



**Forgotten Harvest, Inc.
(A Non-Profit Organization)**

**Consolidated Financial Statements and
Supplementary Information**
Years Ended June 30, 2018 and 2017

Forgotten Harvest, Inc.
(A Non-Profit Organization)

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(A Non-Profit Organization)**

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Independent Auditor's Report

To the Board of Directors of
Forgotten Harvest, Inc.
(A Non-Profit Organization)
Oak Park, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Forgotten Harvest, Inc. (a non-profit Organization) and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forgotten Harvest, Inc. and its subsidiary as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018, on our consideration of Forgotten Harvest, Inc. and its subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Forgotten Harvest, Inc. and its subsidiary's internal control over financial reporting and compliance.

BDO USA, LLP

Kalamazoo, Michigan

November 5, 2018

Consolidated Financial Statements

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Consolidated Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,407,598	\$ 2,557,166
Investments	1,877,147	2,082,537
Current portion of promises to give, net	1,374,403	1,036,151
Inventory	633,568	542,996
Prepaid expenses and other assets	80,091	11,961
Total Current Assets	7,372,807	6,230,811
Property and Equipment:		
Land	371,700	371,700
Land improvements	873,426	873,426
Building and improvements	3,370,235	3,368,385
Delivery equipment	4,073,929	3,866,168
Furnishings and equipment	2,084,353	1,957,600
	10,773,643	10,437,279
Less accumulated depreciation	5,645,815	4,951,571
Net Property and Equipment	5,127,828	5,485,708
Long-Term Assets:		
Promises to give, net, less current portion	25,000	96,373
Beneficial interest in Endowment Fund	115,951	111,445
Total Long-Term Assets	140,951	207,818
Total Assets	\$ 12,641,586	\$ 11,924,337

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Consolidated Statements of Financial Position

<i>June 30,</i>	2018	2017
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 248,713	\$ 135,797
Accrued compensation	162,910	206,881
Other accrued expenses	241,252	212,895
Deferred revenue	129,950	170,643
Total Liabilities	782,825	726,216
Net Assets:		
Unrestricted	9,559,110	9,116,503
Temporarily restricted	2,199,651	1,981,618
Permanently restricted	100,000	100,000
Total Net Assets	11,858,761	11,198,121
Total Liabilities and Net Assets	\$ 12,641,586	\$ 11,924,337

See accompanying notes to consolidated financial statements.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Consolidated Statements of Activities and Changes in Net Assets

<i>Year ended June 30, 2018</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Perishable foods	\$ 67,978,273	\$ -	\$ -	\$ 67,978,273
Contributions	4,231,837	665,600	-	4,897,437
Foundations and trust	1,379,149	1,149,999	-	2,529,148
Special events	1,058,376	-	-	1,058,376
Third party events	523,555	-	-	523,555
Government grants	686,616	-	-	686,616
In-kind donations	181,843	-	-	181,843
Interest and dividend income	50,246	-	-	50,246
Merchandise revenue	2,789	-	-	2,789
Realized and unrealized gain on investments	97,082	-	-	97,082
Change in beneficial interest in Endowment Fund	-	4,506	-	4,506
Miscellaneous income	97,541	-	-	97,541
Total Revenue and Support Before Net Assets Released from Restriction	76,287,307	1,820,105	-	78,107,412
Net Assets Released from Restriction	1,602,072	(1,602,072)	-	-
Total Revenue and Support	77,889,379	218,033	-	78,107,412
Expenses:				
Program services	73,593,453	-	-	73,593,453
Management and general	1,372,559	-	-	1,372,559
Fundraising	2,480,760	-	-	2,480,760
Total Expenses	77,446,772	-	-	77,446,772
Change in Net Assets	442,607	218,033	-	660,640
Net Assets, beginning of year	9,116,503	1,981,618	100,000	11,198,121
Net Assets, end of year	\$ 9,559,110	\$ 2,199,651	\$ 100,000	\$ 11,858,761

