



Financial Statements
June 30, 2018 and 2017

Great Plains Food Bank

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Independent Auditor's Report

The Board of Directors
Great Plains Food Bank
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Great Plains Food Bank, 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.

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 Great Plains Food Bank 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018 on our consideration of Great Plains Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance the results of that testing, and not to provide an opinion on the effectiveness of Great Plains Food Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performance in accordance with *Government Auditing Standards* in considering Great Plains Food Bank's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
November 30, 2018

Great Plains Food Bank
Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,894,738	\$ 1,490,258
Accounts receivable	102,876	83,782
Unconditional promises to give	796,168	660,254
Inventories		
Purchased food product	173,272	139,056
Donated food product	1,146,677	978,898
Prepaid expenses	3,165	27,312
Total current assets	4,116,896	3,379,560
Property and Equipment, Net	1,264,782	1,192,227
Investments	193,661	124,973
Total assets	\$ 5,575,339	\$ 4,696,760
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 100,000	\$ 100,000
Current portion of capital lease obligations	37,616	16,573
Accounts payable	179,755	90,959
Accrued liabilities		
Accrued compensated absences	78,999	56,818
Accrued payroll taxes and other	56,252	61,383
Deferred revenue	-	54,700
Total current liabilities	452,622	380,433
Long-term Liabilities		
Long-term debt, net of current portion	200,000	300,000
Capital lease obligations, net of current portion	202,843	99,307
Total liabilities	855,465	779,740
Net Assets		
Unrestricted	3,682,002	3,045,010
Temporarily restricted	848,645	753,871
Permanently restricted	189,227	118,139
Total net assets	4,719,874	3,917,020
Total liabilities and net assets	\$ 5,575,339	\$ 4,696,760

Great Plains Food Bank
Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Other Income				
Public Support				
Individual donations	\$ 1,714,052	\$ 164,478	\$ 71,088	\$ 1,949,618
Church and other donations	934,303	605,524	-	1,539,827
Donated food	21,844,452	-	-	21,844,452
USDA Commodities	2,248,788	-	-	2,248,788
United Way	111,155	57,240	-	168,395
Private grants	24,086	287,331	-	311,417
Program revenues	882,593	-	-	882,593
Governmental fees and grants	213,700	-	-	213,700
	<u>27,973,129</u>	<u>1,114,573</u>	<u>71,088</u>	<u>29,158,790</u>
Special event revenue	11,370	-	-	11,370
Less cost of direct benefits to donors	(26,253)	-	-	(26,253)
Net special events revenue (expense)	<u>(14,883)</u>	<u>-</u>	<u>-</u>	<u>(14,883)</u>
Net assets released from restrictions	<u>1,023,056</u>	<u>(1,023,056)</u>	<u>-</u>	<u>-</u>
Total public support	<u>28,981,302</u>	<u>91,517</u>	<u>71,088</u>	<u>29,143,907</u>
Other Income				
Investment income	467	3,257	-	3,724
Miscellaneous income (expense)	10,104	-	-	10,104
Total other income	<u>10,571</u>	<u>3,257</u>	<u>-</u>	<u>13,828</u>
Total public support and other income	<u>28,991,873</u>	<u>94,774</u>	<u>71,088</u>	<u>29,157,735</u>
Expenses and Losses				
Program services	27,081,273	-	-	27,081,273
Fundraising	899,129	-	-	899,129
Administrative and general	386,604	-	-	386,604
Total expenses	<u>28,367,006</u>	<u>-</u>	<u>-</u>	<u>28,367,006</u>
Loss on sale of property and equipment	<u>21,572</u>	<u>-</u>	<u>-</u>	<u>21,572</u>
Total expenses and losses	<u>28,388,578</u>	<u>-</u>	<u>-</u>	<u>28,388,578</u>
Revenues in Excess of Expenses	603,295	94,774	71,088	769,157
Contribution for Long-Lived Asset	<u>33,697</u>	<u>-</u>	<u>-</u>	<u>33,697</u>
Change in Net Assets	636,992	94,774	71,088	802,854
Net Assets, Beginning of Year	<u>3,045,010</u>	<u>753,871</u>	<u>118,139</u>	<u>3,917,020</u>
Net Assets, End of Year	<u>\$ 3,682,002</u>	<u>\$ 848,645</u>	<u>\$ 189,227</u>	<u>\$ 4,719,874</u>

