

NORTHWEST HARVEST

JUNE 30, 2018 AND 2017
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, 2018 and 2017, 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

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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, 2018 and 2017, 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.

BADER MARTIN, P.S.

January 8, 2019

NORTHWEST HARVEST

STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 743,544	\$ 1,041,170
Contributions and other receivables	292,984	239,188
Contributed rent receivable, current portion	75,227	121,133
Inventory-food held for distribution	2,707,464	3,941,009
Prepaid expenses	53,764	213,828
Total current assets	3,872,983	5,556,328
Contributed rent receivable		200,000
Investments	4,071,065	3,754,944
Beneficial interests in funds held by others	1,346,118	1,309,184
Property and equipment, net	10,881,863	10,646,831
	\$ 20,172,029	\$ 21,467,287
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 654,381	\$ 620,686
Accrued liabilities	443,376	458,153
Total current liabilities	1,097,757	1,078,839
Net assets:		
Unrestricted:		
Undesignated	16,865,898	17,457,492
Board designated		613,710
Total unrestricted	16,865,898	18,071,202
Temporarily restricted	1,034,672	1,130,113
Permanently restricted	1,173,702	1,187,133
Total net assets	19,074,272	20,388,448
	\$ 20,172,029	\$ 21,467,287

See notes to financial statements.

NORTHWEST HARVEST

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily restricted	Permanently restricted	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	23,059	\$ (13,431)	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	29,559	(13,431)	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)	29,559	(13,431)	(1,189,176)
Non-operating activities:				
Loss on contributed rent receivable		(125,000)		(125,000)
Total change in net assets	(1,205,304)	(95,441)	(13,431)	(1,314,176)
Net assets, beginning of year	18,071,202	1,130,113	1,187,133	20,388,448
Net assets, end of year	<u>\$16,865,898</u>	<u>\$ 1,034,672</u>	<u>\$ 1,173,702</u>	<u>\$19,074,272</u>

See notes to financial statements.

NORTHWEST HARVEST

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating activities:				
Revenue and support:				
Cash contributions and pledges:				
General public	\$ 6,467,299	\$ 274,773		\$ 6,742,072
Corporations and foundations	4,025,312	636,544		4,661,856
Total cash contributions and pledges	10,492,611	911,317		11,403,928
Contributions of goods and services	40,050,750			40,050,750
Investment return, net	37,229	23,032	\$ 30,048	90,309
Other revenue	1,505,491			1,505,491
Net assets released from restrictions	1,003,786	(1,003,786)		
Total operating revenue and support	53,089,867	(69,437)	30,048	53,050,478
Expenses:				
Program services	49,415,424			49,415,424
Management and general	1,513,260			1,513,260
Fundraising	2,736,411			2,736,411
Total operating expenses	53,665,095			53,665,095
Change in net assets from operating activities	(575,228)	(69,437)	30,048	(614,617)
Non-operating activities:				
Loss on disposal of fixed assets	(183,514)			(183,514)
Recovery of contributed rent receivable		100,000		100,000
Total change in net assets	(758,742)	30,563	30,048	(698,131)
Net assets, beginning of year	18,829,944	1,099,550	1,157,085	21,086,579
Net assets, end of year	<u>\$ 18,071,202</u>	<u>\$ 1,130,113</u>	<u>\$ 1,187,133</u>	<u>\$20,388,448</u>

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

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program services	Management and general	Fundraising	Total
Food and non-food distributed	\$ 43,304,054			\$ 43,304,054
Food and non-food transportation	689,671			689,671
Labor, taxes and benefits	3,709,939	\$ 859,272	\$ 1,184,669	5,753,880
Travel, learning and outreach	121,561	59,718	58,439	239,718
Facilities and equipment	813,372	90,651	27,649	931,672
Depreciation and amortization	352,520	112,568	81,649	546,737
Professional services	35,937	177,364	98,782	312,083
Technology and telecommunications	153,135	144,815	50,806	348,756
Branding, marketing and solicitations	11,384	16,418	887,620	915,422
Other operating	103,490	40,444	24,585	168,519
	49,295,063	1,501,250	2,414,199	53,210,512
In-kind media services			276,058	276,058
In-kind other services	120,361	12,010	46,154	178,525
Total functional expenses	\$ 49,415,424	\$ 1,513,260	\$ 2,736,411	\$ 53,665,095

See notes to financial statements.