See accompanying notes to consolidated financial statements.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Consolidated Statements of Activities and Changes in Net Assets

<i>Year ended June 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Perishable foods	\$ 77,195,350	\$ -	\$ -	\$ 77,195,350
Contributions	4,497,777	329,058	-	4,826,835
Foundations and trust	1,086,588	990,450	-	2,077,038
Special events	904,381	-	-	904,381
Third party events	463,494	-	-	463,494
Government grants	624,520	-	-	624,520
In-kind donations	202,113	-	-	202,113
Processing revenues	54,172	-	-	54,172
Interest and dividend income	36,054	-	-	36,054
Merchandise revenue	962	-	-	962
Realized and unrealized gain on investments	139,963	-	-	139,963
Change in beneficial interest in Endowment Fund	-	6,607	-	6,607
Miscellaneous income	34,842	-	-	34,842
Total Revenue and Support Before Net Assets Released from Restriction	85,240,216	1,326,115	-	86,566,331
Net Assets Released from Restriction	1,585,045	(1,585,045)	-	-
Total Revenue and Support	86,825,261	(258,930)	-	86,566,331
Expenses:				
Program services	82,151,756	-	-	82,151,756
Management and general	1,388,746	-	-	1,388,746
Fundraising	2,693,666	-	-	2,693,666
Total Expenses	86,234,168	-	-	86,234,168
Change in Net Assets	591,093	(258,930)	-	332,163
Net Assets, beginning of year	8,525,410	2,240,548	100,000	10,865,958
Net Assets, end of year	\$ 9,116,503	\$ 1,981,618	\$ 100,000	\$ 11,198,121

See accompanying notes to consolidated financial statements.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Consolidated Statements of Functional Expenses

<i>Year ended June 30, 2018</i>	Program Services	Management and General	Fundraising	Total
Compensation and Other Related Expenses:				
Salaries	\$ 2,370,005	\$ 733,659	\$ 701,563	\$ 3,805,227
Insurance	152,225	45,747	46,872	244,844
Payroll tax	182,386	52,205	51,990	286,581
Retirement benefits	105,826	30,291	30,167	166,284
Total Compensation and Other Related Expenses	2,810,442	861,902	830,592	4,502,936
Other Functional Expenses:				
Advertising	-	-	190,801	190,801
Bad debts	-	41,798	-	41,798
Bank and processing fees	-	64,813	-	64,813
Conferences and seminars	13,396	24,495	6,910	44,801
Delivery equipment:				
Fuel	256,996	-	-	256,996
Insurance	84,822	-	-	84,822
Maintenance	370,700	-	-	370,700
Depreciation	726,348	19,392	21,815	767,555
Dues and subscriptions	790	30,640	9,714	41,144
Food acquisition	386,494	-	-	386,494
Fundraising	-	-	353,521	353,521
In-Kind services	20,123	100,010	81,095	201,228
Insurance - general and workers compensation	101,581	981	1,103	103,665
Mileage reimbursement	14,975	2,902	5,053	22,930
Office expense	15,752	21,714	20,682	58,148
Postage and direct mail	-	5,139	757,293	762,432
Printing	5,631	2,714	40,790	49,135
Professional fees	131,711	117,915	121,553	371,179
Recruiting	3,071	8,964	-	12,035
Supplies and maintenance	471,414	53,569	28,551	553,534
Telephone	19,120	7,789	6,373	33,282
Temporary personnel	108,491	3,454	-	111,945
Utilities	74,257	4,368	4,914	83,539
Total Other Functional Expenses	2,805,672	510,657	1,650,168	4,966,497
Distributed Food	67,977,339	-	-	67,977,339
Total Functional Expenses	\$ 73,593,453	\$ 1,372,559	\$ 2,480,760	\$ 77,446,772

See accompanying notes to consolidated financial statements.

