NORTHWEST HARVEST

JUNE 30, 2019 AND 2018
FINANCIAL STATEMENTS

Bader Martin, PS Certified Public Accountants + Business Advisors

Independent Auditors' Report

Board of Directors
Northwest Harvest
Seattle, Washington

We have audited the accompanying financial statements of Northwest Harvest (the Organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years 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 audits. We conducted our audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Bader Martin, P.S. Certified Public Accountants + Business Advisors
1000 Second Avenue, 34th Floor, Seattle, Washington 98104-1022 | 206.621.1900 | FAX 206.682.1874 | www.badermartin.com

Board of Directors
Northwest Harvest
Seattle, Washington

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, Northwest Harvest adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Bader Martin, P.S.

June 9, 2020

NORTHWEST HARVEST

STATEMENTS OF FINANCIAL POSITION

	June 30, 2019	June 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 813,185	$ 743,544
Contributions and other receivables	1,033,910	292,984
Contributed rent receivable, current portion		75,227
Inventory-food held for distribution	4,365,420	2,707,464
Prepaid expenses	255,452	53,764
Total current assets	6,467,967	3,872,983
Investments	1,516,040	4,071,065
Beneficial interests in funds held by others	7,341,463	1,346,118
Property and equipment, net	12,367,095	10,881,863
	$ 27,692,565	**$ 20,172,029**
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 720,065	$ 654,381
Accrued liabilities	496,914	443,376
Total current liabilities	1,216,979	1,097,757
Deferred Rent Liability	104,389	
Total liabilities	1,321,368	1,097,757
Net assets:		
Without donor restrictions	18,497,714	16,865,898
With donor restrictions	7,873,483	2,208,374
Total net assets	26,371,197	19,074,272
	$ 27,692,565	**$ 20,172,029**

See notes to financial statements.

NORTHWEST HARVEST

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and support:			
Cash contributions and pledges:			
General public	$ 8,118,371	$ 7,249,054	$ 15,367,425
Corporations and foundations	2,449,309	1,099,194	3,548,503
Total cash contributions and pledges	10,567,680	8,348,248	18,915,928
Contributions of goods and services	42,157,780	30,000	42,187,780
Investment return, net	147,840	(17,794)	130,046
Other revenue	1,023,904		1,023,904
Net assets released from restrictions	2,695,345	(2,695,345)	
Total operating revenue and support	56,592,549	5,665,109	62,257,658
Expenses:			
Program services	50,461,405		50,461,405
Management and general	1,903,746		1,903,746
Fundraising	2,595,582		2,595,582
Total operating expenses	54,960,733		54,960,733
Total change in net assets	**1,631,816**	**5,665,109**	**7,296,925**
Net assets, beginning of year	16,865,898	2,208,374	19,074,272
Net assets, end of year	**$ 18,497,714**	**$ 7,873,483**	**$ 26,371,197**

See notes to financial statements.

NORTHWEST HARVEST

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	Without donor restrictions	With donor restrictions	Total
Operating activities:			
Revenue and support:			
Cash contributions and pledges:			
General public	$ 7,980,492	$ 293,665	$ 8,274,157
Corporations and foundations	2,875,347	787,839	3,663,186
Total cash contributions and pledges	10,855,839	1,081,504	11,937,343
Contributions of goods and services	33,449,556		33,449,556
Investment return, net	50,639	9,628	60,267
Other revenue	2,117,694		2,117,694
Net assets released from restrictions	1,075,004	(1,075,004)	
Total operating revenue and support	47,548,732	16,128	47,564,860
Expenses:			
Program services	44,259,315		44,259,315
Management and general	1,705,658		1,705,658
Fundraising	2,789,063		2,789,063
Total operating expenses	48,754,036		48,754,036
Change in net assets from operating activities	(1,205,304)	16,128	(1,189,176)
Non-operating activities:			
Loss on contributed rent receivable		(125,000)	(125,000)
Total change in net assets	**(1,205,304)**	**(108,872)**	**(1,314,176)**
Net assets, beginning of year	18,071,202	2,317,246	20,388,448
Net assets, end of year	**$ 16,865,898**	**$ 2,208,374**	**$ 19,074,272**

See notes to financial statements.

