

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

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2019 AND 2018**

**WITH INDEPENDENT AUDITORS' REPORT**

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
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**JUNE 30, 2019 AND 2018**

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## **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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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.

## **Auditors' Responsibility (Continued)**

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2019, 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.

*White Nelson Dick Evans LLP*

Irvine, California  
December 6, 2019

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2019 AND 2018**

**ASSETS**

	2019	2018
Current Assets:		
Cash	\$ 1,574,802	\$ 2,175,166
Restricted cash	360,000	131,327
Accounts receivable	33,278	17,056
Grants receivable	558,486	533,321
Unconditional promises to give	66,045	82,691
Inventory	1,866,795	2,257,528
Prepaid expenses and deposits	117,460	157,378
Total Current Assets	4,576,866	5,354,467
Property and Equipment, at Net Book Value	10,147,411	10,248,308
Other Assets:		
Long-term investments - unrestricted	13,130	28,721
Long-term investments - restricted	196,281	196,281
Long-term grants receivable	-	100,000
Long-term unconditional promises to give, net	37,975	76,987
Total Other Assets	247,386	401,989
Total Assets	\$ 14,971,663	\$ 16,004,764

**LIABILITIES AND NET ASSETS**

Current Liabilities:		
Accounts payable and accrued expenses	\$ 496,818	\$ 568,305
Deferred revenue and deposits	156,388	200,158
Total Current Liabilities	653,206	768,463
Net Assets:		
Without donor restrictions	9,615,908	10,609,313
With donor restrictions	4,702,549	4,626,988
Total Net Assets	14,318,457	15,236,301
Total Liabilities and Net Assets	\$ 14,971,663	\$ 16,004,764

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, 2019 AND 2018**

	2019	2018
Unrestricted Support and Revenue:		
Community Support:		
Grants and awards	\$ 2,076,693	\$ 2,056,393
Contributions	2,628,551	2,445,279
Donated food products and merchandise	51,933,696	51,001,707
Events and solicitation revenue	2,496,723	2,794,282
Contributed services	28,600	113,197
Total Community Support	59,164,263	58,410,858
Revenue:		
Contract revenue	2,441,243	2,023,401
Community partner fees	540,674	547,365
Other income	24,316	27,205
Total Revenue	3,006,233	2,597,971
Net Assets Released from Restrictions	124,439	445,111
Total Unrestricted Support and Revenue	62,294,935	61,453,940
Expenses:		
Program services	59,778,106	58,876,894
Support services:		
Management and general	1,799,604	1,576,147
Fundraising	1,710,630	1,635,506
Total Support Services	3,510,234	3,211,653
Total Expenses	63,288,340	62,088,547
Decrease in Net Assets Without Donor Restrictions	(993,405)	(634,607)

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, 2019 AND 2018**

	2019	2018
Donor Restricted Support:		
Grants received	\$ 200,000	\$ 331,327
Funds used for operations	(71,327)	(391,999)
Depreciation expense	(53,112)	(53,112)
Increase (Decrease) in Net Assets With Donor Restrictions	75,561	(113,784)
Decrease in Total Net Assets	(917,844)	(748,391)
Total Net Assets, Beginning of Year	15,236,301	15,984,692
Total Net Assets, End of Year	\$ 14,318,457	\$ 15,236,301

