

**SECOND HARVEST FOOD BANK
OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.
(A NONPROFIT CORPORATION)**

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

C O N T E N T S

	PAGE
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Cash Flows	6
Statements of Functional Expenses	7-8
Notes to Financial Statements	9-19



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Second Harvest Food Bank of San Joaquin
and Stanislaus County, Inc.
(A Nonprofit Corporation)
Manteca, California

We have audited the accompanying statements of financial position of Second Harvest Food Bank of San Joaquin and Stanislaus County, Inc. (A Nonprofit Corporation), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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. 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.

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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 of San Joaquin and Stanislaus County, Inc. as of June 30, 2020 and 2019, 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.

Donated Food Inventory

As discussed in Note 1 to the financial statements, Second Harvest Food Bank of San Joaquin and Stanislaus County, Inc. presents donated food inventory on hand at year-end which is valued based on a cost study performed by Feeding America, a nationwide network of food banks. Feeding America limits handling fees that can be charged on food distributed and inventory value does not represent the amount that may be realized when food inventory is distributed. Our opinion is not modified with respect to that matter.

Schwartz, Giannini, Lantberger & Adamson

Stockton, California
September 30, 2020

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,863,572	\$ 463,129
Receivables	12,002	188,850
Inventory - donated (Note 11)	799,292	1,437,512
Total current assets	\$ 2,674,866	\$ 2,089,491
Property and equipment, net of accumulated depreciation (Note 4)	3,623,122	3,340,160
Investments, at fair value (Notes 5 & 6)	570,930	566,310
Total assets	\$ 6,868,918	\$ 5,995,961
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long term debt (Note 7)	\$ 86,371	\$ 84,382
Accounts payable and accrued expenses	104,105	166,496
Deferred revenue	39,894	110,178
Accrued vacation	28,991	18,284
Total current liabilities	\$ 259,361	\$ 379,340
Long-term liabilities		
Long term debt, less current portion (Note 7)	\$ 1,754,549	\$ 1,862,544
Less: unamortized debt issuance costs, net	(4,228)	(4,964)
	\$ 1,750,321	\$ 1,857,580
Contingency (Note 16)		
Net assets		
Net Assets without Donor Restrictions:		
General	\$ 2,240,705	\$ 875,295
Food inventory	799,292	1,437,512
Net investment in property and equipment	1,782,202	1,393,234
Total Net Assets without Donor Restrictions	\$ 4,822,199	\$ 3,706,041
Net Assets with Donor Restrictions (Note 12)	37,037	53,000
Total net assets	\$ 4,859,236	\$ 3,759,041
Total liabilities and net assets	\$ 6,868,918	\$ 5,995,961

See Notes to Financial Statements.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

**STATEMENT OF ACTIVITIES
Year Ended June 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE			
Contributions and corporate grants	\$ 2,669,779	\$ 1,076,139	\$ 3,745,918
In-kind contributions - food products (Note 11)	41,868,646	-	41,868,646
Government grants (Note 9)	-	56,496	56,496
Handling fees	805,158	-	805,158
Special events (net of direct costs of \$19,765)	73,850	-	73,850
Gain on sale of assets	12,700	-	12,700
Investment returns (Note 5)	4,620	-	4,620
Other income	917	-	917
Net assets released from restrictions	1,148,598	(1,148,598)	-
Total public support and revenue	\$ 46,584,268	\$ (15,963)	\$ 46,568,305
EXPENSES			
Program services			
Senior Brown Bag/Title III-B Supplemental Food Program	\$ 2,979,441	\$ -	\$ 2,979,441
Food assistance	39,836,287	-	39,836,287
Food 4 Thought	2,259,869	-	2,259,869
Total program services	\$ 45,075,597	\$ -	\$ 45,075,597
Supporting services			
Management and general	\$ 270,560	\$ -	\$ 270,560
Fundraising	121,953	-	121,953
Total supporting expenses	\$ 392,513	\$ -	\$ 392,513
Total expenses	\$ 45,468,110	\$ -	\$ 45,468,110
CHANGE IN NET ASSETS	\$ 1,116,158	\$ (15,963)	\$ 1,100,195
NET ASSETS AT BEGINNING OF YEAR	3,706,041	53,000	3,759,041
NET ASSETS AT END OF YEAR	\$ 4,822,199	\$ 37,037	\$ 4,859,236