Great Plains Food Bank
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Other Income				
Public Support				
Individual donations	\$ 1,475,387	\$ 216,796	\$ 40,640	\$ 1,732,823
Church and other donations	522,348	295,358	-	817,706
Donated food	17,591,372	-	-	17,591,372
USDA Commodities	2,638,617	-	-	2,638,617
United Way	83,493	49,412	-	132,905
Private grants	246,341	137,877	-	384,218
Program revenues	856,083	-	-	856,083
Governmental fees and grants	200,398	-	-	200,398
	<u>23,614,039</u>	<u>699,443</u>	<u>40,640</u>	<u>24,354,122</u>
Special event revenue	106,762	-	-	106,762
Less cost of direct benefits to donors	(28,696)	-	-	(28,696)
Net special events revenue (expense)	<u>78,066</u>	<u>-</u>	<u>-</u>	<u>78,066</u>
Net assets released from restrictions	<u>818,037</u>	<u>(818,037)</u>	<u>-</u>	<u>-</u>
Total public support	<u>24,510,142</u>	<u>(118,594)</u>	<u>40,640</u>	<u>24,432,188</u>
Other Income				
Investment income	-	1,177	-	1,177
Miscellaneous income	11,855	196	-	12,051
Total other income	<u>11,855</u>	<u>1,373</u>	<u>-</u>	<u>13,228</u>
Total public support and other income	<u>24,521,997</u>	<u>(117,221)</u>	<u>40,640</u>	<u>24,445,416</u>
Expenses				
Program services	23,414,393	-	-	23,414,393
Fundraising	754,883	-	-	754,883
Administrative and general	332,729	-	-	332,729
Total expenses	<u>24,502,005</u>	<u>-</u>	<u>-</u>	<u>24,502,005</u>
Change in Net Assets, before Transfer of Food Bank	19,992	(117,221)	40,640	(56,589)
Net Assets Transferred to Food Bank	<u>3,025,018</u>	<u>871,092</u>	<u>77,499</u>	<u>3,973,609</u>
Change in Net Assets, after Transfer of Food Bank	3,045,010	753,871	118,139	3,917,020
Net Assets, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 3,045,010</u>	<u>\$ 753,871</u>	<u>\$ 118,139</u>	<u>\$ 3,917,020</u>

Great Plains Food Bank
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	Fundraising	Administrative and General	Total Expenses
Salaries	\$ 1,136,713	\$ 252,430	\$ 185,758	\$ 1,574,901
Benefits	263,256	67,460	33,596	364,312
Professional fees	33,868	64,552	62,770	161,190
Advertising	1,314	395,874	-	397,188
Food distribution	24,210,614	-	-	24,210,614
Food spoilage	387,433	-	-	387,433
Office expense	39,693	47,168	4,039	90,900
Shipping and packing	127,100	-	-	127,100
Property taxes	2,194	-	76	2,270
Computer and internet	35,955	5,892	52,112	93,959
Truck fuel and repairs	213,386	-	-	213,386
Printing	39,521	16,861	14	56,396
Travel and meetings	86,112	7,545	5,228	98,885
Telephone	12,473	3,036	2,055	17,564
Utilities	53,837	1,682	1,925	57,444
Insurance	32,365	477	16,677	49,519
Minor property and equipment	21,249	3,522	1,721	26,492
Cost of direct benefits to donors	26,253	-	-	26,253
Interest expense	4,281	10,000	-	14,281
Depreciation	127,626	8,542	2,717	138,885
Repairs and maintenance	47,480	1,125	1,287	49,892
Miscellaneous expenses	204,803	12,963	16,629	234,395
	<u>27,107,526</u>	<u>899,129</u>	<u>386,604</u>	<u>28,393,259</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	(26,253)	-	-	(26,253)
	<u>\$ 27,081,273</u>	<u>\$ 899,129</u>	<u>\$ 386,604</u>	<u>\$ 28,367,006</u>

