



SECOND HARVEST COMMUNITY FOOD BANK, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2019 and 2018





Mayer Hoffman McCann P.C.

700 W 47th St Ste 1100 ■ Kansas City, MO 64112

Main: 816.945.5600 ■ Fax: 816.897.1280 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors

SECOND HARVEST COMMUNITY FOOD BANK, INC.

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Community Food Bank, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Community Food Bank, Inc. as of June 30, 2019, 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.



Member of Kreston International – a global network of independent accounting firms

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited Second Harvest Community Food Bank, Inc.'s 2018 financial statements, and, in our report dated December 19, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
March 20, 2020

SECOND HARVEST COMMUNITY FOOD BANK, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 401,552	\$ 199,670
Investments	1,963,764	1,816,755
Accounts receivable, less allowance for uncollectibles	196,738	152,140
Unconditional promises to give	237,000	46,000
Inventory	722,184	545,876
Prepaid expenses and other assets	<u>19,169</u>	<u>14,388</u>
TOTAL CURRENT ASSETS	3,540,407	2,774,829
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	759,969	867,744
INVESTMENTS - ENDOWMENT	<u>150,000</u>	<u>150,000</u>
TOTAL ASSETS	<u>\$ 4,450,376</u>	<u>\$ 3,792,573</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 117,834	\$ 92,581
Accrued expenses	<u>83,433</u>	<u>77,751</u>
TOTAL CURRENT LIABILITIES	<u>201,267</u>	<u>170,332</u>
<u>NET ASSETS</u>		
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Foodbank		
Undesignated	1,319,228	1,258,254
Board designated - reserve	<u>1,963,764</u>	<u>1,816,755</u>
Total foodbank	3,282,992	3,075,009
Contributed food	<u>453,910</u>	<u>260,695</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	3,736,902	3,335,704
NET ASSETS WITH DONOR RESTRICTIONS	<u>512,207</u>	<u>286,537</u>
TOTAL NET ASSETS	<u>4,249,109</u>	<u>3,622,241</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,450,376</u>	<u>\$ 3,792,573</u>

See Notes to Financial Statements

SECOND HARVEST COMMUNITY FOOD BANK, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2019, with Summarized Financial Information for the Year Ended June 30, 2018

	2019				2018	
	Without Donor Restrictions			With Donor Restrictions	Total	Total
	Total Foodbank	Contributed Food	Total			
OPERATING SUPPORT AND REVENUE						
Contributions received	\$ 868,332	\$ -	\$ 868,332	\$ 1,004,377	\$ 1,872,709	\$ 1,476,295
Government income	1,564,260	-	1,564,260	-	1,564,260	1,503,714
Contributed food received	-	8,804,508	8,804,508	-	8,804,508	6,377,087
Handling fees and other revenues	245,339	-	245,339	-	245,339	307,066
Investment return	120,548	-	120,548	10,647	131,195	75,900
Net assets released from restrictions	789,354	-	789,354	(789,354)	-	-
TOTAL OPERATING SUPPORT AND REVENUE	3,587,833	8,804,508	12,392,341	225,670	12,618,011	9,740,062
EXPENSES						
Foodbank program	2,841,644	-	2,841,644	-	2,841,644	2,873,742
Contributed food distributed	-	8,611,293	8,611,293	-	8,611,293	6,536,533
Management and general	193,306	-	193,306	-	193,306	182,494
Fund development	344,900	-	344,900	-	344,900	333,747
TOTAL EXPENSES	3,379,850	8,611,293	11,991,143	-	11,991,143	9,926,516
CHANGES IN NET ASSETS	207,983	193,215	401,198	225,670	626,868	(186,454)
NET ASSETS, BEGINNING OF YEAR	3,075,009	260,695	3,335,704	286,537	3,622,241	3,808,695
NET ASSETS, END OF YEAR	\$ 3,282,992	\$ 453,910	\$ 3,736,902	\$ 512,207	\$ 4,249,109	\$ 3,622,241

See Notes to Financial Statements

SECOND HARVEST COMMUNITY FOOD BANK, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2019 and 2018

	2019				2018			
	Foodbank Program	Management and General	Fund Development	Total	Foodbank Program	Management and General	Fund Development	Total
Compensation	\$ 908,557	\$ 167,366	\$ 119,547	\$ 1,195,470	\$ 870,949	\$ 156,655	\$ 101,881	\$ 1,129,485
Insurance, contracts, and leases	29,647	1,303	1,629	32,579	25,840	1,136	1,420	28,396
Fees and dues	180,369	7,928	9,910	198,207	196,436	8,635	10,793	215,864
Supplies, printing, and postage	89,410	3,930	4,913	98,253	93,017	4,089	5,111	102,217
Repairs and maintenance	96,216	4,229	5,287	105,732	68,554	3,013	3,767	75,334
Services and staff support	34,391	1,512	148,409	184,312	36,385	1,599	144,610	182,594
Utilities and telephone	43,033	1,892	2,364	47,289	50,485	2,219	2,774	55,478
Vehicle cost and freight	84,970	-	-	84,970	50,942	-	-	50,942
Special events	-	-	46,409	46,409	-	-	56,955	56,955
Purchased food distributed	1,257,988	-	-	1,257,988	1,364,007	-	-	1,364,007
Depreciation expense	117,063	5,146	6,432	128,641	117,127	5,148	6,436	128,711
Expenses before contributed food distributed	2,841,644	193,306	344,900	3,379,850	2,873,742	182,494	333,747	3,389,983
Contributed food distributed	8,611,293	-	-	8,611,293	6,536,533	-	-	6,536,533
TOTAL EXPENSES	\$ 11,452,937	\$ 193,306	\$ 344,900	\$ 11,991,143	\$ 9,410,275	\$ 182,494	\$ 333,747	\$ 9,926,516
	95.51%	1.61%	2.88%	100.00%	94.80%	1.84%	3.36%	100.00%