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUE			
Contributions and corporate grants	\$ 1,296,251	\$ 396,847	\$ 1,693,098
In-kind contributions - food products (Note 11)	29,870,980	-	29,870,980
Government grants (Note 9)	-	134,710	134,710
Handling fees	766,425	-	766,425
Special events (net of direct costs of \$33,681)	103,584	-	103,584
Investment returns (Note 5)	18,133	-	18,133
Other income	367	-	367
Net assets released from restrictions	622,877	(622,877)	-
Total public support and revenue	\$ 32,678,617	\$ (91,320)	\$ 32,587,297
EXPENSES			
Program services			
Senior Brown Bag/Title III-B Supplemental Food Program	\$ 2,517,959	\$ -	\$ 2,517,959
Food assistance	27,420,586	-	27,420,586
Food 4 Thought	2,728,489	-	2,728,489
Total program services	\$ 32,667,033	\$ -	\$ 32,667,033
Supporting services			
Management and general	\$ 265,775	\$ -	\$ 265,775
Fundraising	136,488	-	136,488
Total supporting expenses	\$ 402,263	\$ -	\$ 402,263
Total expenses	\$ 33,069,296	\$ -	\$ 33,069,296
CHANGE IN NET ASSETS	\$ (390,679)	\$ (91,320)	\$ (481,999)
NET ASSETS AT BEGINNING OF YEAR	4,096,720	144,320	4,241,040
NET ASSETS AT END OF YEAR	\$ 3,706,041	\$ 53,000	\$ 3,759,041

See Notes to Financial Statements.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2020 and 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,100,195	\$ (481,999)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	171,724	164,530
(Gain) on sale of assets	(12,700)	-
Unrealized (gain) on investments	(70)	(16,274)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	176,848	(89,371)
Decrease in inventory	638,220	470,953
Increase (decrease) in accounts payable	(62,391)	62,915
Increase (decrease) in unearned revenue	(70,284)	110,178
Increase (decrease) in accrued vacation	10,707	(5,676)
Net cash provided by operating activities	\$ 1,952,249	\$ 215,256
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investment securities	\$ (4,550)	\$ (1,859)
Proceeds from sale of fixed assets	12,700	-
Purchase of fixed assets	(453,950)	(358,341)
Net cash (used in) investing activities	\$ (445,800)	\$ (360,200)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	\$ (106,006)	\$ (101,150)
Net cash (used in) financing activities	\$ (106,006)	\$ (101,150)
Net increase (decrease) in cash and cash equivalents	\$ 1,400,443	\$ (246,094)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	463,129	709,223
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,863,572	\$ 463,129
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 91,235	\$ 96,092

See Notes to Financial Statements.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020**

	Program Services			Supporting Services			Total	
	Senior Brown Bag/ Title III-B Supplemental Food Program	Food Assistance	Food 4 Thought	Total Program Services	Management and General	Fund Raising		Total Supporting Services
Salaries	\$ 112,352	\$ 475,746	\$ 130,473	\$ 718,571	184,249	\$ 18,425	\$ 202,674	\$ 921,245
Employee benefits	14,504	80,133	16,827	111,464	28,580	2,858	31,438	142,902
Payroll taxes	9,582	39,563	11,127	60,272	15,454	1,545	16,999	77,271
Total salaries and benefits	\$ 136,438	595,442	\$ 158,427	\$ 890,307	\$ 228,283	\$ 22,828	\$ 251,111	\$ 1,141,418
Dues and subscriptions	3,229	15,806	3,741	22,776	2,531	-	2,531	25,307
Equipment maintenance	6,227	33,235	7,218	46,680	5,187	-	5,187	51,867
Food purchase	308,352	492,626	108,346	909,324	-	-	-	909,324
Decrease in food inventory	214,107	342,061	75,231	631,399	-	-	-	631,399
In-kind food donations (Note 11)	2,206,953	37,850,870	1,810,823	41,868,646	-	-	-	41,868,646
Insurance	3,904	20,130	4,527	28,561	3,173	-	3,173	31,734
Interest	12,135	57,545	12,431	82,111	9,124	-	9,124	91,235
Meals and entertainment	-	799	-	799	89	-	89	888
Office expense	2,052	23,047	448	25,547	2,839	-	2,839	28,386
Postage	486	5,158	564	6,208	690	-	690	6,898
Printing	420	2,143	488	3,051	339	98,590	98,929	101,980
Professional fees	1,570	10,311	1,823	13,704	1,523	-	1,523	15,227
Property maintenance	1,718	10,137	1,991	13,846	1,538	-	1,538	15,384
Special events supplies and rent	-	-	-	-	-	19,765	19,765	19,765
Seminars	-	1,761	-	1,761	196	-	196	1,957
Staff travel	579	1,577	35	2,191	244	-	244	2,435
Supplies - warehouse	6,574	14,945	1,891	23,410	-	-	-	23,410
Taxes and licenses	308	1,845	358	2,511	279	-	279	2,790
Utilities	12,582	69,664	14,608	96,854	5,098	-	5,098	101,952
Vehicle expense	49,882	124,353	47,602	221,837	6,861	-	6,861	228,698
Other	677	12,443	786	13,906	1,545	-	1,545	15,451
Depreciation and amortization	11,248	150,389	8,531	170,168	1,021	535	1,556	171,724
Total expenses	\$ 2,979,441	\$ 39,836,287	\$ 2,259,869	\$ 45,075,597	\$ 270,560	\$ 141,718	\$ 412,278	\$ 45,487,875
Less special events expenses netted with revenues	-	-	-	-	-	(19,765)	(19,765)	(19,765)
Total expenses	\$ 2,979,441	\$ 39,836,287	\$ 2,259,869	\$ 45,075,597	\$ 270,560	\$ 121,953	\$ 392,513	\$ 45,468,110

