

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2018 AND 2017**

## CONTENTS

	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



**Schwartz  
Giannini  
Lantsberger  
& Adamson**

ACCOUNTANCY  
CORPORATION

## 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, 2018 and 2017, 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.

Gary F. Giannini, CPA  
Philip Lantsberger, CPA  
Robert Gross, CPA  
Nikolas Torres, CPA  
Timothy J. Schwartz, CPA,  
Retired  
William H. Adamson,  
Retired

4578 Feather River Drive  
Suite D  
Stockton CA, 95219  
Ph: 209.474.1084  
Fx: 209.474.0301

6731 Herndon Place  
Stockton, CA 95219  
Ph: 209.951.9900

www.sglacpas.com

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, 2018 and 2017, 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.



Stockton, California  
February 27, 2019

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

**STATEMENTS OF FINANCIAL POSITION  
June 30, 2018 and 2017**

	2018	2017
<b>ASSETS</b>		
Current assets		
Cash	\$ 709,223	\$ 1,012,880
Receivables	99,479	156,026
Inventory - donated (Note 11)	1,908,465	922,852
Total current assets	\$ 2,717,167	\$ 2,091,758
Property and equipment, net of accumulated depreciation (Note 4)	3,145,614	1,920,697
Investments, at fair value (Notes 5 & 6)	548,177	538,550
Total assets	\$ 6,410,958	\$ 4,551,005
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 103,582	\$ 43,520
Current portion of long term debt (Note 7)	75,265	37,347
Accrued vacation	23,960	26,661
Total current liabilities	\$ 202,807	\$ 107,528
Long-term liabilities		
Long term debt, less current portion (Note 7)	\$ 1,972,811	\$ 1,397,106
Less: unamortized debt issuance costs, net	(5,700)	-
	\$ 1,967,111	\$ 1,397,106
Net assets		
Unrestricted:		
Unrestricted - general	\$ 1,090,717	\$ 2,493,389
Unrestricted - food inventory	1,908,465	922,852
Unrestricted - net investment in property and equipment	1,097,538	486,244
Total unrestricted	\$ 4,096,720	\$ 3,902,486
Temporarily restricted (Note 12)	144,320	66,738
Total net assets	\$ 4,241,040	\$ 3,969,224
Total liabilities and net assets	\$ 6,410,958	\$ 5,473,858

See Notes to Financial Statements.

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

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2018**

	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>			
Contributions and corporate grants	\$ 1,452,628	\$ 174,320	\$ 1,626,948
In-kind contributions - food products (Note 11)	30,521,947	-	30,521,947
Government grants (Note 9)	-	178,764	178,764
Handling fees	882,715	-	882,715
Special events (net of direct costs of \$26,778)	110,135	-	110,135
Investment returns	9,627	-	9,627
Other income	2,586	-	2,586
Net assets released from restrictions	275,502	(275,502)	-
Total public support and revenue	\$ 33,255,140	\$ 77,582	\$ 33,332,722
<b>EXPENSES</b>			
Program services			
Senior Brown Bag/Title III-B Supplemental Food Program	\$ 2,527,862	\$ -	\$ 2,527,862
Food assistance	26,516,914	-	26,516,914
Food 4 Thought	2,748,846	-	2,748,846
Total program services	\$ 31,793,621	\$ -	\$ 31,793,621
Supporting services			
Management and general	\$ 227,425	\$ -	\$ 227,425
Fundraising	117,007	-	117,007
Total supporting expenses	\$ 344,432	\$ -	\$ 344,432
Total expenses	\$ 32,138,053	\$ -	\$ 32,138,053
<b>CHANGE IN NET ASSETS</b>	\$ 1,117,087	\$ 77,582	\$ 1,194,669
<b>NET ASSETS AT BEGINNING OF YEAR</b>	2,979,633	66,738	3,046,371
<b>NET ASSETS AT END OF YEAR</b>	\$ 4,096,720	\$ 144,320	\$ 4,241,040

See Notes to Financial Statements.