NORTHWEST HARVEST

STATEMENTS OF CASH FLOWS

	Year ended June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (1,314,176)	\$ (698,131)
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	(36,934)	(75,308)
Realized and unrealized gain on investments	(10,291)	(488)
Depreciation and amortization	543,912	546,737
Loss (gain) on disposal of assets	(202)	183,514
Loss on (recovery of) contributed rent receivable	125,000	(100,000)
Donated property and equipment	(150,137)	(69,500)
Changes in operating assets and liabilities:		
Contributions and other receivables	(53,796)	(57,811)
Contributed rent receivable	120,906	78,867
Inventory-food held for distribution	1,233,545	(676,165)
Prepaid expenses	160,064	79,585
Accounts payable	33,695	431,236
Accrued liabilities	(14,777)	107,253
Net provided by (cash used) in operating activities	636,809	(250,211)
Cash flows from investing activities:		
Purchases of investments	(6,512,868)	(4,391,440)
Proceeds from sales of investments	6,207,038	2,793,345
Purchases of property and equipment	(630,155)	(348,181)
Proceeds from disposal of property and equipment	1,550	
Net cash used in investing activities	(934,435)	(1,946,276)
Change in cash and cash equivalents	(297,626)	(2,196,487)
Cash and cash equivalents, beginning of year	1,041,170	3,237,657
Cash and cash equivalents, end of year	\$ 743,544	\$ 1,041,170
Supplemental cash flow disclosure:		
Non-cash financing activity - donated property and equipment	\$ 150,137	\$ 69,500

See notes to financial statements.

NORTHWEST HARVEST

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, 2018 and 2017, the Organization received contributions related to AHNC of \$4,817 and \$4,503, respectively. During the year ended June 30, 2018 and 2017, the Organization incurred expenses associated to AHNC of \$750 and \$646, 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 of America (GAAP). 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:

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. Included in unrestricted net assets are amounts unrestricted by donors but designated by the Board of Directors for specific future uses.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Basis of presentation (continued):

- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met, either by actions of the Organization and/or the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.
- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Time restrictions on pledges generally expire in the period that the pledges are due.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures and equipment) are reported as temporarily restricted. When the long-lived assets are acquired, the Organization reflects the expiration of the donor-imposed restriction as a reclassification included in net assets released from restrictions.

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 with the investment portfolio.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Investments:

Realized and unrealized gains and losses are included in the statement of activities. The Organization carries its certificates of deposits held at brokerage firms at fair value. All other investments, which consist of certificates of deposit held at banks, money market accounts, and cash, are carried at cost plus accrued interest.

Contributed rent receivable:

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

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:

The Organization capitalized all assets with a cost greater than \$5,000 and an estimated useful life of one or more years. 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

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Line of credit:

During the year ended June 30, 2018, 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, 2018.

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% and 41% of its donated food from two donors for the year ended June 30, 2018 and 2017, respectively.

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.

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.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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.

Reclassifications:

Certain reclassifications were made to the June 30, 2017 financial statements to conform to the current period presentation. The reclassifications have no effect on previously reported change in net assets or net assets.

Subsequent events:

The Organization has evaluated subsequent events through January 8, 2019, the date on which the financial statements were available to be issued.

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.

The Organization received a \$6,000,000 bequest on December 28, 2018.

2. 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 \$23,856 and \$43,426 at June 30, 2018 and 2017, 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, 2018 and 2017, 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.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Investments:

The Organization had the following investments at June 30:

	2018	2017
Cash	\$ 4,576	\$ 2,773
Money market accounts	2,299,234	1,754,296
Certificates of deposit	1,767,255	1,997,875
Total investments	<u>\$ 4,071,065</u>	<u>\$ 3,754,944</u>

The investments at June 30, 2018 and 2017, 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.

