

**SECOND HARVEST FOOD BANK
OF ORANGE COUNTY, INC.**

**SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS**

YEAR ENDED JUNE 30, 2020



CLAconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2020

	<u>Page</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance and on the Schedule of Expenditures of Federal Awards	3
Schedule of Expenditures of Federal Awards.....	6
Notes to Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs.....	8
Summary Schedule of Prior Audit Findings.....	10



**INDEPENDENT AUDITORS' 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***

The Board of Directors of
Second Harvest Food Bank of Orange County, Inc.
Irvine, California

We have audited, 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, the financial statements of Second Harvest Food Bank of Orange County, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 3, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 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 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 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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Irvine, California
March 3, 2021



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON
THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The Board of Directors of
Second Harvest Food Bank of Orange County, Inc.
Irvine, California

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Orange County, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the Office of Management and Budget *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, 2020. The Organization's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 US *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "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, 2020.

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 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 a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2020, and have issued our report thereon dated March 3, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Irvine, California
March 3, 2021

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Federal Grantor/Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number (CFDA No.)	Grantor Contract Number	Federal Expenditures	Subrecipient Expenditures
United States Department of Agriculture:				
Food Distribution Cluster:				
Passed through the California Department of Social Services				
Emergency Food Assistance Program:				
Emergency Food Assistance Program (Administrative Costs)	10.568	15-MOU-00131	\$ 228,184	\$ -
Emergency Food Assistance Program (Food Commodities)	10.569	-	8,731,379	8,731,379
Total Food Distribution Cluster			<u>8,959,563</u>	<u>8,731,379</u>
Trade Mitigation Program (Operational Costs)	10.178	-	149,173	-
Passed through the California Department of Education				
Child Nutrition Fiscal Services:				
Summer Food Service Program for Children	10.559	05660-SFSP-30	198,978	198,978
Child and Adult Care Food Program	10.558	05660-CACFP-30-NP	748,916	748,916
Total Child Nutrition Fiscal Services			<u>947,894</u>	<u>947,894</u>
California Association of Food Banks:				
Specialty Crop Block Grant Program	10.170	18-0001-084-SC	21,374	
Supplemental Nutrition Assistance Program	10.561	16-SUB-00965/18-7013	95,754	-
Total California Association of Food Banks			117,128	-
Total United States Department of Agriculture			<u>10,173,758</u>	<u>9,679,273</u>
United States Department of Homeland Security:				
Passed through the Emergency Food and Shelter National Board:				
Emergency Food and Shelter Program	97.024	35-078600-058	173,376	173,376
Total United States Department of Homeland Security			<u>173,376</u>	<u>173,376</u>
Total Federal Expenditures			<u>\$10,347,134</u>	<u>\$ 9,852,649</u>

See accompanying notes to schedule of expenditures of federal awards.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Note 1: General

The accompanying schedule of expenditures of federal awards (the “Schedule”) presents the activity of the federal financial assistance programs of Second Harvest Food Bank of Orange County, Inc. (the “Organization”). The information in the Schedule is presented in accordance with the requirements of Title 2 *US Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). The Organization’s reporting entity is defined in Note 1 of the Organization’s financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the Organization is included in the accompanying Schedule.

Note 2: Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting, which is described in the notes to the financial statements. Expenditures are determined using cost accounting principles and procedures set forth in *Subpart E - Cost Principles of the Uniform Guidance*.

Note 3: Indirect Cost Rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4: Contingencies

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings that are required to be reported in accordance with the 2 CFR Section 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.568 and 10.569	Food Distribution Cluster: United States Department of Agriculture: Passed through the California Department of Social Services - Emergency Food Assistance Program (Cash and Food Distribution Programs)
10.559	Summer Food Service Program for Children

Dollar threshold used for distinguishing between Type A and B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2020**

2. Findings Relating to Financial Statements

None noted.

3. Findings and Questioned Costs Relating to Major Federal Awards

None noted.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020**

Financial Statement Findings

There were no findings or questioned costs for the year ended June 30, 2019.

Major Federal Awards Findings

There were no findings or questioned costs for the year ended June 30, 2019.

