

**SECOND HARVEST FOOD BANK
SANTA CRUZ COUNTY**

Financial Report

Year ended June 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Second Harvest Food Bank
Santa Cruz County
Watsonville, California

We have audited the accompanying financial statements of Second Harvest Food Bank Santa Cruz County (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank Santa Cruz County 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.

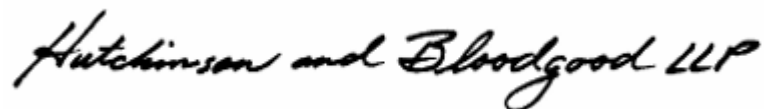
Other Matters

Other Information

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, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2020, on our consideration of Second Harvest Food Bank Santa Cruz County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Second Harvest Food Bank Santa Cruz County's internal control over financial reporting and compliance.

The signature is written in a cursive, black ink style. It reads "Hutchinson and Bloodgood LLP". The letters are fluid and connected, with a prominent loop at the end of the word "Bloodgood".

November 19, 2020

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF FINANCIAL POSITION

June 30, 2020

ASSETS

CURRENT ASSETS

| | | |
|-------------------------------|----|------------------|
| Cash and cash equivalents | \$ | 5,268,447 |
| Accounts receivable | | 12,486 |
| Grants receivable | | 219,157 |
| Operating investment account | | 1,577,894 |
| Inventory | | 1,774,310 |
| Prepaid expenses and deposits | | <u>74,747</u> |
| Total current assets | | <u>8,927,041</u> |

PROPERTY AND EQUIPMENT, at cost

| | | |
|-------------------------------|--|------------------|
| Building | | 6,594,189 |
| Land | | 627,898 |
| Machinery and equipment | | 1,324,626 |
| Computer equipment | | 505,877 |
| Furniture and fixtures | | 165,864 |
| Building improvements | | <u>834,499</u> |
| | | 10,052,953 |
| Less accumulated depreciation | | <u>3,725,749</u> |
| | | 6,327,204 |
| Construction in progress | | <u>8,780</u> |
| | | <u>6,335,984</u> |

OTHER ASSETS

| | | |
|--|----|--------------------------|
| Long-term investments | | 1,293,045 |
| Beneficial interest in assets held by others | | <u>27,971</u> |
| | | <u>1,321,016</u> |
| | \$ | <u><u>16,584,041</u></u> |

The notes to financial statements are an integral part of this statement.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF FINANCIAL POSITION

June 30, 2020

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | | |
|-----------------------------------|----|----------------|
| Accounts payable | \$ | 136,626 |
| Accrued expenses | | 213,039 |
| Agency grants payable | | 1,561 |
| Refundable advance | | 470,512 |
| Current portion of long-term debt | | <u>54,776</u> |
| Total current liabilities | | <u>876,514</u> |

LONG-TERM LIABILITIES

| | | |
|--------------------------------------|--|------------------|
| Long-term debt, less current portion | | <u>1,464,069</u> |
|--------------------------------------|--|------------------|

NET ASSETS

| | | |
|---|----|--------------------------|
| Without donor restrictions | | |
| Undesignated | | 1,517,086 |
| Board designated: | | |
| Net fixed assets | | 4,817,138 |
| Inventory | | 1,774,310 |
| Equipment replacement | | 600,000 |
| Disaster fund | | 1,950,000 |
| Legacy fund | | 700,000 |
| USDA rural debt service fund | | 116,400 |
| Program development fund | | <u>200,000</u> |
| Total net assets without donor restrictions | | 11,674,934 |
| With donor restrictions | | <u>2,568,524</u> |
| Total net assets | | <u>14,243,458</u> |
| | \$ | <u><u>16,584,041</u></u> |