NORTHWEST HARVEST

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program services	Management and general	Fundraising	Total
Food and non-food distributed	$ 43,872,714			$ 43,872,714
Food and non-food transportation	494,000			494,000
Labor, taxes and benefits	3,799,418	$ 1,504,444	$ 1,183,894	6,487,756
Travel, learning and outreach	103,154	99,318	52,101	254,573
Facilities and equipment	1,054,825	29,629	48,171	1,132,625
Depreciation and amortization	515,192	85,333	48,500	649,025
Professional services	106,458	47,661	73,419	227,538
Technology and telecommunications	261,516	45,471	67,400	374,387
Branding, marketing and solicitations	12,729	10,293	480,934	503,956
Other operating	166,399	81,597	106,808	354,804
	50,386,405	1,903,746	2,061,227	54,351,378
In-kind media services			524,355	524,355
In-kind other services	75,000		10,000	85,000
Total functional expenses	**$ 50,461,405**	**$ 1,903,746**	**$ 2,595,582**	**$ 54,960,733**

See notes to financial statements.

NORTHWEST HARVEST

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program services	Management and general	Fundraising	Total
Food and non-food distributed	$ 38,201,777			$ 38,201,777
Food and non-food transportation	543,617			543,617
Labor, taxes and benefits	3,456,412	$ 1,349,129	$ 1,340,517	6,146,058
Travel, learning and outreach	128,263	81,169	69,565	278,997
Facilities and equipment	816,174	31,235	74,595	922,004
Depreciation and amortization	431,699	52,351	59,862	543,912
Professional services	241,593	70,107	37,022	348,722
Technology and telecommunications	126,105	38,562	72,352	237,019
Branding, marketing and solicitations	14,302	16,232	643,683	674,217
Other operating	198,611	66,471	65,115	330,197
	44,158,553	1,705,256	2,362,711	48,226,520
In-kind media services			426,352	426,352
In-kind other services	100,762	402		101,164
Total functional expenses	**$ 44,259,315**	**$ 1,705,658**	**$ 2,789,063**	**$ 48,754,036**

See notes to financial statements.

NORTHWEST HARVEST

STATEMENTS OF CASH FLOWS

	Year ended June 30, 2019	2018
Cash flows from operating activities:		
Change in net assets	$ 7,296,925	$ (1,314,176)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in beneficial interests in funds held by others	(5,995,345)	(36,934)
Realized and unrealized gain on investments	(24,905)	(10,291)
Depreciation and amortization	649,025	543,912
Loss (gain) on disposal of assets	82,873	(202)
Loss on contributed rent receivable		125,000
Donated property and equipment		(150,137)
Changes in operating assets and liabilities:		
Contributions and other receivables	(740,926)	(53,796)
Contributed rent receivable	75,227	120,906
Inventory-food held for distribution	(1,657,956)	1,233,545
Prepaid expenses	(201,688)	160,064
Accounts payable	65,684	33,695
Accrued liabilities	53,538	(14,777)
Deferred rents	104,389	
Net cash provided by (used in) investing activates	(293,159)	636,809
Cash flows from investing activities:		
Purchases of investments	(893,897)	(6,512,868)
Proceeds from sales of investments	3,473,827	6,207,038
Purchases of property and equipment	(2,217,930)	(630,155)
Proceeds from disposal of property and equipment	800	1,550
Net cash provided by (used in) investing activities	362,800	(934,435)
Change in cash and cash equivalents	69,641	(297,626)
Cash and cash equivalents, beginning of year	743,544	1,041,170
Cash and cash equivalents, end of year	**$ 813,185**	**$ 743,544**
Supplemental cash flow disclosure:		
Non-cash financing activity - donated property and equipment	**$**	**$ 150,137**

See notes to financial statements.