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

**STATEMENT OF ACTIVITIES  
Year Ended June 30, 2017**

	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>			
Contributions and corporate grants	\$ 1,245,826	\$ 66,738	\$ 1,312,564
In-kind contributions - food products (Note 11)	38,299,727	-	38,299,727
Government grants (Note 9)	-	196,240	196,240
Handling fees	903,554	-	903,554
Special events (net of direct costs of \$9,420)	163,845	-	163,845
Investment returns	35,728	-	35,728
Other income	7,214	-	7,214
Net assets released from restrictions	358,398	(358,398)	-
Total public support and revenue	\$ 41,014,292	\$ (95,420)	\$ 40,918,872
<b>EXPENSES</b>			
Program services			
Senior Brown Bag/Title III-B Supplemental Food Program	\$ 2,723,730	\$ -	\$ 2,723,730
Food assistance	35,100,154	-	35,100,154
Food 4 Thought	2,919,158	-	2,919,158
Total program services	\$ 40,743,041	\$ -	\$ 40,743,041
Supporting services			
Management and general	\$ 226,262	\$ -	\$ 226,262
Fundraising	122,087	-	122,087
Total supporting expenses	\$ 348,349	\$ -	\$ 348,349
Total expenses	\$ 41,091,390	\$ -	\$ 41,091,390
<b>CHANGE IN NET ASSETS</b>	\$ (77,098)	\$ (95,420)	\$ (172,518)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	3,056,731	162,158	3,218,889
<b>NET ASSETS AT END OF YEAR</b>	\$ 2,979,633	\$ 66,738	\$ 3,046,371

See Notes to Financial Statements.

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

**STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2018 and 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,194,669	\$ (172,518)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	102,101	85,055
Unrealized (gain) loss on investments	(4,430)	(26,373)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	56,547	(25,622)
(Increase) decrease in inventory	(985,613)	363,536
Increase (decrease) in accounts payable	60,062	(3,356)
(Decrease) in accrued vacation	(2,701)	(5,600)
Net cash provided by operating activities	\$ 420,635	\$ 215,122
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investment securities	\$ (5,197)	\$ (9,355)
Purchase of fixed assets	(1,326,833)	(1,344,044)
Net cash (used in) investing activities	\$ (1,332,030)	\$ (1,353,399)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from notes payable	\$ 650,000	\$ 975,000
Debt issuance loan costs paid	(5,885)	-
Principal payments on notes payable	(36,377)	(26,362)
Net cash provided by financing activities	\$ 607,738	\$ 948,638
Net (decrease) in cash	\$ (303,657)	\$ (189,639)
<b>CASH AT BEGINNING OF YEAR</b>	1,012,880	1,202,519
<b>CASH AT END OF YEAR</b>	\$ 709,223	\$ 1,012,880
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 75,390	\$ 50,267

See Notes to Financial Statements.