Forgotten Harvest, Inc.
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Consolidated Statements of Functional Expenses

<i>Year ended June 30, 2017</i>	Program Services	Management and General	Fundraising	Total
Compensation and Other Related Expenses:				
Salaries	\$ 2,277,296	\$ 630,467	\$ 761,122	\$ 3,668,885
Insurance	168,813	43,811	54,428	267,052
Payroll tax	187,975	47,818	61,030	296,823
Retirement benefits	109,608	27,883	35,586	173,077
Total Compensation and Other Related Expenses	2,743,692	749,979	912,166	4,405,837
Other Functional Expenses:				
Advertising	-	-	210,685	210,685
Bad debts	75,854	-	2,346	78,200
Bank and processing fees	-	69,758	-	69,758
Conferences and seminars	7,320	27,464	6,962	41,746
Delivery equipment:				
Fuel	213,269	-	-	213,269
Insurance	77,004	-	-	77,004
Maintenance	275,060	-	-	275,060
Depreciation	811,112	19,504	19,504	850,120
Dues and subscriptions	506	27,563	2,691	30,760
Food acquisition	332,019	-	-	332,019
Fundraising	-	-	317,405	317,405
In-Kind services	35,559	176,729	143,303	355,591
Insurance - general and workers compensation	113,546	1,661	1,661	116,868
Loss on sale of assets	561	-	-	561
Mileage reimbursement	12,238	6,172	10,983	29,393
Office expense	15,520	7,480	5,264	28,264
Postage and direct mail	-	5,075	803,334	808,409
Printing	2,179	1,474	39,401	43,054
Professional fees	48,199	225,377	184,001	457,577
Recruiting	-	5,106	-	5,106
Supplies and maintenance	315,206	39,411	20,647	375,264
Telephone	17,514	11,384	7,881	36,779
Temporary personnel	54,688	9,177	-	63,865
Utilities	86,916	5,432	5,432	97,780
Total Other Functional Expenses	2,494,270	638,767	1,781,500	4,914,537
Distributed Food	76,913,794	-	-	76,913,794
Total Functional Expenses	\$ 82,151,756	\$ 1,388,746	\$ 2,693,666	\$ 86,234,168

See accompanying notes to consolidated financial statements.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Consolidated Statements of Cash Flows

<i>Year ended June 30,</i>	2018	2017
Operating Activities:		
Change in net assets	\$ 660,640	\$ 332,163
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	767,555	850,120
Bad debt expense	41,798	78,200
Realized and unrealized gain on investments	(97,082)	(139,963)
Change in beneficial interest in Endowment Fund	(4,506)	(6,607)
Loss on sale of property and equipment	-	561
Changes in operating assets and liabilities:		
Promises to give (inclusive of in-kind contributions)	(308,677)	644,959
Inventory (inclusive of donated inventory)	(90,572)	(282,760)
Prepaid expenses and other assets	(68,130)	98,195
Accounts payable	112,916	(126,501)
Accrued compensation	(43,971)	28,327
Other accrued expenses	(76,403)	98,791
Deferred revenue	(40,693)	(24,907)
Cash Provided by Operating Activities	852,875	1,550,578
Investing Activities:		
Capital expenditures	(304,915)	(393,568)
Net sale (purchase) of investments	302,472	(35,835)
Cash Used in Investing Activities	(2,443)	(429,403)
Net Increase in Cash and Cash Equivalents	850,432	1,121,175
Cash and Cash Equivalents, beginning of year	2,557,166	1,435,991
Cash and Cash Equivalents, end of year	\$ 3,407,598	\$ 2,557,166
Non-Cash Investing Activities -		
Capital expenditures included in other accrued expenses	\$ 104,760	\$ 88,645

See accompanying notes to consolidated financial statements.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Notes to Consolidated Financial Statements

1. Nature of Activities

Forgotten Harvest, Inc. is a non-profit organization (the Organization), incorporated in the state of Michigan for the purpose of providing hunger relief to the Metropolitan Detroit area through a prepared and perishable surplus food program. Forgotten Harvest, Inc. collects prepared, perishable and non-perishable surplus food from various health-department approved establishments and transports that food to soup kitchens, pantries and shelters in the tri-county area.