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | CliftonLarsonAllen LLP



**SECOND HARVEST FOOD BANK
OF ORANGE COUNTY, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

WITH INDEPENDENT AUDITORS' REPORT



CLAconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
JUNE 30, 2020 AND 2019

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows.....	6
Statements of Functional Expenses	7
Notes to Financial Statements.....	9



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Second Harvest Food Bank of Orange County, Inc.
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Orange County, Inc. (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization'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 Organization'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 the Organization as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Comparative Information

The financial statements as of June 30, 2019, were audited by White Nelson Diehl Evans LLP, whose partners and professional staff joined CliftonLarsonAllen LLP as of November 1, 2020, and has subsequently ceased operations. White Nelson Diehl Evans LLP's report dated December 6, 2019, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2021, on our consideration of the Organization'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 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 the 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 the Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Irvine, California
March 3, 2021

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS

	2020	2019
Current Assets:		
Cash	\$ 8,639,340	\$ 1,574,802
Restricted cash	350,000	360,000
Accounts receivable	6,879	33,278
Grants receivable	187,728	558,486
Unconditional promises to give	26,580	66,045
Inventory	2,065,135	1,866,795
Prepaid expenses and deposits	86,752	117,460
Total Current Assets	11,362,414	4,576,866
Property and Equipment, at Net Book Value	10,453,795	10,147,411
Other Assets:		
Long-term investments - unrestricted	10,010	13,130
Long-term investments - restricted	196,281	196,281
Long-term unconditional promises to give, net	19,317	37,975
Total Other Assets	225,608	247,386
Total Assets	\$ 22,041,817	\$ 14,971,663

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	\$ 843,009	\$ 496,818
Deferred revenue and deposits	855,887	156,388
Total Current Liabilities	1,698,896	653,206
Net Assets:		
Without donor restrictions	15,803,484	9,615,908
With donor restrictions	4,539,437	4,702,549
Total Net Assets	20,342,921	14,318,457
Total Liabilities and Net Assets	\$ 22,041,817	\$ 14,971,663

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Unrestricted Support and Revenue:		
Community Support:		
Grants and awards	\$ 3,965,375	\$ 2,076,693
Contributions	9,428,750	2,628,551
Donated food products and merchandise	73,265,087	51,933,696
Events and solicitation revenue	2,827,958	2,496,723
Contributed services	116,010	28,600
Total Community Support	89,603,180	59,164,263
Revenue:		
Contract revenue	2,083,317	2,441,243
Community partner fees	336,664	540,674
Other income	6,302	24,316
Total Revenue	2,426,283	3,006,233
Net Assets Released from Restrictions	513,112	124,439
Total Unrestricted Support and Revenue	92,542,575	62,294,935
Expenses:		
Program services	82,470,574	59,778,106
Supporting services:		
Management and general	2,102,589	1,799,604
Fundraising	1,781,836	1,710,630
Total Supporting Services	3,884,425	3,510,234
Total Expenses	86,354,999	63,288,340
Increase (Decrease) in Net Assets Without Donor Restrictions	6,187,576	(993,405)

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Donor Restricted Support:		
Grants received	\$ 350,000	\$ 200,000
Funds used for operations	(460,000)	(71,327)
Depreciation expense	<u>(53,112)</u>	<u>(53,112)</u>
Increase (Decrease) in Net Assets With Donor Restrictions	<u>(163,112)</u>	<u>75,561</u>
Increase (Decrease) in Total Net Assets	6,024,464	(917,844)
Total Net Assets, Beginning of Year	<u>14,318,457</u>	<u>15,236,301</u>
Total Net Assets, End of Year	<u><u>\$ 20,342,921</u></u>	<u><u>\$ 14,318,457</u></u>