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, 2019 AND 2018**

	2019	2018
Cash Flows from Operating Activities:		
Decrease in Total Net Assets	\$ (917,844)	\$ (748,391)
Noncash Items Included in Decrease in Total Net Assets:		
Depreciation	642,210	584,900
Realized gain on investments	(9,600)	(15,343)
Allowance for uncollectible promises to give	(2,929)	(1,109)
Allowance for doubtful accounts	-	(5,729)
Changes in:		
Accounts receivable	(16,222)	13,272
Grants receivable	74,835	(112,011)
Unconditional promises to give	58,587	22,182
Inventory	390,733	634,479
Prepaid expenses and deposits	39,918	(46,580)
Accounts payable and accrued expenses	(71,487)	152,308
Deferred revenue and deposits	(43,770)	16,777
Net Cash and Restricted Cash Provided by Operating Activities	144,431	494,755
Cash Flows from Investing Activities:		
Purchase of property and equipment	(541,313)	(863,757)
Proceeds from sale of investments	24,512	-
Investment income, net	679	941
Net Cash and Restricted Cash Used in Investing Activities	(516,122)	(862,816)
Net Decrease in Cash and Restricted Cash	(371,691)	(368,061)
Cash and Restricted Cash, Beginning of Year	2,306,493	2,674,554
Cash and Restricted Cash, End of Year	\$ 1,934,802	\$ 2,306,493

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	Support 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
<b>Total Salaries and Related Expense</b>	<b>3,375,983</b>	<b>1,188,183</b>	<b>783,635</b>	<b>1,971,818</b>	<b>5,347,801</b>
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)
<b>Total Other Expenses</b>	<b>55,808,657</b>	<b>567,622</b>	<b>922,050</b>	<b>1,489,672</b>	<b>57,298,329</b>
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
<b>Total Functional Expenses</b>	<b>\$ 59,778,106</b>	<b>\$ 1,799,604</b>	<b>\$ 1,710,630</b>	<b>\$ 3,510,234</b>	<b>\$ 63,288,340</b>

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, 2018**

	Program Services	Support Services			Total Functional Expenses
		Management and General	Fundraising	Total	
<b>Salaries and Related Expense:</b>					
Salaries and wages	\$ 2,175,020	\$ 711,550	\$ 534,643	\$ 1,246,193	\$ 3,421,213
Benefits	278,832	91,492	65,351	156,843	435,675
Payroll taxes and workers' compensation	339,833	111,508	79,648	191,156	530,989
Other personnel costs	21,482	7,049	5,035	12,084	33,566
<b>Total Salaries and Related Expense</b>	<b>2,815,167</b>	<b>921,599</b>	<b>684,677</b>	<b>1,606,276</b>	<b>4,421,443</b>
<b>Other Expenses:</b>					
Donated food and supplies, in-kind	51,434,533	7,842	185,461	193,303	51,627,836
Donated professional fees and services, in-kind	-	20,534	92,663	113,197	113,197
Product fees and purchases	1,195,431	-	-	-	1,195,431
Freight and storage	229,561	-	-	-	229,561
Program costs	1,526,111	-	-	-	1,526,111
Vehicle operation	348,954	-	-	-	348,954
Professional fees and services	6,977	236,907	43,948	280,855	287,832
General supplies	13,896	41,150	1,371	42,521	56,417
Postage and printing	-	36,498	2,793	39,291	39,291
Telephone	36,128	17,382	1,765	19,147	55,275
Occupancy	326,720	24,112	2,722	26,834	353,554
Repairs and maintenance	202,731	-	-	-	202,731
Insurance	143,580	10,596	1,196	11,792	155,372
Direct mailing costs	-	-	293,204	293,204	293,204
Community events	-	-	217,463	217,463	217,463
Bank fees	-	66,378	-	66,378	66,378
Dues and subscriptions	842	48,026	2,194	50,220	51,062
Mileage	24,306	9,384	1,142	10,526	34,832
Advertising and promotion	10,124	76,842	92,451	169,293	179,417
Conference and meeting	21,326	25,845	7,952	33,797	55,123
Other	-	(6,838)	-	(6,838)	(6,838)
<b>Total Other Expenses</b>	<b>55,521,220</b>	<b>614,658</b>	<b>946,325</b>	<b>1,560,983</b>	<b>57,082,203</b>
Expenses before Depreciation	58,336,387	1,536,257	1,631,002	3,167,259	61,503,646
Depreciation	540,507	39,890	4,504	44,394	584,901
<b>Total Functional Expenses</b>	<b>\$ 58,876,894</b>	<b>\$ 1,576,147</b>	<b>\$ 1,635,506</b>	<b>\$ 3,211,653</b>	<b>\$ 62,088,547</b>