Forgotten Harvest Farms, LLC, a Michigan limited liability company, was created by Forgotten Harvest, Inc. in fiscal year 2013 as a separate entity in order to facilitate the farm operations. Forgotten Harvest Farms, LLC is wholly owned by Forgotten Harvest, Inc. and, as such, is consolidated in these financial statements.

2. Summary of Significant Accounting Policies

Basis of Consolidation

These financial statements include the Consolidated Statements of Financial Position, Activities and Changes in Net Assets, Functional Expenses, and Cash Flows for Forgotten Harvest, Inc. and Forgotten Harvest Farms, LLC, collectively referred to as the Organization. All balances and transactions between consolidated entities have been eliminated.

Basis of Accounting

The books and records of the Organization are maintained on the accrual method of accounting.

Cash and Cash Equivalents

The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. Money market accounts included in cash and cash equivalents are recorded at cost which approximates fair value.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash, cash equivalents, and promises to give. The Organization places its cash and cash equivalents with high credit qualified institutions. At times, the amount of cash and cash equivalents may be in excess of the respective institutions' insurance limits. The Organization has not experienced any losses in such accounts, and management believes the Organization is not exposed to any unusual credit risk on cash and cash equivalents. With respect to promises to give, the Organization monitors credit exposure on a continuing basis. The Organization also records an allowance for doubtful accounts based on amounts believed to be uncollectible. Revisions to the allowance may be required if actual collections differ significantly from estimated collections. These revisions could have a material effect on the Consolidated Statements of Activities and Changes in Net Assets in the period in which such changes occur. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Forgotten Harvest, Inc.
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Notes to Consolidated Financial Statements

Investments

The investments of the Organization are reported at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

Realized gains or losses are determined by the average cost method. Unrealized gains or losses represent the difference between the current fair value and the cost of the investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses, interest income, and dividend income are all included in the Consolidated Statements of Activities and Changes in Net Assets.

Promises to Give

Promises to give are recognized as contribution revenue in the period that the promise is received by the Organization unless there is a condition placed on the promise to give whereby the Organization recognizes the revenue when the condition is met. Promises to give are recorded at net realizable value if expected to be collected in one year and at fair value (discount rate used was 2.73% and 1.89% as of June 30, 2018 and 2017, respectively) if expected to be collected in more than one year. Promises to give are as follows:

<u>June 30,</u>	<u>2018</u>	<u>2017</u>
Gross Unconditional Promises to Give	\$ 1,408,386	\$ 1,191,806
Allowance for Uncollectible Promises to Give	(8,310)	(57,563)
	1,400,076	1,134,243
Less: discounts to net present value	(673)	(1,719)
Net Unconditional Promises to Give	\$ 1,399,403	\$ 1,132,524
Amounts Due in:		
Less than one year	\$ 1,374,403	\$ 1,036,151
One to four years	25,000	96,373
Total Promises to Give	\$ 1,399,403	\$ 1,132,524

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on management's analysis of specific promises made.

Inventory

Inventory consists primarily of donated food. Insignificant values of inventory are related to a special program and are not donated. Inventory on hand as of June 30, 2018 and 2017 was \$633,568 and \$542,996, respectively. Ending donated food inventories are determined using the FIFO method and are based upon a value per pound established by KPMG, LLP and published by Feeding America, a nationally recognized food donation charity.

Forgotten Harvest, Inc.
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Notes to Consolidated Financial Statements

Property and Equipment

Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Property and equipment are depreciated over their estimated lives as follows, using the straight-line method:

Land improvements	15 years
Building and improvements	5 - 40 years
Delivery equipment	5 - 7 years
Furnishings and equipment	5 - 10 years

Expenditures for maintenance and repairs are charged to expenses as incurred.