See Notes to Financial Statements

SECOND HARVEST COMMUNITY FOOD BANK, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 626,868	\$ (186,454)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Net contributed food	193,215	(159,446)
Realized and unrealized gain on investments	(88,397)	(41,967)
Depreciation	128,641	128,711
Contribution of property and equipment	-	(3,200)
Change in operating assets:		
Accounts receivable	(44,598)	74,661
Unconditional promises to give	(191,000)	(5,500)
Inventory	(369,523)	227,102
Prepaid expenses and other assets	(4,781)	(3,655)
Change in operating liabilities:		
Accounts payable	25,253	(37,301)
Accrued expenses	5,682	9,596
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>281,360</u>	<u>2,547</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	621,065	404,871
Purchase of investments	(679,677)	(431,920)
Purchase of property and equipment	<u>(20,866)</u>	<u>(35,531)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(79,478)</u>	<u>(62,580)</u>
 NET CHANGE IN CASH	201,882	(60,033)
 CASH, BEGINNING OF YEAR	<u>199,670</u>	<u>259,703</u>
 CASH, END OF YEAR	<u>\$ 401,552</u>	<u>\$ 199,670</u>

See Notes to Financial Statements

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Organization - Second Harvest Community Food Bank, Inc. (the "Organization") is a not-for-profit, tax-exempt (Section 501(c)(3)) food bank and was incorporated in 1981 for the purpose of collecting and distributing food products to regional food pantries and soup kitchens that provide assistance to low income and needy families and individuals. The Organization serves 15 counties in Missouri and 4 counties in Kansas and is a network member of Feeding America. The Organization receives revenues primarily from individual and corporate donations, the United Way, federal and state grants, and contracts with local not-for-profits.

The Organization operates a food distribution program. The Organization receives donated food from individuals, corporations, other nonprofit organizations, and the United States Department of Agriculture. The Organization also purchases food with grant funds and proceeds from fundraising events. Food is delivered to qualified regional food banks, food pantries, and soup kitchens based on product availability and as needed.

Basis of presentation - The Organization's financial statements are prepared on the accrual basis of accounting. Balances and transactions are presented in accordance with the existence or absence of donor-imposed restrictions. The Organization maintains its financial accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives of the Organization.

- Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this category of net assets primarily consist of program service fees (handling fees) paid on a per-pound basis by member agencies, and related expenses associated with the core activities of the Organization. In addition to these exchange transactions, changes to this category of net assets include certain types of philanthropic support - namely, contributions and grants without restrictions, including those designated by the Board to function as reserves, and income from investments.
- Net assets with donor restrictions are net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. Items that affect this category of net assets are contributions and grants with restrictions. Contributions and grants received with donor-imposed restrictions are reclassified to net assets without donor restrictions when such restrictions are met or have expired. Net assets with donor restrictions also include net assets subject to donor-imposed stipulations, which, as interpreted by the Board of Directors, according to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requirements, require the Organization to maintain in perpetuity the fair value of the original gift as of the gift date. Generally, the donors of these assets permit the Organization to use all or part of the income earned on these assets. The Organization's net assets with donor restrictions that are required to be maintained in perpetuity were \$150,000 at both June 30, 2019 and 2018.

Revenues and other support - Contributions and grants, including unconditional promises to give, represent amounts raised from the public and are recognized in the period received. Contributions other than cash, including unconditional promises to give and donated materials with clearly measurable bases, are recorded at their estimated fair value at the date of receipt. Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement. Any funding received for exchange transactions in advance of expenditure is recorded as deferred revenue on the statement of financial position. Revenue from program service fees (handling fees) are recognized as earned from member agencies who receive food.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies (continued)**

Revenue from contributed food received, as well as the related food distributed expense and the contributed food inventory accounts, are computed by valuing the Organization's respective pounds of food at a weighted average wholesale price per pound as determined by the Feeding America national food bank network. The Organization treats contributed food as contributions without donor restrictions.

Donated assets are reflected as contributions at their estimated fair value at the date of receipt. A substantial number of volunteers have donated hundreds of hours during the years ended June 30, 2019 and 2018, which do not meet the requirements of the Not-For-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) related to revenue recognition of contributions received and, accordingly, are not recorded in these financial statements. The Organization received \$7,517 and \$40,820 for the years ended June 30, 2019 and 2018, respectively, for donated services and goods other than contributed food.