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, 2019 AND 2018**

**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 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 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* - 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, investment, contingencies, purchase 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.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**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 statement of financial position at June 30, 2019, that sum to the total of the same such amounts shown in the statement of cash flows for the year ended June 30, 2019:

Cash	\$ 1,574,802
Restricted cash	<u>360,000</u>
Total Cash and Restricted Cash	
Shown in the Statement of Cash Flows	<u>\$ 1,934,802</u>

Amounts included in restricted cash represent those required to be set aside by grant agreements with donors for use during a specific time period.

**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, 2019 and 2018, unconditional promises to give due within a year totaled \$66,045 and \$82,691, respectively. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2019 and 2018, total long-term unconditional promises to give totaled \$43,450 and \$85,391, respectively. Management has provided a reserve for uncollectible promises to give that totaled \$5,475 and \$8,404 at June 30, 2019 and 2018, respectively, that are applied to the long-term amounts.

**Support and Revenue**

The majority of the Organization's grants and contracts support are from federal pass-through funds from the State of California. Support received from these grants is recognized on an accrual basis based on funding provided through the term of the individual contracts, as specified by the grantor. Other support is from agency fees and contributions from community individuals and businesses.

**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.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**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 with 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 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, 2019 and 2018. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from the purchasing agencies.

As of June 30, 2019, donated food inventory is valued at a fair value of \$1.62 per gross pound in the statement of financial position, which totaled \$1,864,400. 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 \$1,657,244 and \$46,440,331, respectively, at June 30, 2019, with a corresponding decrease in community support for the Organization during the period.

As of June 30, 2018, donated food inventory was valued at a fair value of \$1.68 per gross pound on the statement of financial position, which totaled \$2,247,583. 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 \$2,006,771 and \$45,823,611, respectively, at June 30, 2018, with a corresponding decrease in community support for the Organization during the period.

**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, 2019 and 2018, depreciation expense totaled \$642,210 and \$584,900, respectively.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**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 amount. There was no impairment of the value of such assets for the years ended June 30, 2019 and 2018.

**Deferred Revenue and Deposits**

As of June 30, 2019 and 2018, deferred revenue and deposits consist principally of amounts received from participants in advance for fundraising events occurring subsequent to year-end. At June 30, 2019 and 2018, deferred revenue and deposits totaled \$156,388 and \$200,158, 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, 2019 and 2018, totaled \$170,195 and \$179,417, respectively.

**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 \$28,600 and \$113,197 for the years ended June 30, 2019 and 2018, 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, 2019 (unaudited):

Number of Volunteers	Number of Hours	Value
26,391	113,117	\$ 1,300,846

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**Contributed Services (Continued)**

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, 2018 (unaudited):

Number of Volunteers	Number of Hours	Value
24,321	102,346	\$ 1,100,214

**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 Organizations 2016-2018 tax returns are open for federal income tax purposes, and its 2015-2018 tax returns are open to review for state income tax purposes.

**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; 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 functional areas.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**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, 2019 and 2018, 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 May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU 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 to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted, but no earlier than periods beginning after December 15, 2016. The Organization is currently evaluating the impact of the provisions of ASC 606 on the presentation of its financial statements.



**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**Recent Accounting Pronouncements - Not Yet Adopted (Continued)**

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, 2019; 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.

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, and early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2018-08 on the presentation of its financial statements.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**Recent Accounting Pronouncement - Adopted**

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which changes the current guidance for asset classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity, and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profit organizations to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated.