The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property and equipment may not be recoverable. There were no impairment losses recognized for the years ended June 30, 2018 and 2017.

Beneficial Interest in Endowment Fund

The Organization entered into an agreement with a foundation to establish an endowment fund. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-605-25-24, *Transfer of Assets to a Non-Profit or Charitable Trust That Raises or Holds Contributions for Others*, the Organization's contribution to the fund, known as the reciprocal portion, has been recorded as an investment on the books of the Organization, even though the foundation may have variance power (i.e. ability to control who the beneficiary will be upon the occurrence of events which include, but are not limited to, the dissolution of Forgotten Harvest, Inc. over the asset). In addition to the reciprocal transfer made by the Organization, third party donors may make contributions to the fund for the benefit of the Organization. The foundation maintains explicit variance power over any third party gifts and the earnings thereon. As a result, in accordance with FASB ASC Topic 958, this amount is not recorded as an asset of the Organization. Earnings are available for distribution to the Organization for operations at the discretion of the foundation.

Deferred Revenue and Prepaid Expense

The Organization holds two major fundraising events during the year. This involves the receipt of sponsorship income and reserving facilities in advance of the event. Income and expenses that relate to events that will not take place until the next fiscal year are recorded as deferred revenue and prepaid expenses and recognized when the event takes place.

Forgotten Harvest, Inc.
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Notes to Consolidated Financial Statements

Recognition of Donor Restrictions

The Organization reports gifts of cash and other assets as 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 and Changes in Net Assets as net assets released from restrictions. Restricted support in which the donor stipulations are met in the same year are reported as unrestricted net assets.

Donated Food

Monetary value for the donated food is based upon a value per pound established by KPMG, LLP and published by Feeding America. A summary of donated food is as follows:

<i>Year ended June 30,</i>	Total Pounds	USDA (Food Only) Price Per Pound	(Mixed Rate) Price Per Pound	Total Value
2018	40,682,008	\$ 1.57	\$ 1.68	\$ 67,978,273
2017	45,162,324	1.52	1.73	\$ 77,195,350

Internally Grown Food

The Organization produced and distributed approximately 777,405 and 621,000 pounds of food during fiscal years 2018 and 2017, respectively, using approximately 100 acres of donated farm land.

Contributions and In-Kind Donations

The Organization accounts for contributions received and contributions made by corporations, foundations, trusts and government agencies at estimated fair value. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

In-kind donations consisting of donated services and materials are recorded as revenues and expenses at their estimated fair value. In-kind donations of property, equipment, and donated rent are recorded at fair value at the donation date. Donated services and materials are recorded if the services and/or materials (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers donated significant amounts of their time to the Organization's programs and fundraising campaigns which does not meet the criteria for in-kind donations, as described above, and therefore is not recognized as contributions in the consolidated financial statements.

Forgotten Harvest, Inc.
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Notes to Consolidated Financial Statements

Income Taxes

Forgotten Harvest, Inc. and Forgotten Harvest Farms, LLC file a joint tax return and are exempt from federal income and unemployment taxes under Section 501(c) (3) of the Internal Revenue Code. The Organization considers this exemption from income taxes to be a significant tax position. The Organization has evaluated and determined that there is no material taxable unrelated business income. The Organization believes that it has appropriate support for any tax position taken and, as such, has determined that no additional disclosures of uncertain tax matters are required. Contributions made to the Organization are deductible by the donor as provided by the Internal Revenue Code. Hopeful Harvest Foods, Inc. was taxed as a C-Corporation.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statements of Activities and Changes in Net Assets and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the report period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

For certain of the Organization's financial instruments, including cash and cash equivalents, promises to give, other receivables, accounts payable and other accrued expenses, the carrying amounts approximate fair value due to their short maturity.