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---------------------------------------|---------------------------------------|------------------------------------|----------------------|
| SUPPORT AND REVENUE | | | |
| Support: | | | |
| Food donations | \$ 15,713,634 | \$ -- | \$ 15,713,634 |
| Contributions | 2,795,372 | 1,246,658 | 4,042,030 |
| Government grants | 1,417,850 | 437,744 | 1,855,594 |
| Foundations | 1,664,553 | 2,140,126 | 3,804,679 |
| Corporate donations | 450,142 | 730,650 | 1,180,792 |
| Special events | -- | 224,665 | 224,665 |
| Total support | <u>22,041,551</u> | <u>4,779,843</u> | <u>26,821,394</u> |
| Revenue: | | | |
| Member agency shared maintenance fees | 246,463 | -- | 246,463 |
| Other income | 13,884 | -- | 13,884 |
| Investment income, net | 45,672 | -- | 45,672 |
| Net assets released from restrictions | 3,023,869 | (3,023,869) | -- |
| Total revenue | <u>3,329,888</u> | <u>(3,023,869)</u> | <u>306,019</u> |
| Total support and revenue | <u>25,371,439</u> | <u>1,755,974</u> | <u>27,127,413</u> |
| EXPENSES | | | |
| Program services: | | | |
| Food distribution: | | | |
| Food to agencies and programs | 15,793,404 | -- | 15,793,404 |
| Food to other food banks | 173,891 | -- | 173,891 |
| Food distribution expense | 3,077,024 | -- | 3,077,024 |
| | <u>19,044,319</u> | <u>--</u> | <u>19,044,319</u> |
| Program and outreach | 1,365,883 | -- | 1,365,883 |
| Total program services | <u>20,410,202</u> | <u>--</u> | <u>20,410,202</u> |
| Supporting services: | | | |
| Management and general | 306,237 | -- | 306,237 |
| Fundraising | 566,609 | -- | 566,609 |
| Total program and support services | <u>21,283,048</u> | <u>--</u> | <u>21,283,048</u> |
| Increase in net assets | 4,088,391 | 1,755,974 | 5,844,365 |
| Net Assets, beginning | <u>7,586,543</u> | <u>812,550</u> | <u>8,399,093</u> |
| Net Assets, ending | <u>\$ 11,674,934</u> | <u>\$ 2,568,524</u> | <u>\$ 14,243,458</u> |

The notes to financial statements are an integral part of this statement.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020

| | Program Services | | | Support Services | | | Total |
|--------------------------------|----------------------|---------------------|------------------------|------------------------|-------------------|------------------------|----------------------|
| | Food Distribution | Programs & Outreach | Total Program Services | Management and General | Fundraising | Total Support Services | |
| Food distribution: | | | | | | | |
| Food to agencies and programs | \$ 15,793,404 | \$ -- | \$ 15,793,404 | \$ -- | \$ -- | \$ -- | \$ 15,793,404 |
| Food to other food banks | 173,891 | -- | 173,891 | -- | -- | -- | 173,891 |
| | <u>15,967,295</u> | <u>--</u> | <u>15,967,295</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>15,967,295</u> |
| Payroll costs | 1,437,265 | 989,293 | 2,426,558 | 224,806 | 349,435 | 574,241 | 3,000,799 |
| Professional services | 36,450 | 18,849 | 55,299 | 32,189 | 11,963 | 44,152 | 99,451 |
| Telephone | 21,626 | 14,886 | 36,512 | 3,532 | 5,258 | 8,790 | 45,302 |
| Dues and subscriptions | 28,661 | 380 | 29,041 | 328 | 5,861 | 6,189 | 35,230 |
| Office expense | 6,381 | 4,393 | 10,774 | 1,042 | 1,552 | 2,594 | 13,368 |
| Advertising | 12,215 | 8,408 | 20,623 | 1,995 | 2,970 | 4,965 | 25,588 |
| Postage | 3,649 | 2,512 | 6,161 | 596 | 887 | 1,483 | 7,644 |
| Printing and copying | 14,864 | 10,231 | 25,095 | 2,428 | 3,614 | 6,042 | 31,137 |
| Board costs | -- | -- | -- | 5,093 | -- | 5,093 | 5,093 |
| Occupancy: | | | | | | | |
| Utilities | 104,350 | 8,721 | 113,071 | 1,646 | 2,031 | 3,677 | 116,748 |
| Loan interest | 57,367 | 4,794 | 62,161 | 905 | 1,117 | 2,022 | 64,183 |
| Building maintenance | 24,992 | 2,089 | 27,081 | 394 | 487 | 881 | 27,962 |
| Storage fees off-site | 10,953 | -- | 10,953 | -- | -- | -- | 10,953 |
| Equipment maintenance & rental | 129,637 | 89,231 | 218,868 | 21,175 | 31,518 | 52,693 | 271,561 |
| Depreciation | 394,832 | 32,998 | 427,830 | 6,229 | 7,686 | 13,915 | 441,745 |
| Program supplies | 147,993 | 31,331 | 179,324 | 726 | 1,334 | 2,060 | 181,384 |
| Poundage fees | 180,323 | 120,216 | 300,539 | -- | -- | -- | 300,539 |
| Food drives | 21,915 | -- | 21,915 | -- | 21,914 | 21,914 | 43,829 |
| Agency grants | 60,500 | -- | 60,500 | -- | -- | -- | 60,500 |
| Transportation | 306,240 | 17,961 | 324,201 | 850 | 2,631 | 3,481 | 327,682 |
| Training and conference | 9,864 | 6,789 | 16,653 | 1,774 | 2,398 | 4,172 | 20,825 |
| Fundraising | 33,437 | -- | 33,437 | -- | 113,301 | 113,301 | 146,738 |
| Insurance | 33,510 | 2,801 | 36,311 | 529 | 652 | 1,181 | 37,492 |
| | <u>\$ 19,044,319</u> | <u>\$ 1,365,883</u> | <u>\$ 20,410,202</u> | <u>\$ 306,237</u> | <u>\$ 566,609</u> | <u>\$ 872,846</u> | <u>\$ 21,283,048</u> |