Great Plains Food Bank
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Fundraising	Administration and General	Total Expenses
Salaries	\$ 1,088,909	\$ 222,372	\$ 177,758	\$ 1,489,039
Benefits	241,537	59,975	43,949	345,461
Professional fees	33,842	28,544	17,156	79,542
Advertising	5,236	381,642	999	387,877
Food	20,676,883	-	-	20,676,883
Food spoilage	518,234	-	-	518,234
Office expense	41,154	17,626	1,447	60,227
Shipping and packing	89,267	-	-	89,267
Property taxes	511	-	-	511
Computer and internet	12,657	4,772	48,163	65,592
Truck fuel and repairs	199,919	22	-	199,941
Printing	40,335	9,078	426	49,839
Cost of direct benefits to donors	28,696	-	-	28,696
Travel and meetings	88,839	9,129	3,363	101,331
Telephone	16,940	2,776	7,065	26,781
Utilities	49,333	-	-	49,333
Insurance	32,720	-	4,200	36,920
Minor property and equipment	14,662	1,300	1,347	17,309
Interest expense	124	-	15,212	15,336
Depreciation	123,137	6,168	-	129,305
Repairs and maintenance	53,162	-	-	53,162
Miscellaneous expenses	86,992	11,479	11,644	110,115
	<u>\$ 23,443,089</u>	<u>\$ 754,883</u>	<u>\$ 332,729</u>	<u>\$ 24,530,701</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	(28,696)	-	-	(28,696)
	<u>\$ 23,414,393</u>	<u>\$ 754,883</u>	<u>\$ 332,729</u>	<u>\$ 24,502,005</u>

Great Plains Food Bank
Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	\$ 802,854	\$ 3,917,020
Adjustments to reconcile change in net assets to net cash from operating activities		
Contributions restricted to endowment	(71,088)	(40,640)
Contributions restricted to Feed the Future Campaign	(487,815)	(228,016)
Realized and unrealized gain on investments	(3,724)	(1,177)
Depreciation	138,885	129,305
Loss on sale of property and equipment	21,572	-
Net assets transferred to Food Bank	-	(3,973,609)
Contribution for long lived asset	(33,697)	-
Changes in assets and liabilities		
Accounts receivable	(19,094)	(32,888)
Inventories	(201,995)	283,764
Prepaid expenses	24,147	(9,646)
Accounts payable	88,796	90,959
Accrued expenses	17,050	118,201
Deferred revenue	(54,700)	54,700
Net Cash from Operating Activities	<u>221,191</u>	<u>307,973</u>
Investing Activities		
Purchases of investments	(25,357)	(5,657)
Proceeds from sale of investments	31,481	-
Cash received during transfer of food bank	-	751,693
Proceeds from sale of property and equipment	14,200	-
Purchase of property and equipment	(70,249)	(157,254)
Net Cash (used for) from Investing Activities	<u>(49,925)</u>	<u>588,782</u>
Financing Activities		
Proceeds from issuance of long-term note payable	-	500,000
Principal payment on long-term note payable	(100,000)	(100,000)
Collections of contributions restricted to Feed the Future Campaign	351,901	200,493
Principal payments on capital lease	(18,687)	(6,990)
Net Cash from Financing Activities	<u>233,214</u>	<u>593,503</u>
Net Change in Cash and Cash Equivalents	404,480	1,490,258
Cash and Cash Equivalents, Beginning of Year	<u>1,490,258</u>	<u>-</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,894,738</u>	<u>\$ 1,490,258</u>

Great Plains Food Bank
Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 14,281	\$ 15,336
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Equipment acquired under capital lease	\$ 143,266	\$ 122,870
Supplemental Disclosure for Noncash Investing and Financing Activities		
Transfer of assets from Lutheran Social Services of North Dakota		
Accounts receivable	\$ -	\$ (50,894)
Promises to give	-	(632,731)
Donated inventory	-	(1,206,549)
Purchased inventory	-	(195,169)
Prepaid expenses	-	(17,666)
Investments	-	(77,499)
Property and equipment, net	-	(1,041,408)
Net assets	-	3,973,609
Cash received	\$ -	\$ 751,693

Note 1 - Organization and Significant Accounting Policies

Great Plains Food Bank (Organization) is a nonprofit organization established in 2014 to end hunger through community partnerships. Great Plains Food Bank operates out of a facility in Fargo, North Dakota and distributes to various charitable feeding programs. These programs operate in over 110 communities across the state of North Dakota and in Clay County, Minnesota.

The Organization has been in existence since 1983 as a part of Lutheran Social Services of North Dakota and became a separate entity upon transfer of the Food Bank funds and operations on July 1, 2016.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all short-term highly liquid investments with original maturities of three months or less as cash equivalents. Cash and highly liquid financial instruments restricted for other purposes are excluded from the definition.

Concentration of Risk

The Organization's cash balances are maintained in various bank deposit accounts. At various times during the year, the balance of these deposits may be in excess of federally insured limits. To date, the Organization has not experienced losses in any of these accounts.