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities:		
Increase (Decrease) in Total Net Assets	\$ 6,024,464	\$ (917,844)
Noncash Items Included in Increase (Decrease) in Total Net Assets:		
Depreciation	729,388	642,210
Loss on sale of assets	29,103	-
Unrealized loss (gain) on investments	2,187	(9,600)
Allowance for uncollectible promises to give	(3,059)	(2,929)
Changes in:		
Accounts receivable	26,399	(16,222)
Grants receivable	370,758	74,835
Unconditional promises to give	61,182	58,587
Inventory	(198,340)	390,733
Prepaid expenses and deposits	30,708	39,918
Accounts payable and accrued expenses	346,191	(71,487)
Deferred revenue and deposits	699,499	(43,770)
Net Cash and Restricted Cash Provided by Operating Activities	8,118,480	144,431
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,064,875)	(541,313)
Proceeds from sale of investments	-	24,512
Investment income, net	933	679
Net Cash and Restricted Cash Used in Investing Activities	(1,063,942)	(516,122)
Net Increase (Decrease) in Cash and Restricted Cash	7,054,538	(371,691)
Cash and Restricted Cash, Beginning of Year	1,934,802	2,306,493
Cash and Restricted Cash, End of Year	\$ 8,989,340	\$ 1,934,802

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Program Services	Supporting Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expense:					
Salaries and wages	\$ 3,284,434	\$ 937,274	\$ 683,235	\$ 1,620,509	\$ 4,904,943
Benefits	332,881	94,399	69,557	163,956	496,837
Payroll taxes and workers' compensation	439,456	124,622	91,827	216,449	655,905
Other personnel costs	33,845	9,598	7,072	16,670	50,515
Total Salaries and Related Expense	4,090,616	1,165,893	851,691	2,017,584	6,108,200
Other Expenses:					
Donated food and supplies, in kind	73,264,545	12,103	212,700	224,803	73,489,348
Donated professional fees and services, in kind	-	18,810	97,200	116,010	116,010
Product fees and purchases	1,341,445	-	-	-	1,341,445
Freight and storage	268,081	-	-	-	268,081
Program costs	1,507,764	-	-	-	1,507,764
Vehicle operation	586,241	-	-	-	586,241
Professional fees and services	14,368	324,167	39,018	363,185	377,553
General supplies	53,793	16,011	994	17,005	70,798
Postage and printing	187	27,098	1,434	28,532	28,719
Telephone	23,641	29,212	865	30,077	53,718
Occupancy	269,905	19,919	2,249	22,168	292,073
Repairs and maintenance	180,107	-	-	-	180,107
Insurance	150,883	11,135	1,257	12,392	163,275
Direct mailing costs	-	-	293,066	293,066	293,066
Community events	-	-	176,272	176,272	176,272
Bank fees	-	147,164	-	147,164	147,164
Dues and subscriptions	22,820	52,408	1,255	53,663	76,483
Mileage	18,161	7,268	1,636	8,904	27,065
Advertising and promotion	717	211,403	87,128	298,531	299,248
Conference and meeting	3,272	10,254	9,455	19,709	22,981
Total Other Expenses	77,705,930	886,952	924,529	1,811,481	79,517,411
Expenses before Depreciation	81,796,546	2,052,845	1,776,220	3,829,065	85,625,611
Depreciation	674,028	49,744	5,616	55,360	729,388
Total Functional Expenses	\$ 82,470,574	\$ 2,102,589	\$ 1,781,836	\$ 3,884,425	\$ 86,354,999