The notes to financial statements are an integral part of this statement.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2020

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------------------|
| Increase in net assets | \$ 5,844,365 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation | 441,745 |
| Loss on disposal of assets | 5,808 |
| Unrealized gain on investments | (10,392) |
| Change in beneficial interest in assets held by others | 1,005 |
| (Increase) decrease in: | |
| Accounts receivable | 16,047 |
| Grants receivable | (78,932) |
| Inventory | (665,342) |
| Prepaid expenses and deposits | (4,419) |
| Increase (decrease) in: | |
| Accounts payable | 47,377 |
| Accrued expenses | 53,124 |
| Agency grants payable | (2,783) |
| Net cash provided by operating activities | <u>5,647,603</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Cash paid to purchase investments | (1,597,888) |
| Cash received from sale of investments | 273,408 |
| Cash paid to purchase property and equipment | (471,242) |
| Net cash used by investing activities | <u>(1,795,722)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Cash received from refundable advance | 470,512 |
| Repayment of long-term debt | (52,217) |
| Net cash provided by financing activities | <u>418,295</u> |
| Net increase in cash and cash equivalents | 4,270,176 |
| Cash and Cash Equivalents, beginning | <u>998,271</u> |
| Cash and Cash Equivalents, ending | <u><u>\$ 5,268,447</u></u> |
| SUPPLEMENTAL DISCLOSURES | |
| Interest paid | <u><u>\$ 64,183</u></u> |

The notes to financial statements are an integral part of this statement.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business: Second Harvest Food Bank Santa Cruz County (the Organization), formally Second Harvest Food Bank Serving Santa Cruz and San Benito Counties, Inc., incorporated as a nonprofit corporation in 1993. The Organization's purpose is to acquire and distribute donated and purchased foods and United States Department of Agriculture (USDA) commodities to people in need throughout Santa Cruz County and the Pajaro Valley. This service is performed through a network of two hundred nonprofit food distribution agencies and programs. The mission of the Organization is working together to end hunger through healthy food, education and leadership.

Basis of Presentation: The financial statements are prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Contributions: Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, not recognized until conditions are met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in support with donor restrictions depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Organization considers as cash equivalents all highly liquid investments, which include certificates of deposit with maturities ranging from three to twelve months and penalties for early withdrawal. Penalties for early withdrawal would not have a material effect on the financial statements.

Property and Equipment: Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is generally from three to thirty years.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (continued): Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributed Services: During the year ended June 30, 2020, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization receives more than 31,500 volunteer hours per year.

Functional Allocation of Expenses: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services on the basis of management estimates. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. The following expenses are allocated based on square footage usage: occupancy, utilities, maintenance, and depreciation. Personnel expenses are allocated on the basis of estimates of time and effort.

Advertising: Advertising costs are expensed as incurred, and totaled \$25,588 for the year ended June 30, 2020.

Income taxes: The Organization is a nonprofit corporation that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue code and from state franchise tax under Revenue and Taxation Code Section 23701(d).