1. Organization and summary of significant accounting policies:

Organization:

Northwest Harvest (the Organization) is a Washington nonprofit corporation. The Organization's mission is to lead the fight for hungry people statewide to have access to nutritious food – while respecting their dignity and promoting good health. Food from the Organization is always free to anyone in need. The Organization's vision is to end hunger in Washington State.

The Organization carries out its mission by collecting and distributing food, operating a food bank in Seattle, and advocating for public policies that reduce food insecurity. Northwest Harvest is the only nonprofit food bank distributor operating statewide in Washington with a network of 375 food banks, meal programs, and high-need schools. With distribution centers in Kent, Yakima, and Spokane, the Organization reaches across the state, particularly in rural communities where people in need would otherwise go hungry. In addition, the Organization provides technical assistance and support to its partners in the emergency food network.

The Organization has a memorandum of understanding with the Anti-Hunger Nutrition Coalition (AHNC). Under this agreement the Organization will serve as a fiscal sponsor until AHNC incorporates and obtains tax exempt status. All donations received by the Organization on behalf of AHNC will be treated as temporarily restricted donations and will be released when spent on the AHNC program. During the years ended June 30, 2019 and 2018, the Organization received contributions related to AHNC of $750 and $4,817, respectively. During the year ended June 30, 2019 and 2018, the Organization incurred expenses associated to AHNC of $1,641 and $750, respectively.

Basis of presentation:

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

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. The board of directors has designated, from net assets without donor restrictions, net assets for specific purposes.

1. Organization and summary of significant accounting policies (continued):

Basis of presentation (continued):

- Net assets with donor restrictions – net assets subject to donor imposed stipulations, and grantors. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue and support are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. When a restriction expires or the stipulated purpose has been fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions. Contributions with donor imposed restrictions where the restrictions are met in the same period of the contributions are shown as revenues and expenses without donor restrictions on the statement of activities.

Donated goods and services:

The Organization has included the value of donated goods and qualifying services as a part of total revenue and expenses. Food and non-food products are recorded at values using average fair value per pound or fair value of donated services, equipment and software. Facility rental, advertising and other services are valued at comparable costs quoted to the general public.

Cash and cash equivalents:

The Organization considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents, other than those included within the investment portfolio.

Receivables:

Contributions and other receivables are stated at amounts the Organization expects to collect from outstanding balances. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible contributions and past due receivables. The adequacy of the allowance is based upon the Organization’s evaluation of the quality, character, and inherent risks in the various receivable categories. Uncollectible amounts are written off against the allowance when the Organization has exhausted all collection efforts.

1. Organization and summary of significant accounting policies (continued):

Contributed rent receivable:

Contributed rent receivable represents the value of the remaining use of certain facilities through a multi-year in-kind facility lease.

Investments:

Investments in securities are carried at fair value. Securities donated to the Organization are recorded at fair value at date of gift. It is the Organization's policy that such gifts are immediately sold. Investment return is reported on the statement of activities and consist of interest, dividends, realized, and unrealized gains or losses on investments, net of investment management fees.

Inventory:

Inventory consists of food held for distribution and is valued at cost if purchased and at an annual rate published by the United States Department of Agriculture if donated.

Beneficial interests in funds held by others:

Amounts represent trusts and funds held and managed by others. The Organization initially records such amounts at their net present value when notified by the donor or donor representative. Thereafter, the interests are adjusted annually to fair value.

Property and equipment:

Property and equipment is recorded at cost if purchased and at fair value if donated. Leasehold improvements are depreciated over the shorter of the lease term or useful life. Depreciation is computed using the straight-line method, half-year convention, over the estimated useful lives of the assets. Useful lives of property and equipment are listed below:

Warehouse building	39 years
Building improvements	5-10 years
Office furniture and equipment	5-10 years
Food storage equipment	5-7 years
Automotive equipment	5 years
Computer and software	3-5 years

1. Organization and summary of significant accounting policies (continued):

Deferred rent:

Non-cancelable operating lease expenses are recognized using the straight-line method over the related lease term. The current and cumulative differences between the amount of rent expense recorded using the straight-line method and rent due according to the provisions of the lease are deferred in the accompanying statements of financial position.