3. Fair Value Measurements

The Organization's investments are stated at fair value. Investments held in the exchange-traded funds are valued at quoted market prices, which represent the net asset value of shares held by the Organization at year end. A summary of investments is as follows:

<i>June 30,</i>	Cost	Fair Value	Carrying Value
2018	\$ 1,455,862	\$ 1,877,147	\$ 1,877,147
2017	1,853,789	2,082,537	2,082,537

Forgotten Harvest, Inc.
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Notes to Consolidated Financial Statements

Accounting guidance establishes 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The fair value measurement level within the fair value hierarchy is based on 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 following table sets forth by level within the fair value hierarchy the Organization's assets recorded at fair value, as of June 30, 2018 and 2017:

Assets Recorded at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
Mutual Funds -				
Bond	\$ 551,515	\$ -	\$ -	\$ 551,515
Common Stock:				
International large cap	579,147	-	-	579,147
Domestic large cap	683,769	-	-	683,769
Domestic Real estate	62,716	-	-	62,716
Total Investments	\$ 1,877,147	\$ -	\$ -	\$ 1,877,147
Beneficial Interest in Endowment Fund	\$ -	\$ 115,951	\$ -	\$ 115,951
Inventory - Donated Food	-	633,568	-	633,568

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Notes to Consolidated Financial Statements

Assets Recorded at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Mutual Funds:				
Inflation protected	\$ 372,014	\$ -	\$ -	\$ 372,014
Commodity	87,141	-	-	87,141
Bond	482,562	-	-	482,562
Common Stock:				
International large cap	544,499	-	-	544,499
Domestic large cap	596,321	-	-	596,321
Total Investments	\$ 2,082,537	\$ -	\$ -	\$ 2,082,537
Beneficial Interest in Endowment Fund	\$ -	\$ 111,445	\$ -	\$ 111,445
Inventory - Donated Food	-	542,996	-	542,996

4. Board Designated Funds

FASB guidance related to classification of net assets states that Board designated funds, absent donor restrictions are to be classified as unrestricted. Board designated funds within Unrestricted Net Assets were \$354,176 and \$331,522 at June 30, 2018 and 2017, respectively.

5. Temporarily Restricted Net Assets

Temporarily Restricted Net Assets are net assets subject to donor-imposed stipulations that can be fulfilled by actions pursuant to those stipulations or that expire by passage of time. Temporarily Restricted Net Assets consist of the following:

<i>June 30,</i>	2018	2017
Contributions - time or purpose restrictions	\$ 1,324,777	\$ 1,185,090
Building maintenance	600,923	600,923
Capital campaign	258,000	-
Endowment Fund earnings	15,951	11,445
Capacity campaign	-	184,160
	\$ 2,199,651	\$ 1,981,618

6. Permanently Restricted Net Assets

Permanently Restricted Net Assets are net assets subject to donor-imposed stipulations that are maintained permanently by the Organization. Permanently Restricted Net Assets as of June 30, 2018 and 2017 of \$100,000 consist of the Organization's original beneficial interest in an Endowment Fund. Earnings on the original investment are classified as Temporarily Restricted.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Notes to Consolidated Financial Statements

7. In-Kind Donations

A summary of In-Kind Donations is as follows:

<i>Year ended June 30,</i>	2018	2017
Fundraiser auction items	\$ 92,639	\$ 97,759
Office furniture and supplies	37,069	150
Land	22,375	22,375
Sporting event tickets	8,070	7,237
Special event food and miscellaneous items	5,894	12,590
Advertising	5,891	-
Equipment and supplies	5,121	12,100
Miscellaneous	4,784	3,160
Professional services	-	9,780
Transportation equipment	-	2,812
Printing	-	34,150
	\$ 181,843	\$ 202,113

8. Employee Benefit Plan

On May 1, 1996, the Organization adopted a Simplified Employee Pension Plan (SEP) for all employees who meet the eligibility requirements set forth in the Plan. Effective February 1, 2004, the Organization rolled the SEP into a 401(k) Profit Sharing Plan. Under the provisions of the Plan, eligible employees may defer a portion of their salary and the Organization will make contributions on behalf of each eligible employee based on the Plan's guidelines. The Organization's contribution to the Plan for the years ended June 30, 2018 and 2017 was \$166,283 and \$173,077, respectively.