See Notes to Financial Statements.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019**

	Program Services			Supporting Services			Total	
	Senior Brown Bag/ Title III-B Supplemental Food Program	Food Assistance	Food 4 Thought	Total Program Services	Management and General	Fund Raising		Total Supporting Services
Salaries	\$ 116,464	\$ 434,077	\$ 133,227	\$ 683,768	175,325	\$ 17,533	\$ 192,858	\$ 876,626
Employee benefits	17,344	68,723	19,808	105,875	27,147	2,715	29,862	135,737
Payroll taxes	10,156	38,237	11,618	60,011	15,388	1,539	16,927	76,938
Total salaries and benefits	\$ 143,964	541,037	\$ 164,653	\$ 849,654	\$ 217,860	\$ 21,787	\$ 239,647	\$ 1,089,301
Dues and subscriptions	3,798	19,295	4,298	27,391	3,044	-	3,044	30,435
Equipment maintenance	7,492	34,070	8,538	50,100	5,567	-	5,567	55,667
Food purchase	175,306	395,368	92,361	663,035	-	-	-	663,035
Decrease in food inventory	121,322	273,616	63,919	458,856	-	-	-	458,856
In-kind food donations (Note 11)	1,960,263	25,634,105	2,276,612	29,870,980	-	-	-	29,870,980
Insurance	3,560	16,473	4,073	24,106	2,679	-	2,679	26,785
Interest	11,978	60,803	13,702	86,483	9,609	-	9,609	96,092
Meals and entertainment	-	4,124	-	4,124	458	-	458	4,582
Office expense	584	16,899	582	18,065	2,007	-	2,007	20,072
Postage	510	3,671	583	4,764	529	-	529	5,293
Printing	416	1,472	461	2,349	261	113,855	114,116	116,465
Professional fees	2,549	50,681	2,943	56,173	6,241	-	6,241	62,414
Property maintenance	2,282	14,046	2,599	18,927	2,103	-	2,103	21,030
Special events supplies and rent	-	-	-	-	-	33,681	33,681	33,681
Seminars	2	1,911	2	1,915	213	-	213	2,128
Staff travel	112	3,625	74	3,811	423	-	423	4,234
Supplies - warehouse	3,666	18,241	4,112	26,019	-	-	-	26,019
Taxes and licenses	359	(1,495)	401	(735)	(82)	-	(82)	(817)
Utilities	13,804	69,979	16,732	100,515	5,290	-	5,290	105,805
Vehicle expense	52,862	116,641	57,579	227,082	7,023	-	7,023	234,105
Other	615	9,737	704	11,056	1,229	-	1,229	12,285
Depreciation and amortization	12,515	136,287	13,561	162,363	1,321	846	2,167	164,530
Total expenses	\$ 2,517,959	\$ 27,420,586	\$ 2,728,489	\$ 32,667,033	\$ 265,775	\$ 170,169	\$ 435,944	\$ 33,102,977
Less special events expenses netted with revenues	-	-	-	-	-	(33,681)	(33,681)	(33,681)
Total expenses	\$ 2,517,959	\$ 27,420,586	\$ 2,728,489	\$ 32,667,033	\$ 265,775	\$ 136,488	\$ 402,263	\$ 33,069,296

See Notes to Financial Statements.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

This summary of significant accounting policies of Second Harvest Food Bank of San Joaquin and Stanislaus County, Inc. is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

ORGANIZATION

The Second Harvest Food Bank of San Joaquin and Stanislaus County, Inc. (Second Harvest) is a nonprofit public benefit corporation incorporated in the State of California for the purpose of providing food for needy individuals and families in the San Joaquin and Stanislaus County area of California.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - Net assets are not subject to donor-imposed stipulations. This includes food inventory and fixed assets, net of related debt.