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

**STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2018**

	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	\$ 123,544	\$ 315,688	\$ 136,860	\$ 576,092	147,716	\$ 14,772	\$ 162,488	\$ 738,580
Employee benefits	20,756	50,019	22,984	93,759	24,041	2,404	26,445	120,204
Payroll taxes	11,408	29,362	12,637	53,407	13,694	1,369	15,063	68,470
<b>Total salaries and benefits</b>	<b>\$ 155,708</b>	<b>\$ 395,069</b>	<b>\$ 172,481</b>	<b>\$ 723,258</b>	<b>\$ 185,451</b>	<b>\$ 18,545</b>	<b>\$ 203,996</b>	<b>\$ 927,254</b>
Dues and subscriptions	4,743	15,582	5,254	25,579	2,842	-	2,842	28,421
Equipment maintenance	7,055	24,836	7,809	39,700	4,411	-	4,411	44,111
Food purchase	221,337	499,182	116,613	837,131	-	-	-	837,131
In-kind food donations (Note 11)	2,031,559	25,165,506	2,332,660	29,529,725	-	-	-	29,529,725
Insurance	4,508	17,376	4,966	26,850	2,983	-	2,983	29,833
Interest	11,175	44,305	12,371	67,851	7,539	-	7,539	75,390
Meals and entertainment	262	3,067	291	3,620	402	-	402	4,022
Office expense	522	19,682	522	20,726	2,303	-	2,303	23,029
Postage	706	2,931	781	4,418	491	-	491	4,909
Printing	424	1,631	467	2,522	280	98,090	98,370	100,892
Professional fees	6,440	21,219	7,133	34,792	3,866	-	3,866	38,658
Property maintenance	1,822	10,328	2,017	14,167	1,574	-	1,574	15,741
Rent	1,354	(2,517)	1,494	331	37	-	37	368
Seminars	536	3,654	593	4,783	531	-	531	5,314
Staff travel	901	3,736	667	5,304	589	-	589	5,893
Supplies - warehouse	5,842	26,529	6,123	38,494	-	-	-	38,494
Taxes and licenses	3,047	10,009	3,367	16,423	1,825	-	1,825	18,248
Utilities	12,725	52,008	14,080	78,813	4,148	-	4,148	82,961
Vehicle expense	48,461	111,494	49,645	209,600	6,482	-	6,482	216,082
Other	704	7,045	779	8,528	948	-	948	9,476
<b>Total expenses before depreciation and amortization</b>	<b>\$ 2,519,831</b>	<b>\$ 26,432,672</b>	<b>\$ 2,740,113</b>	<b>\$ 31,692,615</b>	<b>\$ 226,702</b>	<b>\$ 116,635</b>	<b>\$ 343,337</b>	<b>\$ 32,035,952</b>
Depreciation and amortization	8,031	84,242	8,733	101,006	723	372	1,095	102,101
<b>Total expenses</b>	<b>\$ 2,527,862</b>	<b>\$ 26,516,914</b>	<b>\$ 2,748,846</b>	<b>\$ 31,793,621</b>	<b>\$ 227,425</b>	<b>\$ 117,007</b>	<b>\$ 344,432</b>	<b>\$ 32,138,053</b>

See Notes to Financial Statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2017**

	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	\$ 103,356	\$ 369,105	\$ 113,473	\$ 585,934	150,240	\$ 15,024	\$ 165,264	\$ 751,198
Employee benefits	19,744	61,491	21,377	102,612	26,311	2,631	28,942	131,554
Payroll taxes	9,933	33,090	10,906	53,929	13,828	1,383	15,211	69,140
<b>Total salaries and benefits</b>	<b>\$ 133,033</b>	<b>\$ 463,686</b>	<b>\$ 145,756</b>	<b>\$ 742,475</b>	<b>\$ 190,379</b>	<b>\$ 19,038</b>	<b>\$ 209,417</b>	<b>\$ 951,892</b>
Dues and subscriptions	4,003	16,795	4,395	25,193	2,799	-	2,799	27,992
Equipment maintenance	6,005	24,420	6,515	36,940	4,104	-	4,104	41,044
Food purchase	196,287	442,687	103,415	742,388	-	-	-	742,388
In-kind food donations (Note 11)	2,283,361	33,805,592	2,558,080	38,647,033	-	-	-	38,647,033
Insurance	4,249	16,516	4,548	25,313	2,813	-	2,813	28,126
Interest	7,114	30,316	7,810	45,240	5,027	-	5,027	50,267
Meals and entertainment	-	1,300	76	1,376	153	-	153	1,529
Office expense	1,158	14,698	1,243	17,099	1,900	-	1,900	18,999
Postage	599	2,555	653	3,807	423	-	423	4,230
Printing	355	1,967	390	2,712	301	102,796	103,097	105,809
Professional fees	1,994	9,363	2,141	13,498	1,500	-	1,500	14,998
Property maintenance	1,049	6,057	1,122	8,228	914	-	914	9,142
Rent	11,229	11,586	12,033	34,848	3,872	-	3,872	38,720
Seminars	363	1,916	398	2,677	297	-	297	2,974
Staff travel	1,081	1,280	363	2,724	303	-	303	3,027
Supplies - warehouse	5,607	26,061	6,103	37,771	-	-	-	37,771
Taxes and licenses	1,907	7,784	2,094	11,785	1,310	-	1,310	13,095
Utilities	9,717	36,939	10,397	57,053	3,003	-	3,003	60,056
Vehicle expense	48,589	100,625	45,174	194,388	6,012	-	6,012	200,400
Other	392	5,357	410	6,159	684	-	684	6,843
<b>Total expenses before depreciation</b>	<b>\$ 2,718,092</b>	<b>\$ 35,027,500</b>	<b>\$ 2,913,116</b>	<b>\$ 40,658,707</b>	<b>\$ 225,794</b>	<b>\$ 121,834</b>	<b>\$ 347,628</b>	<b>\$ 41,006,335</b>
Depreciation	5,638	72,654	6,042	84,334	468	253	721	85,055
<b>Total expenses</b>	<b>\$ 2,723,730</b>	<b>\$ 35,100,154</b>	<b>\$ 2,919,158</b>	<b>\$ 40,743,041</b>	<b>\$ 226,262</b>	<b>\$ 122,087</b>	<b>\$ 348,349</b>	<b>\$ 41,091,390</b>