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:

	2018	2017
Interest income	\$ 13,042	\$ 14,513
Realized gains (losses)	6,954	(432)
Unrealized gains	3,337	920
Investment return on		
Seattle Foundation funds, net	23,804	19,685
Trust distributions	(26,561)	(51,149)
Change in value of beneficial interest in perpetual fund	39,691	106,772
Total investment return, net	<u>\$ 60,267</u>	<u>\$ 90,309</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. 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 permanently restricted investment return.

Seattle Foundation:

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 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 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 that no funds be distributed for either year ended June 30, 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
Perpetual trust	\$ 1,106,412	\$ 1,093,282
Seattle Foundation funds	<u>239,706</u>	<u>215,902</u>
Total beneficial interests in funds held by others	<u>\$ 1,346,118</u>	<u>\$ 1,309,184</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. 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, 2018 and 2017.

- 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.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. 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. The Organization re-evaluated the fair value disclosures during the fiscal year 2017 and determined that the beneficial interest in the perpetual trust should be reclassified from Level 3 to Level 1.

Fair values of assets and liabilities measured, by level, as of June 30 are as follows:

	Fair value measurements at June 30, 2018			
	Level 1	Level 2	Level 3	Total
Beneficial interests in funds held by others	<u>\$1,106,412</u>	<u>\$</u>	<u>\$ 239,706</u>	<u>\$1,346,118</u>
	Fair value measurements at June 30, 2017			
	Level 1	Level 2	Level 3	Total
Beneficial interests in funds held by others	<u>\$1,093,282</u>	<u>\$</u>	<u>\$ 215,902</u>	<u>\$1,309,184</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. 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:

	2018	2017
Balance as of beginning of year	\$ 215,902	\$ 1,233,876
Investment return on Seattle Foundation funds, net	23,804	19,685
Change in value of perpetual trust		106,772
Trust distributions		(51,149)
Transfer out of Level 3		(1,093,282)
Balance as of end of year	\$ 239,706	\$ 215,902

6. Property and equipment:

The components of property and equipment at June 30 are as follows:

	2018	2017
Land	\$ 1,845,648	\$ 1,845,648
Warehouse building	10,071,863	10,071,863
Building improvements	773,776	623,638
Leasehold improvements	600,541	600,541
Office furniture and equipment	851,556	836,556
Food storage equipment	1,386,292	1,339,838
Automotive equipment	1,472,414	1,367,337
Computer and software	902,423	442,844
Property and equipment, at cost	17,904,513	17,128,265
Less accumulated depreciation and amortization	(7,022,650)	(6,481,434)
Total property and equipment, net	\$ 10,881,863	\$ 10,646,831

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. 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:

	<u>2018</u>	<u>2017</u>
Food and non-food goods received	\$ 32,700,953	\$ 39,541,060
Donated media	426,352	276,058
Other donated goods and services received	<u>322,251</u>	<u>233,632</u>
Total contributions of goods and services	<u>\$ 33,449,556</u>	<u>\$ 40,050,750</u>

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 \$22.67 and \$22.03 for the years ended June 30, 2018 and 2017, respectively. 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. The fair value of 96,477 volunteer hours is estimated by management to be worth approximately \$2,125,000 (unaudited) for the year ended June 30, 2017.

8. 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, 2018 and 2017, were \$206,215 and \$195,720, respectively.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Commitments and contingencies:

Headquarters lease:

The Organization has a lease agreement with an unrelated party (the Lessor) for the Seattle administration office and food bank that expires on June 30, 2025, and no rent is 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. Management has determined that the present value discount of the future lease period is immaterial. The temporary restriction will be released on a straight line basis over the term of the lease agreement. During the year ended June 30, 2016, management determined this receivable was impaired, due to receiving notice from the Lessor that the space will 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, 2017, management revised the vacate date to June 30, 2020. As a result, management reversed \$100,000 of the prior year write down and increased the long term receivable balance. During the year ended June 30, 2018 management again revised the vacate date 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 and 2017 was \$75,000 and \$300,000, respectively.