The Financial Accounting Standards Board (FASB) issued guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. As of June 30, 2020, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Refundable Advance: The Organization received \$470,512 in Payroll Protection Program (PPP) funding on May 14, 2020. The terms of the funding agreement indicate that the Organization must utilize the proceeds to fund/offset qualifying expenses over a twenty-four-week period.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Refundable Advance (continued): The terms of the agreement specify that the Organization must repay the principal of the loan back plus interest, which accrues at 1% semi-annually and matures in two years. The loan may be forgiven if the Organization fulfills the agreed upon terms. The Organization's management believes they have met the terms of forgiveness and therefore has recorded the funding as a refundable advance and will recognize the full amount of the PPP funding as a contribution if forgiven by the lender.

Upcoming accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. U.S. GAAP guidance requires the use of more estimates and judgments than the present standards, along with additional disclosures. The guidance was deemed to be effective for the Organization for annual reporting periods beginning after December 15, 2018. However, the effective date has since been extended to December 31, 2019. The Organization is assessing the impact this ASU will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. The Organization is assessing the impact this ASU will have on its financial statements.

NOTE 2. INVENTORY

The Organization was established to acquire and distribute donated and purchased foods and USDA commodities. The Organization's policy is to recognize the flow of food through the Organization as in-kind contributions. The Organization's policy is that inventory may neither be sold nor pledged as security for debt.

The inventory and food distribution consist of three types: 1) donated foods, 2) purchased food valued at cost, and 3) Emergency Food Assistance Program (EFAP). For the year ended June 30, 2020, donated and EFAP foods are valued at a national average value of \$1.62 per pound. The valuation is based on a cost study conducted by other outside professionals for the national organization, Feeding America.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 3. INVESTMENTS

The Organization maintains two separate investment accounts. The Operating Investment Account is designated as short-term with an eye toward reasonably liquid investments (i.e., convertible to cash within 1 to 3 market business days) because they may be needed at any time. The Long-Term Investment Account is not expected to be used in the near future, and has the primary goal of growth.

NOTE 4. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In 2007, the Organization established the "Second Harvest Food Forever Fund" (Agreement) at the Santa Cruz County Community Foundation (Foundation), which was amended and restated June 30, 2014. All contributions made to the fund are irrevocable. Under the terms of the Agreement, the Foundation may substitute another beneficiary in place of the Organization at the discretion of the Foundation's Board of Directors. Earnings, net of administrative fees, are distributed to the Organization on an annual basis and in accordance with the Foundation's policy on the distribution of earnings.

NOTE 5. LONG-TERM DEBT

In May 2010, the Organization was provided a \$2,000,000 loan through the United States Department of Agriculture Rural Development Community Facilities loan program. The proceeds of the loan were to be used for a warehouse expansion project. The Organization made withdrawals on the loan funds as needed to fund the expansion costs. The loan, which bears an interest rate of 4.125% per annum, provides for monthly principal and interest payments for thirty years with the final payment due April 2040. As of June 30, 2020, the Organization had an outstanding balance of \$1,518,845.

Aggregate maturities or payments of principal and interest under long-term debt as of June 30, 2020, are as follows:

| | | |
|-----------|----|------------------|
| 2021 | \$ | 54,776 |
| 2022 | | 57,078 |
| 2023 | | 59,478 |
| 2024 | | 61,978 |
| 2025 | | 64,584 |
| 2026-2030 | | 365,999 |
| 2031-2035 | | 449,676 |
| 2036-2040 | | <u>405,276</u> |
| | \$ | <u>1,518,845</u> |

Interest paid on long-term debt for the year ended June 30, 2020, was \$64,183.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 6. DONOR RESTRICTED NET ASSETS

Activity for donor restricted net assets, subject to expenditures for specified purposes or passage of time, at June 30, 2020, consisted of the following:

| | Beginning 6/30/2019 | Additions | Satisfied | Ending 6/30/2020 |
|--------------------------------|------------------------|---------------------|---------------------|---------------------|
| Equipment | \$ 87,448 | \$ 83,875 | \$ 153,228 | \$ 18,095 |
| Food assistance | 11,983 | 2,968,066 | 1,474,262 | 1,505,787 |
| Raley's (food purchase) | 106,123 | 393,803 | 196,502 | 303,424 |
| Nutrition program | 233,920 | 486,920 | 720,840 | -- |
| Board auxiliary | 150 | -- | -- | 150 |
| Food purchases | 22,926 | 47,179 | 54,037 | 16,068 |
| Subject to the passage of time | 350,000 | 800,000 | 425,000 | 725,000 |
| | <u>\$ 812,550</u> | <u>\$ 4,779,843</u> | <u>\$ 3,023,869</u> | <u>\$ 2,568,524</u> |

NOTE 7. LIQUIDITY AND AVAILABILITY

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds, exchange traded funds, and mutual funds.