Line of credit:

During the year ended June 30, 2019, the Organization entered into an operating line of credit with a maximum limit of $500,000. Interest on the borrowings is calculated at fixed rate of 4.75% with a maturity date of February 28, 2024. There was no outstanding balance as of June 30, 2019.

Advertising:

Advertising costs are expensed as incurred.

Concentrations:

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

The Organization received 32% of its donated food from two donors for the year ended June 30, 2018.

Functional allocation of expenses:

The costs of providing program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets. Certain costs have been allocated based on management's estimates.

1. Organization and summary of significant accounting policies (continued):

Income taxes:

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes under the provisions of section 501(a) of the Internal Revenue Code.

The Organization evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred and the amount can be reasonably estimated.

Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimated and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Risk and uncertainties:

The Organization invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

1. Organization and summary of significant accounting policies (continued):

Subsequent events:

The Organization has evaluated subsequent events through June 9, 2020, the date on which the financial statements were available to be issued.

Subsequent to year end, the Organization approved a plan to sell its warehouse located in Kent, Washington. In December 2019, the warehouse was sold for $17,850,000, at which time the Organization entered into a lease back of the facility through December 31, 2022, with an option to renew for an additional five years. The accounting impact of the transaction has not yet been determined.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States (US). The immediate impact on the US and international economies has been significant. There is significant uncertainty regarding the breadth and duration of the business disruptions related to COVID-19, as well as the impact on the US and global economies. We expect this matter to affect the Organization, results of operations and financial position, but the related financial impact cannot be reasonably estimated at this time.

In May 2020, the Organization received a loan of approximately $1,325,000 through the U.S. Small Business Administration Paycheck Protection Program.

Change in accounting principle:

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

2. Liquidity and availability:

   The Organization strives to maintain liquid financial assets sufficient to cover 60 days of fixed operating expenditures. Such expenditures average approximately $750,000 per month. Financial assets in excess of the minimum cash requirement are invested in certificates of deposit, money market funds and other short-term investments.

   The following table reflects the Organization's financial assets as of June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions or designations by the board of directors.

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	$ 813,185	$ 743,544
Investments	1,516,040	4,071,065
Beneficial interests in funds held by others	7,341,463	1,346,118
Contributions and other receivables	1,033,910	292,984
Total financial assets	10,704,598	6,453,711
Total restrictions and designations:		
Board designated	109,493	
Donor-imposed restrictions:		
Specific time or purpose restrictions	721,895	1,034,672
Endowments	7,151,588	1,173,702
Total restrictions and designations	7,982,976	2,208,374
Financial assets available to meet cash needs for general expenditures within one year	**$ 2,721,622**	**$ 4,245,337**

3. Unemployment self-insurance:

The Organization is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under State Unemployment Insurance Statutes. The reserve balance totaled $6,926 and $23,856 at June 30, 2019 and 2018, respectively, and is included in prepaid expenses on the statements of financial position. On a quarterly basis the Organization reviews the activity in its Trust account and reduces the reserve balance by any claims disbursed out of its account. As of both June 30, 2019 and 2018, an accrual of $10,000 has been made for any potentially incurred but not reported unemployment claims that may exist at each date and is included in accrued liabilities on the statements of financial position.

4. Investments:

The Organization had the following investments at June 30:

	2019	2018
Cash	$ 7,523	$ 4,576
Money market accounts	6,657	2,299,234
Certificates of deposit	1,501,860	1,767,255
Total investments	**$ 1,516,040**	**$ 4,071,065**

The investments at June 30, 2019 and 2018, are all held in short-term instruments. However, the Organization considers these to be long-term investments as management intends to hold these balances as a long-term operating reserve, and the investments are subject to the Organization's investment policy. These investments are available, if needed, to meet general expenditures during the next year.