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expense:					
Salaries and wages	\$ 2,608,429	\$ 920,149	\$ 600,884	\$ 1,521,033	\$ 4,129,462
Benefits	309,122	107,947	73,601	181,548	490,670
Payroll taxes and workers' compensation	409,921	143,147	97,600	240,747	650,668
Other personnel costs	48,511	16,940	11,550	28,490	77,001
Total Salaries and Related Expense	3,375,983	1,188,183	783,635	1,971,818	5,347,801
Other Expenses:					
Donated food and supplies, in kind	52,094,922	-	111,673	111,673	52,206,595
Donated professional fees and services, in kind	-	28,600	110,284	138,884	138,884
Product fees and purchases	749,552	-	-	-	749,552
Freight and storage	283,818	-	-	-	283,818
Program costs	1,480,647	-	-	-	1,480,647
Vehicle operation	419,137	-	-	-	419,137
Professional fees and services	2,143	199,218	49,068	248,286	250,429
General supplies	38,422	27,309	1,432	28,741	67,163
Postage and printing	-	39,461	2,901	42,362	42,362
Telephone	36,333	19,181	1,834	21,015	57,348
Occupancy	286,699	21,159	2,389	23,548	310,247
Repairs and maintenance	211,436	-	-	-	211,436
Insurance	152,320	11,241	1,269	12,510	164,830
Direct mailing costs	-	-	332,915	332,915	332,915
Community events	-	-	209,423	209,423	209,423
Bank fees	-	55,373	-	55,373	55,373
Dues and subscriptions	10,452	61,849	987	62,836	73,288
Mileage	29,172	7,101	2,454	9,555	38,727
Advertising and promotion	1,696	76,157	92,342	168,499	170,195
Conference and meeting	11,908	23,902	3,079	26,981	38,889
Other	-	(2,929)	-	(2,929)	(2,929)
Total Other Expenses	55,808,657	567,622	922,050	1,489,672	57,298,329
Expenses before Depreciation	59,184,640	1,755,805	1,705,685	3,461,490	62,646,130
Depreciation	593,466	43,799	4,945	48,744	642,210
Total Functional Expenses	\$ 59,778,106	\$ 1,799,604	\$ 1,710,630	\$ 3,510,234	\$ 63,288,340

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Second Harvest Food Bank of Orange County, Inc. (the “Organization” or “Second Harvest”) is a nonprofit organization that provides hunger relief services throughout the local community. The Organization acts as a clearinghouse through which food processors, wholesalers, retailers, and government agencies donate food items that are distributed via qualified charitable agencies to assist those in need.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). References to the “ASC” hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (“FASB”) as the source of authoritative US GAAP.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as prescribed for not-for-profit organizations by the FASB. Accordingly, the net assets of the Organization are classified and reported as follows:

- *Net Assets without Donor Restrictions* - Net assets without donor restrictions are net assets of the Organization that are not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).
- *Net Assets with Donor Restrictions* - Net assets with donor restrictions are net assets of the Organization that are subject to donor imposed restrictions (donors include other types of contributors, including makers of certain grants).
- *Board-Designated Net Assets* - Board-designated net assets are net assets without donor restrictions subject to self-imposed limits by action of the Organization’s Board of Directors. Board-designated net assets may be earmarked for future programs, investments, contingencies, purchases or construction of fixed assets, or other uses.

Cash and Restricted Cash

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash. Amounts included in restricted cash represent those amounts required to be set aside by grant agreements with donors for use during a specific time period.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and Restricted Cash (Continued)

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position at June 30, 2020 and 2019, that sum to the total of the same such amounts shown in the statements of cash flows for the years ended June 30, 2020 and 2019:

	2020	2019
Cash	\$ 8,639,340	\$ 1,574,802
Restricted cash	350,000	360,000
 Total Cash and Restricted Cash Shown in the Statements of Cash Flows	 \$ 8,989,340	 \$ 1,934,802

Unconditional Promises to Give

Unconditional promises to give are recognized when the donor makes a promise to give. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. At June 30, 2020 and 2019, unconditional promises to give due within a year totaled \$26,580 and \$66,045, respectively. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2020 and 2019, total long-term unconditional promises to give totaled \$21,733 and \$43,450, respectively. Management has provided a reserve for uncollectible promises to give that totaled \$2,416 and \$5,475 at June 30, 2020 and 2019, respectively, that are applied to the long-term amounts.

Support and Revenue

A majority of the Organization's grants and contracts support are from federal pass-through funds from the State of California, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Other support is from agency fees and contributions from community individuals and businesses. The Organization recognizes contributions when cash or other assets are received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. There are no conditional promises to give at June 30, 2020 and 2019.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Accounts and Grants Receivable

The Organization's accounts and grants receivable are primarily reimbursements and fees from governmental agencies and community partners. They are based on services performed by the Organization as written under contractual agreements. Uncollectable accounts are written off after all attempts at collections have been pursued. Receivables are periodically evaluated for collectability based on past credit history and the current financial condition of agencies and subrecipients. The allowance for doubtful accounts is determined on the basis of loss experience, economic conditions in the industry, and the financial stability of community partners.