See Notes to Financial Statements.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2018**

**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:

Unrestricted net assets - Net assets are not subject to donor-imposed stipulations. This includes food inventory and fixed assets, net of related debt.

Temporarily restricted net assets - 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. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

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 2015, 2016 and 2017 remain open to examination by the Internal Revenue Service; state income tax returns for 2014, 2015, 2016 and 2017 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, 2018 and 2017, donated food inventory on hand is valued at \$1.68 and \$1.73 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**

Expenses have been allocated by function among program and supporting services classifications on the basis of budget allocations and on estimates made by the organization's management.

**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.

**RECLASSIFICATIONS**

Certain reclassifications were made to the 2017 financial statement presentation in order to conform to the 2018 financial statement presentation.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 15, 2018, 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 2018, 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 will adopt the new rule effective July 2018, 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 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 will early adopt the new rule effective July 2018, 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.

**NOTE 2. DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through February 27, 2019, the date the financial statements were available to be issued.

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

**NOTES TO FINANCIAL STATEMENTS**

**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, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Land and building	\$ 3,433,843	\$ 789,677
Office equipment	110,573	105,644
Warehouse equipment	556,544	535,420
Vehicles	746,413	746,413
Furniture and fixtures	134,259	133,601
Construction in process	<u>-0-</u>	<u>1,344,044</u>
	\$ 4,981,632	\$ 3,654,799
Less accumulated depreciation	<u>(1,836,018)</u>	<u>(1,734,102)</u>
	<u>\$ 3,145,614</u>	<u>\$ 1,920,697</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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Short-term fixed income	\$ 25,693	\$ 42,721
Intermediate fixed income	370,560	313,584
International/emerging market	17,847	20,007
Large cap equity	44,968	44,031
International equity	56,248	65,715
REITs and MLPs	30,374	13,211
Multisector bond	-	37,210
Commodities and gold	<u>2,487</u>	<u>2,071</u>
	<u>\$ 548,177</u>	<u>\$ 538,550</u>

A summary of investment returns in the statement of activities for the years ended June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 5,197	\$ 9,355
Unrealized gain (loss)	<u>4,430</u>	<u>26,373</u>
	<u>\$ 9,627</u>	<u>\$ 35,728</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, 2018 and 2017, investments' fair value were based on the following:

**June 30, 2018**

	<u>Fair Value</u>	<u>(Level 1)</u>
Intermediate fixed income	\$ 370,560	\$ 370,560
International/emerging market	17,847	17,847
Large cap equity	44,968	44,968
Short-term fixed income	25,693	25,693
International equity	56,248	56,248
REITs and MLPs	30,374	30,374
Commodities and gold	2,487	2,487
	<u>\$ 548,177</u>	<u>\$ 548,177</u>

**June 30, 2017**

	<u>Fair Value</u>	<u>(Level 1)</u>
Intermediate fixed income	\$ 313,584	\$ 313,584
International/emerging market	20,007	20,007
Large cap equity	44,031	44,031
Short-term fixed income	42,721	42,721
International equity	65,715	65,715
REITs and MLPs	13,211	13,211
Multisector bond	37,210	37,210
Commodities and gold	2,071	2,071
	<u>\$ 538,550</u>	<u>\$ 538,550</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 \$457,843 and \$472,198 at June 30, 2018 and 2017, 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 \$5,455.96 which commenced December 15, 2016. 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 \$940,233 and \$962,255 at June 30, 2018 and 2017, respectively.

Second Harvest has an advanced line of credit loan with Wells Fargo Bank, monthly payment of \$3,611 including interest at floor rate of 4.5%. 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 \$650,000 and \$0 at June 30, 2018 and 2017, respectively.

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

2019	\$	75,265
2020		84,382
2021		86,371
2022		88,455
2023		462,558
Thereafter		1,251,045
	\$	2,048,076
Less: unamortized debt issuance costs		(5,700)
	\$	2,042,376

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 \$184 and \$0 at June 30, 2018 and 2017, respectively. Accumulated amortization is \$184 and \$0 for June 30, 2018 and 2017, respectively.

Annual amortization will be \$736 for next five years and \$5,700 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, 2018 and 2017, the balance on deposit exceeded FDIC limits by \$123,146 and \$407,991, respectively.

**NOTE 9. GOVERNMENT GRANTS**

The Organization received government grants as follows:

Year ending June 30, 2018	Program		
Granting Agency	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	-	92,611	92,611
EFSP	-	66,153	66,153
	<u>\$ 20,000</u>	<u>\$ 158,764</u>	<u>\$ 178,764</u>

Year ending June 30, 2017	Program		
Granting Agency	Senior Brown Bag/Title III-B Supplemental Food Program	Second Harvest Food Bank	Total
San Joaquin County Dept. of Aging	\$ 19,000	\$ -	\$ 19,000
City and County CDBG Grants	-	106,053	106,053
EFSP	-	71,187	71,187
	<u>\$ 19,000</u>	<u>\$ 177,240</u>	<u>\$ 196,240</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,

2019	\$	29,002
2020		28,111
2021		28,111
2022		26,189
2023		-
Thereafter		-
		<u>\$ 111,413</u>

Total rental expense paid during the years ending June 30, 2018 and 2017 was \$368 and \$38,720, respectively.

**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 \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. A total of 21,466,350 and 26,466,532 pounds of food were donated to the organization for years ended June 30, 2018 and 2017, respectively. Distributions to recipient organizations and programs totaled 17,023,563 and 13,260,189 pounds for years ended June 30, 2018 and 2017, respectively.

**NOTE 12. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were \$144,320 and \$66,738 at June 30, 2018 and 2017, respectively. These funds are restricted for food purchases.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13. RELATED PARTY TRANSACTIONS**

The Organization paid related parties for fuel and vehicle and equipment maintenance. Certain board members are affiliated with the businesses listed below and recuse themselves from voting when issues arise that pertain to these businesses. The Organization paid related parties the following during the years ended June 30, 2018 and 2017, respectively:

	2018	2017	Purpose
Mountain Valley Express	\$ 44,770	\$ 21,555	Fuel and vehicle maintenance
Watts Equipment Company	96,732	8,412	Equip. maintenance/rental and new building costs
	\$ 141,502	\$ 29,967	