4. Investments (continued):

The Organization earns investment return on funds held by the Seattle Foundation, a perpetual trust, and investments. The following summarizes investment returns from all sources for the years ended June 30:

	2019	2018
Interest income	$ 88,383	$ 13,042
Realized gains (losses)	(11,464)	6,954
Unrealized gains	(77,022)	3,337
Investment return on Seattle Foundation funds, net	4,423	23,804
Trust distributions	(22,113)	(26,561)
Change in value of beneficial interest in perpetual fund	147,839	39,691
Total investment return, net	**$ 130,046**	**$ 60,267**

5. Beneficial interests in funds held by others:

Perpetual trust:

The Organization was named as a beneficiary of a perpetual trust. Under the terms of the trust, an independent trustee will make semi-annual distributions, in perpetuity, to the Organization based upon 2.5% of the trust's net assets. The distributions are available for the general operations. Accordingly, contribution revenue and the related asset were recognized at fair value in the period in which the Organization received notice that the trust agreement conveyed an unconditional, irrevocable right to receive benefits. Subsequent changes in the value of the underlying assets have been recorded in the accompanying statement of activities as a component of investment return, net with donor restrictions.

5. Beneficial interests in funds held by others (continued):

Seattle Foundation and Floyd Jones Endowment:

In November 2007, the Organization established designated endowment funds (the Funds) at the Seattle Foundation (the Foundation). The assets of the Funds are held and owned by the Foundation in its corporate capacity and are not deemed held by the Foundation as trustee of a separate trust for the Organization. Donors granted no variance power to the Foundation. The Foundation shall distribute not less often than annually, unless otherwise requested by the Organization, 4% to 5% of the market, which shall be the three-year trailing average for the Funds, with the excess earnings, if any, being added to principal. During the initial first three years of the endowment, the average over the annual periods of investment or fund will be utilized. The principal of the endowment must be retained, administered, and managed by the Foundation for the benefit of the Organization. The Organization requested that no funds be distributed for the year ended June 30, 2018. The Organization requested funds be distributed from the Seattle Foundation funds of $96,909 for the year ended June 30, 2019. No such funds were distributed from the Floyd Jones Endowment.

Beneficial interests in funds held by others are summarized as follows for the years ended June 30:

	2019	2018
Floyd Jones Endowment	$ 6,109,943	
Perpetual trust	1,084,299	$ 1,106,412
Seattle Foundation funds	147,221	239,706
Total beneficial interests in funds held by others	**$ 7,341,463**	**$ 1,346,118**

6. Fair value measurements:

GAAP provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

- Level 1 – Inputs are based on quoted market prices within active markets for identical assets or liabilities.

- Level 2 – Inputs are directly or indirectly observable for the asset or liability, excluding quoted prices used in Level 1. Examples include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, interest rates, volatilities, prepayments and credit risks.

- Level 3 – There are significant unobservable inputs in this level. Investments are primarily valued using the reporting entity's own assumptions about what market participants would utilize in pricing the asset or liability.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Organization's assets are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain assets, it is reasonably possible that changes in the values of the assets will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

- Certificates of deposit – Valued based on quoted market prices in active markets.

- Beneficial interests in funds held by others – Valued using the proportionate share of fair value of the underlying investments held by the trustee or Seattle Foundation as provided by the trustee or Seattle Foundation.

6. Fair value measurements (continued):

The valuation methodologies used by the Organization 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's management 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.