Inventory

Donations of food products to the Organization are recorded at fair value. The fair value of donated food and commodities is based on management's estimates and the use of the "Product Valuation Survey" prepared by Feeding America, a third-party network for food banks (formerly America's Second Harvest). The costs associated with distributing food to the community are recorded as donated food and supplies, in kind in the accompanying statements of functional expenses.

Donated property is recorded at fair value when there is an objective basis available to measure its value.

The net realizable value of inventory for food is based on the maximum shared maintenance rate, which ranges from \$0.00 to \$0.18 per pound for the years ended June 30, 2020 and 2019. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from purchasing agencies. Beginning March 2020, the Organization no longer charged shared maintenance fees to its community partners.

As of June 30, 2020, donated food inventory is valued at a fair value of \$1.74 per gross pound in the statement of financial position, which totaled \$1,631,756. The actual net realizable value of such inventory is a fraction of that amount. Had the donated food been valued at its net realizable value using the maximum shared maintenance rate of \$0.18, inventory and distribution of donated food products and merchandise would have been reduced by \$1,515,386 and \$67,634,348, respectively, at June 30, 2020, with a corresponding decrease in community support for the Organization during the period. The reduction of inventory and distribution of donated food products noted above is exclusive of 340,165 and 11,365,098 pounds, respectively, of inventory received from government agencies to which the shared maintenance rate cannot be applied.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Inventory (Continued)

As of June 30, 2019, donated food inventory was valued at a fair value of \$1.62 per gross pound on the statement of financial position, which totaled \$1,864,400. The actual net realizable value of such inventory was a fraction of that amount. Had the donated food been valued at its net realizable value using the maximum shared maintenance rate of \$0.18, inventory and distribution of donated food products and merchandise would have been reduced by \$1,657,244 and \$46,440,331, respectively, at June 30, 2019, with a corresponding decrease in community support for the Organization during the period. The reduction of inventory and distribution of donated food products noted above was exclusive of 732,129 and 3,669,922 pounds, respectively, of inventory received from government agencies to which the shared maintenance rate cannot be applied.

Property and Equipment

Land, building, furniture, fixtures, and equipment are stated at cost, less accumulated depreciation if purchased or estimated fair value if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets ranging from 3 to 39 years. For the years ended June 30, 2020 and 2019, depreciation expense totaled \$729,388 and \$642,210, respectively.

Long-Lived Assets and Asset Impairment

The Organization accounts for impairment and disposition of long-lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. There was no impairment of the value of such assets for the years ended June 30, 2020 and 2019.

Deferred Revenue and Deposits

As of June 30, 2020 and 2019, deferred revenue and deposits consist principally of amounts received from participants in advance for fundraising events occurring subsequent to year-end. At June 30, 2020 and 2019, deferred revenue and deposits totaled \$855,887 and \$156,388, respectively.

Advertising and Promotion Costs

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion costs charged to operations for the years ended June 30, 2020 and 2019, totaled \$299,248 and \$170,195, respectively.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Contributed Services

A substantial number of volunteers have donated significant amounts of time in the operation of the Organization. Consulting, professional fundraising, and information technology services meet the criteria of FASB ASC 958-605, *Accounting for Contributions Received*, and have been recognized in the accompanying statements of activities and changes in net assets as revenue and a corresponding expense. The fair value of these services at the time of donation was determined to be \$116,010 and \$138,884 for the years ended June 30, 2020 and 2019, respectively.

Substantial amounts of other volunteer time do not meet the criteria of FASB ASC 958-605 and accordingly have not been reflected in the accompanying financial statements.

The value of such volunteer time was estimated using minimum wage rates and determined to be the following for the year ended June 30, 2020 (unaudited):

<u>Number of Volunteers</u>	<u>Number of Hours</u>	<u>Value</u>
<u>16,733</u>	<u>75,391</u>	<u>\$ 942,388</u>

The value of such volunteer time was estimated using the minimum wage rates and determined to be the following for the year ended June 30, 2019 (unaudited):

<u>Number of Volunteers</u>	<u>Number of Hours</u>	<u>Value</u>
<u>26,391</u>	<u>113,117</u>	<u>\$ 1,300,846</u>

Income Taxes

The Organization is recognized as tax exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code and is classified as an organization other than private foundation. Accordingly, there is no provision for income taxes in the accompanying financial statements.