The Organization considers investment income without donor restrictions, appropriated earnings from donor-restricted and contributions without donor restrictions to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, program expenses, and fundraising expenses to be paid in the subsequent year.

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

The following table reflects the Organization's financial assets as of June 30, 2020, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include the board-designated special projects fund that is intended to fund special board initiatives not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also include net assets with donor restrictions.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 7. LIQUIDITY AND AVAILABILITY (Continued)

| | |
|---|-------------------------|
| Financial assets at year end: | |
| Cash and cash equivalents | \$ 5,268,447 |
| Accounts receivable | 12,486 |
| Grants receivable | 219,157 |
| Operating investment account | <u>1,577,894</u> |
| Total financial assets | <u>7,077,984</u> |
| Less amounts not available to be used within one year: | |
| USDA Rural Development loan debt service fund | 116,400 |
| Subject to appropriation and satisfaction of donor restrictions | 2,568,524 |
| Less net assets with purpose restrictions less than one year | <u>(2,418,524)</u> |
| Financial assets not available to be used within one year | <u>266,400</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 6,811,584</u> |

The Organization has a long term investment account with a balance at of June 30, 2020 of \$1,293,045. Although the Organization does not intend to spend from this long term investment account, these amounts can be made available if necessary.

NOTE 8. FAIR VALUE MEASUREMENTS

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are briefly described below:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 8. FAIR VALUE MEASUREMENTS (Continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value:

- Interest in assets held at Community Foundation: Funds are invested for long-term growth, both in equities and fixed income investments, which are valued at the net asset value ("NAV") of shares held by the Foundation at year end.
- For valuation of investments categorized as level 1 the Organization used unadjusted market prices for identical assets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is 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 at June 30, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|---------------------|----------------|------------------|---------------------|
| Investments: | | | | |
| Exchange traded funds | \$ 865,346 | \$ -- | \$ -- | \$ 865,346 |
| Mutual funds | 2,005,593 | -- | -- | 2,005,593 |
| Beneficial interest in assets held by others, measured at NAV | <u>--</u> | <u>--</u> | <u>27,971</u> | <u>27,971</u> |
| | <u>\$ 2,870,939</u> | <u>\$ --</u> | <u>\$ 27,971</u> | <u>\$ 2,898,910</u> |

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2020:

| | |
|--|------------------|
| Beginning Balance | \$ 28,976 |
| Realized and unrealized gains (losses) | 506 |
| Less investment expenses | <u>(1,511)</u> |
| Ending Balance | <u>\$ 27,971</u> |

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 8. FAIR VALUE MEASUREMENTS (Continued)

Total investment income, net realized and unrealized losses, and investment expenses for the year ended June 30, 2020 consists of the following:

| | |
|-------------------------------|------------------|
| Interest and dividend income | \$ 55,404 |
| Realized and unrealized gains | 10,392 |
| Less investment expenses | <u>(20,124)</u> |
| Investment income, net | <u>\$ 45,672</u> |

NOTE 9. PAYMENTS TO AFFILIATES

In accordance with affiliation agreements between the Second Harvest Food Bank and organizations such as Feeding America, Ag Against Hunger, and the California Association of Food Banks, Second Harvest Food Bank pays fees based on total poundage of food received. Poundage fees paid to these affiliates for the year ended June 30, 2020, were \$300,539.

NOTE 10. CONCENTRATION OF CREDIT RISK

The Organization maintains balances in cash and interest-bearing deposit accounts at various financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss.