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.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Commitments and contingencies (continued):

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 four payments of \$5,032 and eight payments of \$5,168 during the year ended June 30, 2018. The Organization has a lease for its Yakima facility with a term through December 31, 2018 and with monthly payments of \$8,531.

Future minimum lease payments required under these operating lease agreements for years ending subsequent to June 30, 2018 are summarized as follows:

<u>For the year ending June 30,</u>	
2019	\$ 193,884
2020	150,301
2021	154,786
2022	161,085
2023	166,643
Thereafter	<u>344,949</u>
Total commitments	<u>\$ 1,171,648</u>

Rental expense was \$256,884 and \$247,768 for the years ended June 30, 2018 and 2017, 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.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Net assets:

Board designated net assets (unrestricted by donor) are designated for the following purposes at June 30, 2017:

Facilities	\$ 110,995
Working capital reserve	<u>502,715</u>
	<u>\$ 613,710</u>

There were no board designated net assets as of June 30, 2018 as the board elected to remove those restrictions during the year.

Temporarily restricted net assets are available for the following periods or activities at June 30:

	<u>2018</u>	<u>2017</u>
Contributed rent	\$ 75,000	\$ 300,000
Food and other program services	800,986	699,047
Capital purchases	22,319	22,570
Accumulated unappropriated earnings on endowments	120,280	96,476
Anti-Hunger Nutrition Coalition	<u>16,087</u>	<u>12,020</u>
	<u>\$ 1,034,672</u>	<u>\$ 1,130,113</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Net assets (continued):

Permanently restricted net assets are as follows at June 30:

	<u>2018</u>	<u>2017</u>
Perpetual trust	\$ 1,054,276	\$ 1,067,707
Seattle Foundation endowments	<u>119,426</u>	<u>119,426</u>
	<u>\$ 1,173,702</u>	<u>\$ 1,187,133</u>

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:

	<u>2018</u>	<u>2017</u>
Purpose restriction:		
Food and other program services	\$ 921,754	\$ 831,135
Capital purchases	3,250	22,651
Time restriction:		
In-kind rent agreement	100,000	100,000
Other	<u>50,000</u>	<u>50,000</u>
	<u>\$ 1,075,004</u>	<u>\$ 1,003,786</u>

11. 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.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Endowments (continued):

Interpretation of relevant law (continued):

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 temporarily restricted net assets 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.

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 that no funds be distributed for either year ended June 30, 2018 and 2017.

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Endowments (continued):

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. Deficiencies of this nature are classified as a decrease in unrestricted net assets and any subsequent gains that restore the fair value of the assets of the endowment fund to the required level are classified as an increase in unrestricted net assets. There was no such deficiency as of June 30, 2018 and 2017.

Endowment net assets consists of the following:

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2018	<u>\$ 120,280</u>	<u>\$ 119,426</u>	<u>\$ 239,706</u>
Endowment net assets, June 30, 2017	<u>\$ 96,476</u>	<u>\$ 119,426</u>	<u>\$ 215,902</u>

Changes to endowment net assets for the year ended June 30, 2018 are as follows:

	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	\$ 96,476	\$ 119,426	\$ 215,902
Investment return, net	<u>23,804</u>	<u> </u>	<u>23,804</u>
Endowment net assets, end of year	<u>\$ 120,280</u>	<u>\$ 119,426</u>	<u>\$ 239,706</u>

NORTHWEST HARVEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Endowments (continued):

Changes to endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 76,791	\$ 119,426	\$ 196,217
Investment return, net	<u>19,685</u>	<u> </u>	<u>19,685</u>
Endowment net assets, end of year	<u>\$ 96,476</u>	<u>\$ 119,426</u>	<u>\$ 215,902</u>