In addition to the current required disclosure of the aggregate amount by which endowment funds are underwater, ASU 2016-14 requires not-for-profit entities to disclose the aggregate fair value of such funds, as well as the aggregate original gift amounts to be maintained. ASU 2016-14 also requires a not-for-profit organization to disclose its interpretation of the ability to spend from underwater endowment funds, including its policy, and any actions taken during the period, concerning appropriation from underwater endowment funds. All underwater endowment funds will be classified as part of net assets with donor restrictions rather than as a charge to unrestricted net assets as per the current rules. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The current option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and supporting functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the statement of position date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

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

**Recent Accounting Pronouncement - Adopted (Continued)**

ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. The Organization has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard to the financial statements as of and for the year ended June 30, 2019.

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018, is stated below.

As originally stated:

Net Assets, Beginning of Year:	
Unrestricted	\$ 11,243,926
Temporarily restricted	4,544,485
Permanently restricted	<u>196,281</u>
Total Net Assets, Beginning of Year	<u>\$ 15,984,692</u>
Net Assets, End of Year:	
Unrestricted	\$ 10,609,313
Temporarily restricted	4,430,707
Permanently restricted	<u>196,281</u>
Total Net Assets, End of Year	<u>\$ 15,236,301</u>

As restated:

Net Assets, Beginning of Year:	
Without donor restrictions	\$ 11,243,926
With donor restrictions	<u>4,740,766</u>
Total Net Assets, Beginning of Year	<u>\$ 15,984,692</u>
Net Assets, End of Year:	
Without donor restrictions	\$ 10,609,313
With donor restrictions	<u>4,626,988</u>
Total Net Assets, End of Year	<u>\$ 15,236,301</u>

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**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, 2019 and 2018:

	2019	2018
Cash	\$ 1,574,802	\$ 2,175,166
Accounts receivable	33,278	17,056
Grants receivable	458,486	393,321
Unconditional promises to give	66,045	82,691
 Total Financial Assets Available to Meet General Expenditures within One Year	 \$ 2,132,611	 \$ 2,668,234

As part of our liquidity management plan, we invest 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, 2019 and 2018, accounts at this institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. As of June 30, 2019 and 2018, the Organization had approximately \$1,500,000 and \$1,900,000 in uninsured cash at this institution, respectively.

The Second Harvest endowment fund investments maintained by the foundation mentioned in Note 9 are not insured. The uninsured balance was \$209,411 and \$225,002 as of June 30, 2019 and 2018, respectively.

**Note 4: Inventory**

Inventory consists of the following at June 30, 2019 and 2018:

	2019	2018
Donated food	\$ 1,864,400	\$ 2,247,583
Purchased commodities	2,395	9,945
 Total Inventory	 \$ 1,866,795	 \$ 2,257,528

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**Note 5: Property and Equipment**

Property and equipment consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,400,000	\$ 2,400,000
Building	8,829,094	8,811,619
Vehicles	2,556,304	2,453,647
Furniture and equipment	<u>2,164,935</u>	<u>1,865,443</u>
Total property and equipment, at cost	15,950,333	15,530,709
Less: Accumulated depreciation	<u>(5,802,922)</u>	<u>(5,282,401)</u>
Property and Equipment, at Net Book Value	<u>\$ 10,147,411</u>	<u>\$ 10,248,308</u>

**Note 6: Net Assets**

Net assets consist of the following as June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Net Assets without Donor Restrictions:		
Investment in property and equipment, net of related debt	\$ 6,101,143	\$ 6,148,928
Available for operations	<u>3,514,765</u>	<u>4,460,385</u>
Total net assets without donor restrictions	<u>9,615,908</u>	<u>10,609,313</u>
Net Assets with Donor Restrictions:		
Subject to expenditures for specific purposes:		
Program activities	<u>460,000</u>	<u>331,327</u>
Total purpose restrictions	<u>460,000</u>	<u>331,327</u>
Subject to passage of time:		
Building, net of depreciation	1,646,268	1,699,380
Land	<u>2,400,000</u>	<u>2,400,000</u>
Total time restrictions	<u>4,046,268</u>	<u>4,099,380</u>