Net Assets with Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. These restrictions may be temporary or may be based on a particular use. Certain net assets may be need to be maintained permanently by the Organization.

Earnings related to restricted net assets will be included in net assets without donor restrictions, unless otherwise specifically required to be included in donor restricted net assets by the donor or by applicable state law.

INCOME TAX STATUS

Second Harvest is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Second Harvest has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX STATUS (CONTINUED)

The Organization's tax filings are subject to audit by various taxing authorities. The Organization's federal tax returns for 2017, 2018 and 2019 remain open to examination by the Internal Revenue Service; state income tax returns for 2016, 2017, 2018 and 2019 are open to examination. In evaluating the Organization's tax provisions and accruals, the Organization believes that its estimates are appropriate based on current facts and circumstances.

PROPERTY & EQUIPMENT

Purchased property and equipment is recorded at cost and donated equipment at its fair market value at the date of donation. Donations of property & equipment are reported as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to 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 restricted support.

DEPRECIATION

Depreciation of property and equipment is provided on the straight-line method over the following useful lives:

Building	39 years
Improvements	7-15 years
Office equipment	3-7 years
Warehouse equipment	3-7 years
Vehicles	5-7 years

DONATED SERVICES

A substantial number of volunteers donated significant amounts of their time in the organization's behalf; however, amounts have not been reflected in the statements for donated services since an objective basis is not available to measure the value of such services.

CONTRIBUTIONS

All contributions are considered available for unrestricted use, unless specifically restricted by donor. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT AND INVESTMENT RISKS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the near term could materially affect the amounts reported in the accompanying financial statements.

INVENTORY

Inventory consists of donated food and purchased food. For the years ended June 30, 2020 and 2019, donated food inventory on hand is valued at \$1.74 and \$1.62 per pound, respectively. The valuation is based on a cost study conducted by Feeding America, a nationwide network of food banks. Feeding America limits handling fees that can be charged on food distributed and inventory value does not represent the amount that may be fully realized.

ALLOCATED EXPENSES

The costs of providing services of the Organization have been summarized on a functional basis in the statement of functional expenses. Management and general expenses have been allocated among the programs based upon an estimation of personnel time and space utilized for the related activities.

CASH AND CASH EQUIVALENTS

For purposes of reporting the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents. Restricted cash is limited in use to payment for grant approved food expenses.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED REVENUE

The balance in this account consists of amounts collected during the year, or prior years which has not yet been earned. Income is recognized during the period earned.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued ASU 2016-02, *Leases*. The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 31, 2019, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The organization will adopt the new rule effective July 2020, and does not expect the adoption of the new rule to have a material impact on the organization's financial condition, results of operations and cash flows.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which will improve not-for-profit financial statements and provide more useful information to donors, grantor, creditors, and other financial statement users. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The organization adopted the new rule effective July 2019, and the adoption did not have a material impact on the organization's financial condition, results of operations and cash flows.

In June 2018, FASB issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard is intended to address questions stemming from ASU 2014-09, *Revenue from Contracts with Customers*, regarding its implications on the grants and contracts of not-for-profit organizations. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2019. The organization early adopted the new rule effective July 2019, and the adoption of the new rule did not have a material impact on the organization's financial condition, results of operations and cash flows.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 30, 2020, the date the financial statements were available to be issued.

NOTE 3. PROGRAM SERVICES

Second Harvest Food Bank serves an eight county area in San Joaquin, Stanislaus, Merced, and the Mother Lode Counties that have an acute need for hunger relief services.

The Food Assistance Program provides supplemental groceries to non-profit agencies, partner distribution organizations, Mobile Fresh, Senior Brown Bag, Food 4 Thought, and Green Bag sites.

The Senior Brown Bag Program provides supplemental groceries to low-income seniors at sites in San Joaquin County.