Fair values of assets and liabilities measured, by level, are as follows:

	Fair value measurements at June 30, 2019			
	Level 1	Level 2	Level 3	Total
Beneficial interests in funds held by others	**$7,194,242**	**$**	**$ 147,221**	**$7,341,463**

	Fair value measurements at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Beneficial interests in funds held by others	**$1,106,412**	**$**	**$ 239,706**	**$1,346,118**

6. Fair value measurements (continued):

A reconciliation of the beginning and ending balances for fair value measurements of the beneficial interests in funds held by others, made using significant unobservable inputs (Level 3) is as follows for the years ended June 30:

	2019	2018
Balance as of beginning of year	$ 239,706	$ 215,902
Investment return on Seattle Foundation funds, net	4,423	23,804
Distributions	(96,908)	
Balance as of end of year	**$ 147,221**	**$ 239,706**

7. Property and equipment:

The components of property and equipment for the years ended June 30 are as follows:

	2019	2018
Land	$ 1,845,648	$ 1,845,648
Warehouse building	10,071,863	10,071,863
Building improvements	773,776	773,776
Leasehold improvements	2,316,423	600,541
Office furniture and equipment	828,114	851,556
Food storage equipment	1,394,542	1,386,292
Automotive equipment	1,526,521	1,472,414
Computer and software	1,017,783	902,423
Property and equipment, at cost	19,774,670	17,904,513
Less accumulated depreciation and amortization	(7,407,575)	(7,022,650)
Total property and equipment, net	**$12,367,095**	**$10,881,863**

8. Donated goods and services:

The following summary of donated goods and services revenue is reflected in the accompanying financial statements for the years ended June 30:

	2019	2018
Food and non-food goods received	$ 41,494,534	$ 32,700,953
Donated media	524,355	426,352
Other donated goods and services received	168,891	322,251
Total contributions of goods and services	**$ 42,187,780**	**$ 33,449,556**

Volunteer services that do not require specialized skills are not reflected in the accompanying financial statements. Management estimates the dollar value of volunteer time according to the Bureau of Labor and Statistics value of average hourly earnings of all production and nonsupervisory workers on private non-farm payrolls. The hourly wage was $23.38 and $22.67 for the years ended June 30, 2019 and 2018, respectively. The fair value of 72,860 volunteer hours is estimated by management to be worth approximately $1,703,500 (unaudited) for the year ended June 30, 2019. The fair value of 91,270 volunteer hours is estimated by management to be worth approximately $2,069,000 (unaudited) for the year ended June 30, 2018.

9. Retirement plan:

The Organization has a 401(k) salary deferral plan for eligible employees who have one year of continuous service. At the discretion of the Board of Directors (the Board), the Organization may contribute an additional uniform percentage to each employee eligible to participate in the plan. Employer contributions for the years ended June 30, 2019 and 2018, were $207,655 and $206,215, respectively.

10. Commitments and contingencies:

Headquarters lease:

The Organization had a lease agreement with an unrelated party (the Lessor) for the Seattle administration office and food bank that was originally set to expire on June 30, 2025 and for which no rent was required to be paid to the Lessor. The value of this contribution of free rent was recorded as in-kind contribution revenue of $1,200,000 during the year ended June 30, 2013, when the lease was signed. During the year ended June 30, 2016, management determined this receivable was impaired, due to receiving notice from the Lessor that the space would need to be vacated for demolition. Although no formal deadline for move out had been established, as of June 30, 2016, management estimated it would need to vacate the space on or after May 2019. As a result, a write down of $600,000 was recorded against the remaining receivable at June 30, 2016. The impairment was booked as a non-operating loss on the statement of activities and changes in net assets.

During the year ended June 30, 2018, the vacate date was revised to March 31, 2019. As a result, management wrote down the remaining receivable balance by $125,000. The total remaining receivable at June 30, 2018 was $75,000.

In January 2017, the Organization entered into a new lease agreement for its Seattle administrative office. The term of the lease is 120 months, expiring December 31, 2027. The lease has monthly rental payments starting at $5,569 with scheduled rent increases over the term of the lease.

In September 2018, the Organization signed a lease agreement for a new food bank location in Seattle commencing on October 1, 2018, with base rent payments escalating from approximately $10,700 to $13,900 to be paid through March 2029.