NOTE 11. RETIREMENT PLAN

The Organization maintains a tax deferred 403(b) retirement plan (the "Plan") to provide retirement benefits for all eligible employees. The Plan provides for a 100% employer matching contribution up to \$1,040 per year. The Organization's contributions for the fiscal year ending June 30, 2020 were \$16,180.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Financial Statements
Year Ended June 30, 2020

NOTE 12. SUBSEQUENT EVENTS

Management has evaluated its June 30, 2020 financial statements for subsequent events through November 19, 2020, the date of issuance of the financial statements.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. The pandemic in the United States and throughout the world has resulted in substantial volatility in financial markets, which could lead to an adverse impact on the Organization’s future financial results. The Organization has experienced a 70% increase in demand for services since the pandemic and the increased demand is expected to continue through June 30, 2021. The Organization has significant donor restricted donations that will help meet the demands in the next fiscal year. Federal Emergency Management Agency has also granted funds to assist with the purchases of need food.

Effective November 1, 2020, the Organization entered into an agreement to lease a warehouse facility in Watsonville. The term of the lease is for one year ending October 30, 2021, with an option to renew the lease for an additional year. The lease requires monthly payments of \$16,236, increased to \$16,723 if extended beyond one year.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2020

| Federal Grantor/Pass-through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|---|-------------------------|
| U.S. Department of Agriculture: | | | |
| Pass-through Agency: | | | |
| California Department of Social services - | | | |
| The Emergency Food Assistance Program | | | |
| Administrative Costs | 10.568 | G37023 | 469,832 |
| Commodities | 10.569 | G37023 | <u>3,210,669</u> |
| Total U.S. Department of Agriculture | | | <u>3,680,501</u> |
| U.S Department of Homeland Security, Federal Emergency | | | |
| Pass-through Agency: | | | |
| County of Santa Cruz | | | |
| COVID-19 Pandemic: Purchase and Distribution of Food Eligible for Public Assistance | 97.036 | | <u>387,000</u> |
| Total expenditures of federal awards | | | <u>\$ 4,067,501</u> |

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

NOTE 1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Second Harvest Food Bank Santa Cruz County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2. FOOD DONATION

Nonmonetary assistance is reported in the schedule at the rate established by Feeding America, which was \$1.62 a pound during the fiscal year. At June 30, 2020, the Organization had food commodities totaling \$803,768 in inventory.

NOTE 3. FEDERAL INDIRECT RATE

The Organization has not elected to use the 10-percent de minimis indirect cost rate.



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

To the Board of Directors
Second Harvest Food Bank
Santa Cruz County
Watsonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank Santa Cruz County, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, 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 November 19, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank Santa Cruz County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank Santa Cruz County's internal control. Accordingly, we do not express an opinion on the effectiveness of Sustainable Fishery Advocates' 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 entity'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 Second Harvest Food Bank Santa Cruz County'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hutchinson and Bloodgood LLP

November 19, 2020



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Second Harvest Food Bank
Santa Cruz County
Watsonville, California

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank Santa Cruz County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank Santa Cruz County's major federal programs for the year ended June 30, 2020. Second Harvest Food Bank Santa Cruz County'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 Second Harvest Food Bank Santa Cruz County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Second Harvest Food Bank Santa Cruz County'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 Second Harvest Food Bank Santa Cruz County's compliance.

Opinion on Each Major Federal Program

In our opinion, Second Harvest Food Bank Santa Cruz County 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.

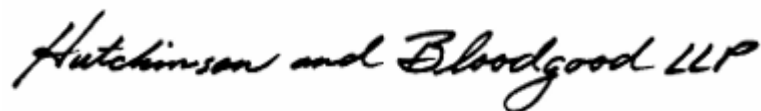
Report on Internal Control Over Compliance

Management of Second Harvest Food Bank Santa Cruz County 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 Second Harvest Food Bank Santa Cruz County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Food Bank Santa Cruz County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

The image shows a handwritten signature in black ink that reads "Hutchinson and Bloodgood LLP". The signature is written in a cursive, flowing style.

November 19, 2020

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditors' report issued? | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(s) identified? | No |
| • Significant deficiency(s) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to the financial statements noted? | No |

Federal Awards Section

| | |
|--|---------------|
| Internal control over major programs: | |
| • Material weakness(s) identified? | No |
| • Significant deficiency(s) identified that are not considered to be material weaknesses? | None reported |
| Type of auditors' report issued on compliance for major programs? | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--|
| 10.569 | Emergency Food Assistance Program - Commodities |
| 10.568 | Emergency Food Assistance Program – Administrative Costs |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS

None reported.