Net unrealized losses	4,483	-	4,483
Realized gains	3,109	-	3,109
Amounts appropriated for expenditure	<u>(12,108)</u>	<u>-</u>	<u>(12,108)</u>
Total change in endowment funds	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance, June 30, 2017	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

**Return objectives and risk parameters**

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 endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds. In order to obtain maximum benefits from the assets of the Organization, the investment goals include achieving long-term growth of capital within specified risk constraints, production of a reasonable rate of return on the investment assets, consistent with the assumption of a prudent level of risk, and protection of the Organization's assets from inflation, so that they will be available for the long-term use.

**Strategies employed for achieving objectives**

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's risk tolerance is low. The Organization targets an asset allocation that places a greater emphasis on fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy**

The purpose of the Organization's investment assets is to provide funds to supplement operating revenue for the Organization's program costs and organizational expenses that are not covered by fees for services or by donations and grants. During the years ended June 30, 2018 and 2017, all earnings on the endowment fund were appropriated for expenditure.

**(8) Line of credit**

The Organization maintained a \$100,000 line of credit during the years ended June 30, 2018 and 2017. The line available during the year ended June 30, 2018 matures on February 17, 2019, and bears interest at 0.75% less than the Prime Rate (4.25% and 3.5% at June 30, 2018 and 2017, respectively). At June 30, 2018 and 2017, there was no outstanding balance on the line of credit. In August 2018, the Organization increased the limit on the line of credit to \$250,000 and drew down \$100,000. In October 2018, the Organization paid off the \$100,000 line of credit balance.

**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(9) Lease commitments**

The Organization entered into several non-cancelable lease agreements with expiration dates through September 2022. Minimum future lease payments under the non-cancelable operating leases with initial or remaining terms in excess of one year as of June 30, 2018 are as follows:

**Years ending June 30,**

2019	\$ 16,833
2020	1,020
2021	1,020
2022	1,020
2023	255
Total	<u>\$ 20,148</u>

Total lease costs for the years ended June 30, 2018 and 2017 were \$26,274 and \$22,022, respectively.

**(10) Blacksnake Creek Project**

During the year ended June 30, 2017, the Organization entered into a purchase agreement with the City of St. Joseph (the "City") for the City's development of the Blacksnake Creek Stormwater Separation Improvement Project. The goal of the project was to transport a portion of the storm water runoff in the Blacksnake Creek directly into the Missouri River. Per the agreement, the City purchased part of the Organization's land and bought use easements on parts of the Organization's remaining land. The City also paid the Organization for restoration costs to be incurred in the development of the project. The Organization received a total of \$253,396 for this project, \$56,062 of which was for the acquired land. The Organization recognized \$197,334 as other revenue, which is classified in other revenue (expense) on the statement of activities and changes in net assets for the year ended June 30, 2017. The Organization recognized the remaining proceeds as a gain on disposal of assets which is included in the gain on disposal of assets within the above statement.

**(11) Concentrations**

During the years ended June 30, 2018 and 2017, approximately 32% and 37% of the Organization's purchases were paid to one vendor and two vendors, respectively, for the acquisition of food items. During the years ended June 30, 2018 and 2017, approximately 28% and 60% of the Organization's accounts payable were due from one vendor and two vendors, respectively.

**(12) Recent accounting pronouncements**

**Recent accounting pronouncements - Revenue recognition** - In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for the Organization's June 30, 2020 financial statements, and early adoption is permitted. The Organization may adopt the standard retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

## SECOND HARVEST COMMUNITY FOOD BANK, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (12) Recent accounting pronouncements (continued)

**Recent accounting pronouncements - Leases** - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position. The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis. This ASU is effective for the Organization's June 30, 2021 financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

**Recent accounting pronouncements - Not-for-Profit Entities** - In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update, which amends the requirements for financial statements and notes in *Topic 958, Not-for-Profit Entities*, require a Not-for-Profit (NFP) to:

- Present on the face of the statement of financial position amounts for two classes of net assets as "net assets with donor restrictions" and "net assets without donor restrictions," rather than for the currently required three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than that of the currently required three classes.
- Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosures about (1) amounts and purposes of governing board designations that result in self-imposed limits on the use of resources without donor-imposed restrictions (2) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources (3) qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date (4) quantitative information, either on the face of the balance sheet or in the notes, and additional qualitative information in the notes that communicates the availability of a NFP's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date (5) amounts of expenses by both their natural classification and their functional classification (6) report investment return net of external and direct internal investment expenses, and no longer require disclosure of those netted expenses (7) use, in absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

This update is effective for the Organization's June 30, 2019 financial statements. The Organization is evaluating the impact that this updated standard will have on the financial statements and disclosures.



**SECOND HARVEST COMMUNITY FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(13) Subsequent events**

The Organization has evaluated subsequent events through December 19, 2018, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation, other than the matters listed below.

In July 2018, the Organization secured a \$966,667 grant under the Temporary Assistance for Needy Families (TANF) program for funding from July 2018 through June 2019.

The Organization subsequently modified its line of credit agreement, drew down on the line of credit, and paid off the balance as disclosed in Note 8 to the financial statements.