Other leases:

The Organization has leases for warehouse space in Spokane and Yakima. The Spokane lease has a term ending October 31, 2023, and required three payments of $5,168 and nine payments of $6,256 during the year ended June 30, 2019. The Organization has a lease for its Yakima facility with a term through December 31, 2019 and with monthly payments of $9,503.

10. Commitments and contingencies (continued):

Other leases (continued):

Future minimum lease payments required under these operating lease agreements for years ending subsequent to June 30, 2019 are summarized as follows:

For the year ending June 30,	
2020	$ 337,451
2021	289,037
2022	297,690
2023	307,346
2024	259,332
Thereafter	980,124
Total commitments	**$ 2,470,980**

Rental expense was $425,129 and $256,884 for the years ended June 30, 2019 and 2018, respectively.

Contingencies:

The Organization is involved, from time to time, in various claims and other legal issues arising in the normal course of business. Management believes that any uninsured costs that may be incurred in the resolution of such claims would not be material to the Organization's financial position.

11. Net assets:

Board designated net assets (without donor restrictions) are designated for the following purposes at June 30, 2019:

Board designated for Jones Endowment	$ 109,493
	$ 109,493

There were no board designated net assets as of June 30, 2018.

11. Net assets (continued):

Net assets with donor restrictions are restricted for the following purposes for the years ended June 30:

	2019	2018
Subject to the passage of time or expenditure for specific purpose:		
Contributed rent		$ 75,000
Food and other program services	$ 678,704	800,986
Capital purchases		22,319
Accumulated unappropriated earnings on endowments	27,995	120,280
Anti-Hunger Nutrition Coalition	15,196	16,087
Total subject to the passage of time or expenditure for specific purpose	721,895	1,034,672
Floyd Jones endowment	6,000,000	
Perpetual trust	1,032,163	1,054,276
Seattle Foundation endowments	119,425	119,426
Total net assets with donor restrictions	**$ 7,873,483**	**$ 2,208,374**

Net assets released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors are as follows for the years ended June 30:

	2019	2018
Food and other program services	$ 549,845	$ 921,754
Capital purchases	1,851,597	3,250
Advocacy	24,000	
Accumulated unappropriated earnings on endowments	94,849	
In-kind rent agreement	75,000	100,000
Other	100,054	50,000
	$ 2,695,345	**$ 1,075,004**

12. Endowments:

The Organization’s endowments consist of two funds held at the Seattle Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

The Board has reviewed the Washington State Uniform Prudent Management of Institutional Funds Act (UPMIFA), and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this determination, the Organization classifies as endowment assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

All investment earnings and appreciation not required to be retained in endowment net assets, as described above, will be classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund,
(2) The purposes of the Organization and the donor-restricted endowment fund,
(3) General economic conditions,
(4) The possible effect of inflation and deflation,
(5) The expected total return from income and the appreciation of investments,
(6) Other resources of the Organization, and
(7) The investment policies of the Organization.

12. Endowments (continued):

Strategies employed for achieving objectives:

The Organization's endowment is invested at the Seattle Foundation and is subject to its investment policies. As previously discussed, the Foundation must distribute not less often than annually, unless otherwise requested by the Organization, approximately 5% (determined by the Board of Trustees of the Foundation) of the fair market value of the Funds, with the excess earnings, if any, being added to principal.

The principal of the endowment must be retained, administered, and managed by the Foundation for the benefit of the Organization. The Organization requested $96,908 of funds be distributed for the year ended June 30, 2019. No such requests for distributions were made for the year ended June 30, 2018.

Funds with deficiencies:

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. There was no such deficiency as of June 30, 2019 and 2018.

Changes to endowment net assets for the years ended June 30 are as follows:

	2019	2018
Endowment net assets, beginning of year	$ 239,706	$ 215,902
Distributions	(96,908)	
Realized and unrealized gains	4,423	23,804
Endowment net assets, end of year	**$ 147,221**	**$ 239,706**