9. Federal Financial Assistance

The Organization has received federal funds from the Emergency Food and Shelter Program and Nutrition Supplemental Assistance Program for food distribution. The Organization has also received USDA food for distribution. See the Schedule of Expenditures of Federal Awards for details.

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Forgotten Harvest, Inc.
(A Non-Profit Organization)

Notes to Consolidated Financial Statements

10. Campaign Revenue

The Organization engaged in a capacity campaign which was being used to fund capital expenditures and operating costs associated with the increased expansion of the Organization over a three year period that ended June 30, 2013. As of June 30, 2017, there was approximately \$184,000 of temporarily restricted assets recorded as pledges. As of June 30, 2018, the Organization has finalized collection on pledges and all restrictions have expired.

The Organization began the initial phase of a capital campaign in 2018 which will be used to fund a new building and operating costs associated with the increased expansion of the Organization. The Organization has a campaign goal of \$14,000,000. As of June 30, 2018, the Organization has received pledges of \$258,000 of which \$108,000 has been collected.

The Organization classifies contributions to the capital campaign as temporarily restricted if the donor stipulation has not been met or the donor's time restriction has not expired.

11. Related Party Transactions

During the year ended June 30, 2014, the Organization received an in-kind donation from an entity related to a member of the Board of the use of 8,322 square feet of office space at no cost through July 2014, and renewable on an annual basis at the option of the Organization through November 2017. The Organization recorded the fair value of the lease based on the November 2017 termination date as in-kind revenues of approximately \$608,000 during 2014 as there are no donor conditions on the donation. The Organization recorded monthly in-kind rent expense as it used the office space during the term of the lease. During the year ended June 30, 2017, the Organization recorded approximately \$164,000 of in-kind rent expense and at June 30, 2018 the Organization recorded the remaining \$19,000 of in-kind rent expense as it had vacated the space in September of 2017.

During the years ended June 30, 2018 and 2017, the Organization received approximately \$2,138,000 and \$12,400,000, respectively, in revenue from Board members and/or entities related to Board members in the form of contributions (including in-kind donations and perishable foods). Amount due from related parties related to these contributions on the Statement of Financial Position are approximately \$0 and \$192,000 at June 30, 2018 and 2017, respectively.

12. Commitments and Contingencies

The Organization is subject to ordinary and routine legal proceedings, as well as demands, claims and threatened litigation, which arise in the ordinary course of its business. The ultimate outcome of any litigation is uncertain. While unfavorable outcomes could have adverse effects on the Organization's business, results of operations, and financial condition, management believes that the Organization is adequately insured and does not believe an unfavorable outcome of any pending or threatened proceedings is possible or remote. Therefore, no separate reserve or disclosure has been established for these types of legal proceedings.

13. Subsequent Events

Management has evaluated subsequent events through November 5, 2018, the date on which the consolidated financial statements were available to be issued. During the period, no material recognizable subsequent events were identified.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Forgotten Harvest, Inc.
Oak Park, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Forgotten Harvest, Inc. and its subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

Kalamazoo, Michigan

November 5, 2018



Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Forgotten Harvest, Inc.
Oak Park, Michigan

Report on Compliance for Each Major Federal Program

We have audited Forgotten harvest, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001, which we consider to be a significant deficiency.