Receivables and Credit Policies

Accounts receivable consist primarily of balances due from partner agencies. The Organization determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2018 and 2017, the balance was determined to be collectible.

Unconditional Promises to Give

Unconditional promises to give are initially recorded and subsequently carried at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

Inventories

Contributed food is valued on a first-in, first-out basis using a weighted-average wholesale price per pound. Food is distributed based on the earlier of the contribution date or expiration date. Feeding America provides a Product Valuation Survey that details price per pound by product categories. The Organization uses this survey to calculate the weighted-average price per pound for its inventory by category.

As of July 1, 2017, the Organization adopted Accounting Standards Update (ASU) 2015-11, *Inventory: Simplifying the Measurement of Inventory* in relation to their purchased product inventory. This update requires inventory to be measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Adoption of this accounting standard update is on a prospective basis.

Purchased product inventories are stated at the lower of cost, determined on a first-in, first-out basis, or net realizable value.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain or loss is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment management and custodial fees.

Property and Equipment

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 1 to 31 years, or in the case of leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation is removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2018 and 2017.

Deferred Revenue

The Organization records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue. The balance in deferred revenue represents amounts received under grants that will be expended in the future in accordance with the grant agreements. As of June 30, 2018 and 2017, deferred revenue totaled \$0 and \$54,700, respectively.

Net Assets

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

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time.

The Organization reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Support

The Organization receives donations from a variety of sources for services and products in the furtherance of its objectives. The in-kind support consists principally of food donated for distribution to food pantries and goods and service items donated by companies and individuals. Contributed materials and equipment are recorded at fair value at the date of donation.

In addition to the recorded in-kind support, the Organization receives substantial assistance from volunteers who donate significant amounts of their time in program services and food donation campaigns. Time donated for work that does not require a professional or craftsman cannot be recorded on the financial statements. Volunteer hours (unaudited) which fall into this category were 21,670 and 19,986 for the years ended June 30, 2018 and 2017. For management purposes, unrecorded volunteer hours were tracked at a value of \$24.69 and \$25.40 per hour for the years ended June 30, 2018 and 2017. The value of volunteer hours (unaudited) donated to the Organization was \$535,032 and \$507,644 for the years ended June 30, 2018 and 2017, respectively. These amounts have not been reflected in the Organization's financial statements.

Advertising Costs

Cost incurred for producing and distributing advertising are expensed when incurred. Advertising expense for the years ended June 30, 2018 and 2017 was \$1,314 and \$5,236, respectively.

Functional Allocation of Expenses

The costs of program, fundraising, and administrative and general activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program, fundraising, and administrative and general activities benefited.

Income Taxes

The Organization is organized as a North Dakota nonprofit corporation and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organization is not subject to unrelated business income tax and is not planning to file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The entities would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

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

Subsequent Events

The Organization has evaluated subsequent events through November 30, 2018, the date which the financial statements were available to be issued.

Note 2 - Donated Inventory

The following table indicates the donated inventory activity for the years ended June 30, 2018 and 2017:

	Pounds	Dollars
Donated food product inventory, July 1, 2016	-	\$ -
Donated food product acquired in purchase of food bank	697,427	1,206,549
Spoilage and other adjustments	(337,102)	(583,026)
Receipt of donated food	12,113,765	20,229,989
Distributions of donated food	(11,887,913)	(19,874,614)
Donated food product inventory, June 30, 2017	586,177	978,898
Spoilage and other adjustments	(262,441)	(453,123)
Receipt of donated food	13,926,728	24,093,240
Distributions of donated food	(13,567,918)	(23,472,338)
Donated food product inventory, June 30, 2018	682,546	\$ 1,146,677

Donated inventory was valued at \$1.73 and \$1.67 per pound as of June 30, 2018 and 2017, which is a value that is nationally established. Purchased inventory is valued at cost.

Note 3 - Fair Value of Assets and Liabilities

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available.

A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Organization develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Organization's investment assets are classified within Level 1 because they consist of open-end mutual funds and equity securities with readily determinable fair values based on daily redemption values. The fair value of the unconditional promises to give is determined by management using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets. These are considered to be Level 3 measurements.