The Organization accounts for the provisions of FASB ASC 740-10-25, whereby an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not that the position will be sustained. The Organization does not believe that there are any material uncertain tax positions, and accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties. The Organization's 2017-2019 tax returns are open for federal income tax purposes, and its 2016-2019 tax returns are open to review for state income tax purposes.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of functional expenses. Certain categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Expenses are allocated in the following ways: labor expenses, including salaries, payroll taxes, workers' compensation, employee benefits, travel, and staff training, are allocated based on the percentage of time that each employee spends working on projects specific to the program or supporting function; and nonlabor direct expenses are allocated based on each program's direct expenses. Occupancy, insurance, and depreciation expenses are allocated based on the square footage of the building dedicated to each of the functional areas.

Use of Estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Organization's investments are stated at fair value at June 30, 2020 and 2019, and quoted market prices are used when applicable. Shares of mutual funds are valued at the net asset value of shares held by the Organization at year-end.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gains and/or losses are reported the day after the trade date.

Net realized and unrealized activity is recorded in the accompanying statements of activities and changes in net assets in other income. Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

Recent Accounting Pronouncements – Not Yet Adopted

In June 2020, FASB issued Accounting Standards Update ("ASU") 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*. For certain entities with financial statements that have not yet been issued or made available for issuance as of the final ASU publication date, ASU 2020-05 provides an option for a one-year deferral of the effective date of ASU 2014-09 and ASU 2016-02. Accordingly, the respective effective dates are discussed below.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements – Not Yet Adopted (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes new revenue recognition guidance (“ASC 606”), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for the Organization for the fiscal year beginning on July 1, 2021. The Organization does not expect the provisions of ASC 606 to have a material impact on the presentation of its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with subsequent improvements and corrections issued in ASU 2018-01, ASU 2018-10, and ASU 2018-20. ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021; however, early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

Recent Accounting Pronouncement – Adopted

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605)*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019; accordingly, the Organization implemented the provisions of ASU 2018-08, which did not have a material impact on the presentation of its financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2: Liquidity

The Organization’s financial assets available for general expenditure (that is, without donor or other restrictions limiting their use), within one year of the statement of financial position date, are as follows as of June 30, 2020 and 2019:

	2020	2019
Cash	\$ 8,639,340	\$ 1,574,802
Accounts receivable	6,879	33,278
Grants receivable	187,728	558,486
Unconditional promises to give	26,580	66,045
 Total Financial Assets Available to Meet General Expenditures within One Year	 \$ 8,860,527	 \$ 2,232,611

As part of the Organization’s liquidity management plan, it invests cash in excess of daily requirements in short-term investments and certificates of deposit.

Note 3: Concentrations, Risks, and Uncertainties

The Organization maintains cash balances at a single financial institution. At June 30, 2020 and 2019, accounts at this institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. As of June 30, 2020 and 2019, the Organization had approximately \$6,800,000 and \$1,450,000 in uninsured cash at this institution, respectively.

The Second Harvest endowment fund investments maintained by the Orange County Community Foundation (see Note 9) are not insured. The uninsured balance was \$206,291 and \$209,411 as of June 30, 2020 and 2019, respectively.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of an outbreak of a new strain of coronavirus (“COVID-19”). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase of the virus and its global exposure.

The Organization’s operations are heavily dependent on donations from individuals, foundations, and corporations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. The situation may depress donations during fiscal year 2021. As such, this may hinder the Organization’s ability to advance its mission.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the Organization’s financial condition, liquidity, operations, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 4: Inventory

Inventory consists of the following at June 30, 2020 and 2019:

	2020	2019
Donated food	\$ 1,631,756	\$ 1,864,400
Purchased commodities	433,379	2,395
Total Inventory	\$ 2,065,135	\$ 1,866,795

Note 5: Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land	\$ 2,400,000	\$ 2,400,000
Building	8,929,099	8,829,094
Vehicles	2,898,483	2,556,304
Furniture and equipment	2,680,691	2,164,935
Total property and equipment, at cost	16,908,273	15,950,333
Less: Accumulated depreciation	(6,454,478)	(5,802,922)
Property and Equipment, at Net Book Value	\$ 10,453,795	\$ 10,147,411