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**Note 6: Net Assets (Continued)**

Endowment:

Subject to endowment spending policy and  
appropriation:

Program activities	\$ <u>196,281</u>	\$ <u>196,281</u>
Total net assets with donor restrictions	4,702,549	<u>4,626,988</u>
Total Net Assets	\$ <u>14,318,457</u>	\$ <u>15,236,301</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 (5.50 percent as of June 30, 2019) on the unpaid principal balance maturing in June 2020. The line of credit is secured by substantially all the assets of the Organization. At June 30, 2019 and 2018, 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, 2019 and 2018, 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. Expense related to this operating lease for the year ended June 30, 2019, totaled \$10,356.

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

2020		\$ 7,872
2021		7,872
2022		7,872
2023		7,872
2024		7,872
Thereafter		<u>1,968</u>
Total Minimum Lease Payments		<u>\$ 41,328</u>

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**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, 2019 and 2018, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$542,338 and \$510,667, respectively. These activities include direct mail costs of \$332,915 and fundraising campaigns and special event costs totaling \$209,423 for the year ended June 30, 2019. For the year ended June 30, 2018, these activities included direct mail costs of \$293,204 and fundraising campaigns and special event costs totaling \$217,463.

**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 FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**Note 9: Endowment Fund (Continued)**

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 percent of the rolling average of the total account balance over the prior 12 months.

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 percent of the rolling average of the total account balance over the prior 12 months.

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, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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, 2019 AND 2018**

**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>

The following is the endowment net asset composition as of June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ 28,721</u>	<u>\$ 196,281</u>	<u>\$ 225,002</u>

The following are the changes in the endowment net assets for the year ended June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 14,319	\$ 196,281	\$ 210,600
Investment return:			
Investment income	1,275	-	1,275
Net appreciation	<u>15,343</u>	<u>-</u>	<u>15,343</u>
Total investment return	16,618	-	16,618
Grants	-	-	-
Amount appropriated for expenditure	<u>(2,216)</u>	<u>-</u>	<u>(2,216)</u>
Endowment Net Assets, End of Year	<u>\$ 28,721</u>	<u>\$ 196,281</u>	<u>\$ 225,002</u>

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**Note 9: Endowment Fund (Continued)**

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, 2019 and 2018. 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, 2019 and 2018:

	2019	2018
Satisfaction of time restriction	\$ 53,112	\$ 53,112
Satisfaction of purpose restriction	71,327	391,999
Total Net Assets Released from Restrictions	\$ 124,439	\$ 445,111

**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.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 11: Fair Value Measurements (Continued)**

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, 2019 and 2018.

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.

At June 30, 2019 and 2018, assets measured at fair value on a recurring basis included alternative investments composed of hedge funds, private equities, interests in closely held entities, and real estate funds totaling \$209,411 and \$225,002, respectively.

The fair value of the hedge funds and private equities is based on the net asset value of the fund and Second Harvest’s shares/ownership interest in the respective fund. Net asset values are evaluated by OCCF to determine if the values of these investments should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. The fair value of interests in closely held entities and real estate funds is based on appraisals and OCCF’s review and assessment of current financial statements. Valuations of alternative investments are reviewed at least twice a year using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. The estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

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>

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**Note 11: Fair Value Measurements (Continued)**

The following is a reconciliation of activity at June 30, 2018, for assets measured at fair value based on significant unobservable (nonmarket) information:

Balance, beginning of year	\$ 210,600
Interest income	1,275
Unrealized gains included in earnings	15,343
Management Fees	<u>(2,216)</u>
Balance, End of Year	<u>\$ 225,002</u>

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

**Note 12: Reclassifications**

Certain reclassifications have been made to the 2018 financial statements in order to conform with the current year presentation.

**Note 13: Subsequent Events**

Events occurring after June 30, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of December 6, 2019, which is the date the financial statements were available to be issued.