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

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

BDO USA, LLP

Kalamazoo, Michigan

November 5, 2018

Supplementary Information

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Passed through to Subrecipients
U.S. Department of Agriculture:				
Food Distribution Cluster:				
Passed through Food Bank Council of Michigan Emergency Food Assistance Program	10.568	N/A	\$ 108,757	\$ -
Passed through Food Bank Council of Michigan Emergency Food Assistance Program Food Commodities	10.569	N/A	5,118,641	-
Passed through Feeding America West MI Emergency Food Assistance Program Food Commodities	10.569	N/A	71,292	-
Passed through Greater Lansing Food Bank Emergency Food Assistance Program Food Commodities	10.569	N/A	26,577	-
Passed through Food Bank of Eastern Michigan Emergency Food Assistance Program Food Commodities	10.569	N/A	19,316	-
Passed through Food Bank of South Central MI Emergency Food Assistance Program Food Commodities	10.569	N/A	9,420	-
Total Food Distribution Cluster			5,354,003	-
Passed through Michigan Department of Education MDE Child and Adult Care Food Program	10.558	N/A	85,546	
Passed through Michigan Department of Education MDE Summer Food Service Program	10.559	N/A	11,186	-
Total U.S. Department of Agriculture			96,732	-
Department of Homeland Security -				
Passed through United Way Emergency Food and Shelter National Board Program - FEMA	97.024	484400-301	272,938	
Environmental Protection Agency				
Passed through Southwest Detroit Environment Vision - EPA	66.039	N/A	25,000	
Total Expenditures of Federal Awards			\$ 5,748,673	\$ -

The accompanying notes are an integral part of this schedule.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Forgotten Harvest, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Forgotten Harvest, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Forgotten Harvest, Inc.

2. Summary of Significant Accounting Policies

- a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b) Pass-through entity identifying numbers are presented where available.
- c) The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Food Commodities

Nonmonetary assistance is reported based on the commodities received and disbursed. The value per pound is established by KPMG, LLP and published by Feeding America, a nationally recognized food donation charity.

**Forgotten Harvest, Inc.
(A Non-Profit Organization)**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

Section I - Summary of Auditor's Results

Consolidated Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to consolidated financial statements noted?

_____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? X yes _____ none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X yes _____ no

Identification of major federal programs:

CFDA Number
10.568 and 10.569

Name of Federal Program or Cluster
Food Distribution Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes _____ no

Section II - Consolidated Financial Statement Findings

No matters were reported.

Forgotten Harvest, Inc.
(A Non-Profit Organization)

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section III - Federal Award Findings and Questioned Costs

2018-001 - Eligibility

Information on Federal Program(s) -Food Distribution Cluster; Emergency Food Assistance Program (Food Commodities), CFDA# 10.569, Pass through entities: Food Bank Council of Michigan, Feeding America West MI, Greater Lansing Food Bank, Food Bank of Eastern Michigan, Food Bank of South Central MI.

Criteria - The Uniform Guidance states that for costs to be eligible and allowable under Federal awards, they must be adequately documented and there must be sufficient documentation.

Condition - During our testing of food distributions, we noted the following exception:

- One of the 40 food distributions was unable to be confirmed by the receiving agency and the Organization did not have adequate supporting documentation to support that the food was delivered.

Questioned Costs - Known questioned costs were less than the \$25,000 threshold required for reporting under the Uniform Guidance.

Context - BDO tested a random sample of 40 items and found one exception as noted in the condition. This is a condition identified per review of the Organization's compliance with specified requirements using a statistically valid sample.

Effect - BDO was unable to confirm the eligibility, validity or completeness of the one food distribution with the exception that was claimed as a federal expenditure.

Cause - Policies and procedures were not in place or appropriately adhered to in certain instances to ensure that supporting documentation was maintained correctly to evidence that costs were eligible and that an appropriate level of review and approval was completed prior to charging costs to a federal program.

Recommendation - We recommend that the Organization ensure policies and procedures are implemented and followed on a consistent basis.

Views of Responsible Officials and Planned Corrective Actions - With oversight of Senior Leadership of the Organization, the finance and operations departments have begun a comprehensive review of the underlying causes that led to the significant deficiency outlined in the Schedule of Findings and Questioned Costs. Policies and procedures are being reviewed and staff training is occurring concurrently. Forgotten Harvest Leadership understands the importance of having strong effective processes and controls in place to ensure accurate tracking and reporting of all federal programs.