Note 6: Net Assets

Net assets consist of the following as June 30, 2020 and 2019:

	2020	2019
Net Assets without Donor Restrictions:		
Investment in property and equipment, net of related debt	\$ 6,460,639	\$ 6,101,143
Available for operations	9,342,845	3,514,765
Total net assets without donor restrictions	15,803,484	9,615,908
Net Assets with Donor Restrictions:		
Subject to expenditures for specific purposes:		
Program activities	350,000	460,000
Total purpose restrictions	350,000	460,000

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 6: Net Assets (Continued)

Subject to passage of time:		
Building, net of depreciation	\$ 1,593,156	\$ 1,646,268
Land	<u>2,400,000</u>	<u>2,400,000</u>
Total time restrictions	<u>3,993,156</u>	<u>4,046,268</u>
Endowment:		
Subject to endowment spending policy and appropriation:		
Program activities	<u>196,281</u>	<u>196,281</u>
Total net assets with donor restrictions	<u>4,539,437</u>	<u>4,702,549</u>
Total Net Assets	<u>\$ 20,342,921</u>	<u>\$ 14,318,457</u>

Note 7: Commitments and Contingencies

Line of Credit

The Organization has a line of credit with a financial institution for borrowings of up to \$250,000, which bears interest at the bank's reference rate (3.25% as of June 30, 2020) on the unpaid principal balance maturing in June 2022. The line of credit is secured by substantially all the assets of the Organization. At June 30, 2020 and 2019, there was no principal balance outstanding on this line of credit.

The line of credit agreement with the bank contains various covenants pertaining to the maintenance of tangible net worth. At June 30, 2020 and 2019, the Organization was in compliance with respect to all terms of the line of credit agreement.

Operating Lease

The Organization has entered into a lease for the use of copy machines expiring September 2024. Expenses related to this operating lease for the year ended June 30, 2020, totaled \$14,349.

The future aggregate minimum annual lease payments under this noncancelable lease for subsequent years ending June 30 are as follows:

2021	\$ 7,872
2022	7,872
2023	7,872
2024	7,872
2025	<u>1,968</u>
Total Minimum Lease Payments	<u>\$ 33,456</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 7: Commitments and Contingencies (Continued)

Litigation

The Organization experiences litigation during the normal course of its operations. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

Note 8: Allocation of Joint Costs

For the years ended June 30, 2020 and 2019, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$469,338 and \$542,338, respectively. These activities include direct mail costs of \$293,066 and fundraising campaigns and special event costs totaling \$176,272 for the year ended June 30, 2020. For the year ended June 30, 2019, these activities included direct mail costs of \$332,915 and fundraising campaigns and special event costs totaling \$209,423.

Note 9: Endowment Fund

The Organization's endowment fund is made up of one fund established to fund the Kids Café program. As required by US GAAP, net assets associated with endowment funds, including unrestricted investment funds designated by the Board of Directors to be included in the endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2008, the State of California enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, Second Harvest is required to act prudently when making decisions to spend or accumulate donor-restricted endowment assets, and, in doing so, to consider a number of factors, including the duration and preservation of its donor-restricted endowment funds. As a result of this interpretation, Second Harvest classifies as donor-restricted endowment funds the original value of the gifts with donor-imposed restrictions and maintains that such funds be retained as a permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by Second Harvest in a manner consistent with the standard of prudence prescribed by UPMIFA.

Second Harvest has outsourced the management of the Second Harvest Food Bank Endowment Fund to the Orange County Community Foundation ("OCCF"). The oversight of the investment portfolio is the responsibility of the OCCF Investment Committee whose members are appointed by and serve the OCCF Board of Directors, which shall administer the investment portfolio in compliance with all written policies approved by the OCCF Board of Directors. Annual distributions are subject to the policies of the OCCF, which limit them to a maximum of 5% of the rolling average of the total account balance over the prior 12 months.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9: Endowment Fund (Continued)

The OCCF Investment Committee has contracted with an independent trust foundation for the purpose of managing the investment and reinvestment of fund assets in a manner consistent with the overall investment policy as approved by the OCCF Board of Directors.