The Food 4 Thought Program provides supplemental groceries to low-income children attending after-school programs with high ratio of free and reduced price lunches, located at sites in San Joaquin and Stanislaus Counties.

The Mobile Fresh Program provides supplemental groceries at off-site locations to low-income in need participants in low income neighborhoods.

NOTE 4. PROPERTY AND EQUIPMENT

A summary of property & equipment at June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Land and building	\$ 3,518,154	\$ 3,602,536
Office equipment	200,276	387,690
Warehouse equipment	292,493	472,154
Vehicles	<u>1,081,362</u>	<u>877,593</u>
	\$ 5,092,285	\$ 5,339,973
Less accumulated depreciation	<u>(1,469,163)</u>	<u>(1,999,812)</u>
	<u>\$ 3,623,122</u>	<u>\$ 3,340,160</u>

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 5. INVESTMENTS

The Organization's fair value of investments consists of the following mutual funds at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Short-term fixed income	\$ 28,108	\$ 26,826
Intermediate fixed income	376,404	388,404
International/emerging market	51,500	17,915
Large cap equity	53,542	44,788
International equity	28,896	56,699
REITs and MLPs	32,480	29,405
Commodities and gold	-	2,273
	<u>\$ 570,930</u>	<u>\$ 566,310</u>

A summary of investment returns in the statement of activities for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 4,550	\$ 1,859
Unrealized gain (loss)	70	16,274
	<u>\$ 4,620</u>	<u>\$ 18,133</u>

NOTE 6. FAIR VALUE MEASUREMENTS

The Organization's investments are reported at fair value in the accompanying statement of net assets available for benefit. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 6. FAIR VALUE MEASUREMENTS (CONTINUED)

ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. 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 measurement. At June 30, 2020 and 2019, investments' fair value were based on the following:

June 30, 2020

	<u>Fair Value</u>	<u>(Level 1)</u>
Intermediate fixed income	\$ 376,404	\$ 376,404
International/emerging market	51,500	51,500
Large cap equity	53,542	53,542
Short-term fixed income	28,108	28,108
International equity	28,896	28,896
REITs and MLPs	32,480	32,480
	<u>\$ 570,930</u>	<u>\$ 570,930</u>

June 30, 2019

	<u>Fair Value</u>	<u>(Level 1)</u>
Intermediate fixed income	\$ 388,404	\$ 388,404
International/emerging market	17,915	17,915
Large cap equity	44,788	44,788
Short-term fixed income	26,826	26,826
International equity	56,699	56,699
REITs and MLPs	29,405	29,405
Commodities and gold	2,273	2,273
	<u>\$ 566,310</u>	<u>\$ 566,310</u>

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 7. NOTE PAYABLE

Second Harvest has a note payable to Wells Fargo Bank, monthly payment is \$3,203 including interest at 5.10%. The note is secured by real estate with a carrying value of \$465,325. The balance of the note is due and payable on August 15, 2022. Total due on this note was \$426,874 and \$442,727 at June 30, 2020 and 2019, respectively.

Second Harvest has a note payable to Wells Fargo Bank. The loan bears fixed interest at 4.5% and calls for monthly principal and interest payments of \$5,456 which commenced December 15, 2016. The note is secured by first lien on real estate property located at 1220 Vanderbilt Circle, Manteca, with a carrying value of \$2,674,304. The loan matures on November 15, 2026, at which time all unpaid principal and interest shall be due and payable in full. Total due on this note was \$893,179 and \$917,186 at June 30, 2020 and 2019, respectively.

Second Harvest has an advanced line of credit loan with Wells Fargo Bank, monthly payment of \$7,778 including interest at floor rate of 4.8%. The loan is secured by second lien on property located at 1220 Vanderbilt Circle, Manteca. The loan commenced in March 2018 and the balance of the loan is due and payable on December 15, 2026. Total due on this loan was \$520,867 and \$587,013 at June 30, 2020 and 2019, respectively.

Annual maturities for the next five years at June 30 are as follows:

2021	\$	86,371
2022		88,455
2023		462,558
2024		72,965
2025		74,327
Thereafter		1,055,441
	\$	1,840,920
Less: unamortized debt issuance costs		(4,228)
	\$	1,836,692

Financing fees of \$5,884 were incurred in obtaining the building loan. These fees are being amortized using straight line over term of the loan. Amortization was \$736 at June 30, 2020 and 2019. Accumulated amortization is \$1,656 and \$920 for June 30, 2020 and 2019, respectively.