The following table presents assets measured at fair value on a recurring basis at June 30, 2018 and 2017:

	2018	2017
Assets		
Equity securities	\$ 100,711	\$ 41,571
Mutual funds	87,577	76,676
Unconditional promises to give	796,168	660,254
Total assets	\$ 984,456	\$ 778,501

The related fair values of these assets at June 30, 2018 are determined as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2018				
Equity securities	\$ 100,711	\$ 100,711	\$ -	\$ -
Mutual funds	87,577	87,577	-	-
Unconditional promises to give	796,168	-	-	796,168
Total assets	\$ 984,456	\$ 188,288	\$ -	\$ 796,168

The related fair values of these assets at June 30, 2017 are determined as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2017				
Equity securities	\$ 41,571	\$ 41,571	\$ -	\$ -
Mutual funds	76,676	76,676	-	-
Unconditional promises to give	660,254	-	-	660,254
Total assets	\$ 778,501	\$ 118,247	\$ -	\$ 660,254

Following is a reconciliation of activity for 2018 and 2017 for assets measured at fair value based upon significant unobservable (non-market information).

Balance, July 1, 2016	\$	-
Transfer of promises to give in transfer of Food Bank		632,731
New promises to give		243,600
Payments received		(200,493)
Adjustment to fair value		(15,584)
		660,254
Balance, June 30, 2017		660,254
New promises to give		488,500
Payments received		(353,046)
Adjustment to fair value		460
		460
Balance, June 30, 2018	\$	796,168

Note 4 - Investments and Investment Income

The Organizations investments in equity securities and mutual funds are stated at fair value. Investments in money market funds are stated at cost plus accrued interest.

Investments

Investments as of June 30, 2018 and 2017 are as follows:

	2018	2017
Money market funds	\$ 5,373	\$ 6,726
Equity securities	100,711	41,571
Mutual funds	87,577	76,676
	\$ 193,661	\$ 124,973

Investment Income

The following schedule summarizes the investment income and its classification in the statement of activities for the year ended June 30, 2018 and 2017:

	2018	2017
Net realized gains on sales of investments	\$ 3,691	\$ 807
Change in unrealized gains on investments	33	370
Total investment return	\$ 3,724	\$ 1,177

Note 5 - Unconditional Promises to Give

Unconditional promises to give are reflected at the present value of estimating future cash flows. The following is a summary of pledges receivable at June 30, 2018 and 2017:

	2018	2017
Current unconditional promises to give	\$ 280,845	\$ 142,365
Amounts receivable in one to five years	477,080	459,429
Amounts receivable in over five years	38,243	58,460
	\$ 796,168	\$ 660,254

As of June 30, 2018, seven donors accounted for 70% of total promises to give. As of June 30, 2017, five donors accounted for 71% of total promises to give.

Note 6 - Property and Equipment

Property and equipment consists of the following at June 30, 2018 and 2017:

	2018	2017
Buildings and improvements	\$ 841,702	\$ 809,494
Furniture and fixtures	274,306	232,712
Automobiles	415,285	229,326
Construction in progress	-	50,000
	1,531,293	1,321,532
Less accumulated depreciation	(266,511)	(129,305)
	\$ 1,264,782	\$ 1,192,227

Note 7 - Line of Credit

The Organization has opened a line of credit with a maximum limit of \$100,000, bearing interest at a variable rate (4.75% at June 30, 2018). The line of credit is secured by assets of the Organization and is due in full on October 1, 2018. As of June 30, 2018 and 2017, no advances have been made from the line of credit.

Note 8 - Long-Term Debt

Long-term debt consists of the following at June 30, 2018 and 2017:

	2018	2017
2.5% note payable to Otto Bremer Trust, due in annual installments of \$100,000, plus interest, until June 2021, secured by substantially all assets	\$ 300,000	\$ 400,000
Less current portion	(100,000)	(100,000)
	\$ 200,000	\$ 300,000

Future maturities of long-term notes payable are as follows:

Year Ending June 30,	Amount
2019	\$ 100,000
2020	100,000
2021	100,000
Total	\$ 300,000

Note 9 - Leases

The Organization leases two vehicles under non-cancelable long-term capital leases which expire in 2023 and 2024. The capitalized leased assets consist of the following:

	2018	2017
Vehicle	\$ 266,136	\$ 122,870
Less accumulated amortization	(31,839)	(8,776)
	\$ 234,297	\$ 114,094

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 37,616	\$ 5,692	\$ 43,308
2020	38,601	4,707	43,308
2021	39,613	3,695	43,308
2022	40,650	2,658	43,308
2023	41,715	1,593	43,308
Thereafter	42,264	580	42,844
Total minimum lease payments	<u>\$ 240,459</u>	<u>\$ 18,925</u>	<u>\$ 259,384</u>

Note 10 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, consist of:

	<u>2018</u>	<u>2017</u>
Feed the Future Campaign	\$ 796,168	\$ 660,253
Private Grants	48,043	92,441
Unspent Endowment Earnings	4,434	1,177
	<u>\$ 848,645</u>	<u>\$ 753,871</u>

Net assets were released from restrictions as follows during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Backpack Program	\$ 426,735	\$ 440,303
Feed the Future Campaign	500,343	370,234
Private Grants	95,978	7,500
	<u>\$ 1,023,056</u>	<u>\$ 818,037</u>

Permanently restricted net assets at June 30, 2018 and 2017 are restricted to:

	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, the income from which is expendable to support the Organization's mission	<u>\$ 189,227</u>	<u>\$ 118,139</u>

Note 11 - Endowments

The Organization’s endowment (Endowment) consists of funds established by donors to provide annual funding for specific activities and general operations. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization’s Board of Directors has interpreted the North Dakota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, 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. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

As of June 30, 2018 and 2017, the Organization had the following endowment and reserve net asset composition by type of fund:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2018				
Donor-restricted endowment	<u>\$ -</u>	<u>\$ 4,434</u>	<u>\$ 189,227</u>	<u>\$ 193,661</u>
June 30, 2017				
Donor-restricted endowment	<u>\$ -</u>	<u>\$ 1,177</u>	<u>\$ 118,139</u>	<u>\$ 119,316</u>

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 or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. It is the Organization's policy to fund any deficiencies; accordingly, there were no such deficiencies as of June 30, 2018 and 2017.

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 support the operations of the Organization.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on an investment allocation with investments in equity that cannot exceed 30% to 70% of the total investment. If the investment allocation falls outside that range the Organization must bring it back into alignment annually. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's policy is to maintain sufficient financial stability for the operations of the Organization. Interest and dividends net of investment expense are to be transferred to the operating undesignated fund quarterly. A maximum of fifty percent of the realized gains are available to the operating undesignated fund, but must first receive board approval. In establishing this policy, the Organization considered the long-term expected return on its board designated reserves.

The Organization uses an endowment spending-rate formula to determine the maximum amount to spend from the Endowment each year. The expenditures policy shall allow for distributions from the Endowment Fund at an initially established annual range of 3% to 5%. The Organization shall not appropriate for expenditure in any year an amount greater than 7% of the fair market value of the Endowment Fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure is made, unless the prudent consideration warrants such an expenditure. During 2018 and 2017, there was no spending from the fund. In establishing this policy, the Board of Directors considered the long-term expected return on the Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time.

The following were the changes in the endowment net assets for the years ended June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of July 1, 2016	\$ -	\$ -	\$ -	\$ -
Amount transferred	-	-	77,499	77,499
Investment gain	-	1,177	-	1,177
Contributions	-	-	40,640	40,640
Balance as of June 30, 2017	-	1,177	118,139	119,316
Investment gain	-	3,257	-	3,257
Contributions	-	-	71,088	71,088
Balance as of June 30, 2018	<u>\$ -</u>	<u>\$ 4,434</u>	<u>\$ 189,227</u>	<u>\$ 193,661</u>

Note 12 - Employee Benefits

The Organization provides a defined contribution pension plan. Employer contributions are determined annually based on a percentage of the employee's salary, in the form of a match. From the date of employment, for the first year, the Organization contributes up to 2%, which increases to 7% after the first full year of employment. Upon the increase, the 5% is an automatic contribution and no match is required beyond the initial 2%. Retirement expense for the years ended June 30, 2018 and 2017 was \$91,010 and \$82,570, respectively.

Note 13 - Transfer of Food Bank

On July 1, 2016, the Food Bank funds of Lutheran Social Services of North Dakota were successfully transferred. All assets and liabilities were recorded on the books of the Organization as of the beginning of the year. As a result of the transfer, the Organization will be able to grow and develop programs that relate more specifically to the Organization's mission as a stand-alone entity.

The following table summarizes the fair value of the assets and liabilities transferred:

Accounts receivable	\$ (50,894)
Promises to give (Feed the Future Campaign)	(632,731)
Donated inventory	(1,206,549)
Purchased inventory	(195,169)
Prepaid expenses	(17,666)
Investments	(77,499)
Property and equipment	(1,041,408)
Unrestricted net assets	3,025,018
Temporarily restricted net assets	871,092
Permanently restricted net assets	<u>77,499</u>
Cash received	<u><u>\$ 751,693</u></u>