Second Harvest's investment objectives, as determined by the OCCF, are to:

- preserve the investment portfolio's corpus over the long term;
- ensure the investment portfolio's long-term ability to distribute income; and
- ensure that restricted donations are protected so that they are available for the target use.

In achieving the objectives, Second Harvest's primary investment mission is to preserve principal and to provide income to help sustain the Kid's Café program in future years.

The following is the endowment net asset composition as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Funds	\$ <u>10,010</u>	\$ <u>196,281</u>	\$ <u>206,291</u>

The following are the changes in the endowment net assets for the year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 13,130	\$ 196,281	\$ 209,411
Investment return:			
Investment income	1,259	-	1,259
Net depreciation	<u>(2,187)</u>	<u>-</u>	<u>(2,187)</u>
Total investment return	(928)	-	(928)
Amount appropriated for expenditure	<u>(2,192)</u>	<u>-</u>	<u>(2,192)</u>
Endowment Net Assets, End of Year	<u>\$ 10,010</u>	<u>\$ 196,281</u>	<u>\$ 206,291</u>

The following is the endowment net asset composition as of June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ 13,130</u>	<u>\$ 196,281</u>	<u>\$ 209,411</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9: Endowment Fund (Continued)

The following are the changes in the endowment net assets for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 28,721	\$ 196,281	\$ 225,002
Investment return:			
Investment income	1,569	-	1,569
Net appreciation	<u>9,600</u>	<u>-</u>	<u>9,600</u>
Total investment return	11,169	-	11,169
Grants	(24,512)	-	(24,512)
Amount appropriated for expenditure	<u>(2,248)</u>	<u>-</u>	<u>(2,248)</u>
Endowment Net Assets, End of Year	<u>\$ 13,130</u>	<u>\$ 196,281</u>	<u>\$ 209,411</u>

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 applicable state law requires the Organization to retain as a fund of perpetual duration. In accordance with US GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2020 and 2019. The Organization has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) and applicable state trust law to permit spending from underwater endowments in accordance with prudent measures required under law.

Note 10: Net Assets Released from Restrictions

Net assets released from restrictions consist of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Satisfaction of time restriction	\$ 53,112	\$ 53,112
Satisfaction of purpose restriction	<u>460,000</u>	<u>71,327</u>
Total Net Assets Released from Restrictions	<u>\$ 513,112</u>	<u>\$ 124,439</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 11: Fair Value Measurements

Second Harvest has adopted FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurement.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs in the valuation of an asset as of the measurement date. The three levels are defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measurement considered from the perspective of a market participant rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, Second Harvest's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for assets measured at fair value is disclosed in Note 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the years ended June 30, 2020 and 2019.

The methods described in Note 1 (Investment Valuation and Income Recognition) may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Second Harvest believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial Interest in Assets				
Held by Community				
Foundation	\$ 206,291	\$ -	\$ -	\$ 206,291

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 11: Fair Value Measurements (Continued)

The following is a reconciliation of activity at June 30, 2020, for assets measured at fair value based on significant unobservable (nonmarket) information:

Balance, beginning of year	\$ 209,411
Interest income	1,259
Unrealized losses included in earnings	(2,187)
Management fees	<u>(2,192)</u>
Balance, End of Year	<u>\$ 206,291</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Beneficial Interest in Assets Held by Community Foundation	<u>\$ 209,411</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 209,411</u>

The following is a reconciliation of activity at June 30, 2019, for assets measured at fair value based on significant unobservable (nonmarket) information:

Balance, beginning of year	\$ 225,002
Interest income	1,569
Unrealized gains included in earnings	9,600
Management fees	(2,248)
Purchases, issuances, and settlements	<u>(24,512)</u>
Balance, End of Year	<u>\$ 209,411</u>

Realized and unrealized gains (losses) included in earnings are reported in the statements of activities and changes in net assets as a component of other income.

Note 12: Subsequent Events

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of March 3, 2021, which is the date the financial statements were available to be issued.

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