Annual amortization will be \$736 for next five years and \$548 over remaining term of the loan.

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 8. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in various financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2020 and 2019, the balance on deposit exceeded FDIC limits by \$1,555,863 and \$119,072, respectively.

NOTE 9. GOVERNMENT GRANTS

The Organization received government grants as follows:

Year ending June 30, 2020

Granting Agency	Program		
	Senior Brown Bag/Title III-B Supplemental Food Program	Second Harvest Food Bank	Total
City and County CDBG Grants	\$ -	\$ 28,923	\$ 28,923
EFSP	-	27,573	27,573
	<u>\$ -</u>	<u>\$ 56,496</u>	<u>\$ 56,496</u>

Year ending June 30, 2019

Granting Agency	Program		
	Senior Brown Bag/Title III-B Supplemental Food Program	Second Harvest Food Bank	Total
San Joaquin County Dept. of Aging	\$ 20,000	\$ -	\$ 20,000
City and County CDBG Grants	-	64,263	64,263
EFSP	-	50,538	50,538
	<u>\$ 20,000</u>	<u>\$ 114,801</u>	<u>\$ 134,801</u>

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 10. LEASES

The Organization has entered into lease agreements for office space, office equipment, and warehouse equipment. The minimum lease commitments under all operating leases with an initial term of one year or greater are as follows:

Year ending June 30,

2021	\$	28,111
2022		26,189
2023		-
2024		-
2025		-
Thereafter		-
		\$ 54,300

NOTE 11. IN-KIND CONTRIBUTIONS

A substantial amount of food is donated to the Organization. Valuation of food is at its estimated fair market value using studies conducted by Feeding America and regional food banks, who estimate that their contributed foods mix is valued at \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. A total of 24,062,440 pounds worth \$41,868,646 and 18,438,877 pounds worth \$29,870,980 of food were donated to the organization for years ended June 30, 2020 and 2019, respectively. Distributions to recipient organizations and programs totaled 21,235,537 pounds worth \$36,949,834 and 18,744,132 pounds worth \$30,365,494 for years ended June 30, 2020 and 2019, respectively.

NOTE 12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were \$37,037 and \$53,000 at June 30, 2020 and 2019, respectively. These funds are restricted for Ceres software upgrades and food purchases.

NOTE 13. RELATED PARTY TRANSACTIONS

The Organization paid related parties for vehicle and equipment purchase and maintenance. Certain board members are affiliated with the business listed below and recuse themselves from voting when issues arise that pertain to the business. The Organization paid related parties the following during the years ended June 30, 2020 and 2019, respectively:

	2020	2019	Purpose
Watts Equipment Company	\$ 48,464	\$ 89,029	Equip. maintenance/rental and new equipment costs

**SECOND HARVEST FOOD BANK OF SAN JOAQUIN
AND STANISLAUS COUNTY, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 14. AVAILABILITY AND LIQUIDITY

The following represents the Organization’s financial assets at June 30, 2020 and 2019:

	2020	2019
Financial assets at year end:		
Cash and equivalents	\$ 1,863,572	\$ 463,129
Accounts receivable, net	12,002	188,850
Investments	570,930	566,310
Less: Grants with donor restrictions	(37,037)	(53,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 2,409,467	\$ 1,165,289

NOTE 15. SUBSEQUENT EVENTS

In August 2020, the Organization paid off approximately \$900,000 of its mortgage to Wells Fargo and refinanced the remaining \$1,000,000 loan through Farmers and Merchant Bank, secured by first lien on real estate property located at 1220 Vanderbilt Circle, Manteca.

The United States and global markets experienced significant declines in value resulting from uncertainty caused by the world-wide coronavirus pandemic. We are closely monitoring our investment portfolio and its liquidity and are actively working to minimize the impact of these declines. Our financial statements do not include adjustments to fair value that have resulted from these declines.

NOTE 16. CONTINGENCY

In April 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the “PPP Lender”), for an aggregate principal amount of approximately \$175,000 (the “PPP Loan”). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization’s request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protection Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. To the extent that all or part of the PPP Loan is not forgiven, the Organization will be required to pay interest on the PPP Loan at a rate of 1.0% per annum. The terms of the PPP Loan provide for customary events of default including, among other things, payment defaults, breach of representations and warranties, and insolvency events. The PPP Loan may be accelerated upon the occurrence of an event of default.