Cash - Cash consists of available cash balances on deposit at financial institutions. At times, balances in these accounts are in excess of federally insured limits. At June 30, 2019 the Organization's uninsured balances totaled \$199,418. At June 30, 2018 the Organization's balances were fully insured. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

Investments - Investments consist of money market funds, equity securities, fixed income securities, and alternative investment securities which are recorded at their fair value.

Accounts receivable - Accounts receivable are carried at cost, less allowance for uncollectible accounts. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts based on history, past write-offs, collections, and current credit conditions. An account is written off when it is determined that all collection efforts have been exhausted. Allowance for doubtful accounts as of June 30, 2019 and 2018, was \$500.

Inventory - Contributed food is valued on a first-in, first-out basis using a weighted average wholesale price per pound as determined by the Feeding America national food bank network. For each of the years ended June 30, 2019 and 2018 respectively, contributed food was valued at \$1.62 and \$1.68 per pound. Purchased food is valued on a first-in, first-out basis.

Property and equipment - Property and equipment are stated at cost or the fair value at the date of gift for donated assets, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Buildings and building improvements	5 – 30 years
Equipment and vehicles	3 – 20 years

Functional expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statement of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source. For the year ended June 30, 2019, compensation expense was allocated based upon actual and estimated time; vehicle cost and freight, special events, food purchases, and contributed food distributed expenses were allocated directly; and all other expenses were allocated based upon building square footage. For the year ended June 30, 2018, vehicle cost and freight, special events, food purchases, and contributed food distributed expenses were allocated directly; and all other expenses were allocated based upon estimated time.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Income taxes - The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. The Organization's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, it believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by the Organization. No accrual has been recorded at June 30, 2019 and 2018, as management does not believe any material uncertainties exist. The Organization is no longer subject to federal or state income tax examinations by tax authorities before 2016.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Advertising costs - Advertising costs are charged to operations when incurred. Advertising expenses totaled \$115,763 and \$113,048 for the years ended June 30, 2019 and 2018, respectively.

Summarized comparative information - The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Recent accounting pronouncements - During 2019 the Organization adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, Not-for-profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-profit Entities. This standard addresses the complexity and understandability of net asset classification, information about liquidity and the availability of resources, and provides expanded disclosure of expenses presented by functional categories. Certain items in the 2018 financial statements have been reclassified to conform to the 2019 presentation that incorporates the change in net asset classification from unrestricted, temporarily restricted, and permanently restricted to net assets without donor restrictions and net assets with donor restrictions.

(2) Investments

Investments are comprised of the following:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Money market funds	\$ 76,005	\$ 36,860
Equity securities	866,339	896,111
Fixed income securities	1,111,197	893,503
Mutual funds	60,223	140,281
Total investments	<u>\$ 2,113,764</u>	<u>\$ 1,966,755</u>

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Investments (continued)

Investment income is comprised of the following:

	June 30,	
	2019	2018
Interest and dividend income	\$ 52,588	\$ 44,715
Investment fees	(9,790)	(10,782)
Unrealized gain	23,655	17,869
Realized gain	64,742	24,098
Total investment return	\$ 131,195	\$ 75,900

FASB ASC 820, *Fair Value Measurements and Disclosures* provides the framework for measuring fair value. ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Organization endeavors to utilize the best available information in measuring fair value. The fair values of the Organization's investments can be determined using the following valuation methods as of June 30, 2019 and 2018:

	June 30, 2019			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 76,005	\$ 76,005	-	-
Equity securities	866,339	866,339	-	-
Fixed income securities	1,111,197	1,111,197	-	-
Mututal funds	60,223	60,223	-	-
Total investments	\$ 2,113,764	\$ 2,113,764	\$ -	\$ -

	June 30, 2018			
	Fair Value	Level 1	Level 2	Level 3
Money market funds	\$ 36,860	\$ 36,860	-	-
Equity securities	896,111	896,111	-	-
Fixed income securities	893,503	893,503	-	-
Mututal funds	140,281	140,281	-	-
Total investments	\$ 1,966,755	\$ 1,966,755	\$ -	\$ -

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Unconditional promises to give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. No discount rate has been applied to the Organization for outstanding pledges at June 30, 2019 and 2018, as all unconditional promises are anticipated to be received in less than one year. No allowance was recorded at June 30, 2019 and 2018 as management considered all unconditional promises to give to be collectible. Unconditional promises to give at June 30, 2019 and 2018 were \$237,000 and \$46,000, respectively.

(4) Property and equipment

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Cost		
Land	\$ 338,255	\$ 338,255
Buildings and building improvements	795,175	795,175
Equipment and vehicles	820,547	852,795
Total cost	<u>1,953,977</u>	<u>1,986,225</u>
Less: accumulated depreciation	<u>(1,194,008)</u>	<u>(1,118,481)</u>
 Net property and equipment	 <u>\$ 759,969</u>	 <u>\$ 867,744</u>

Depreciation expense charged to operations for the years ended June 30, 2019 and 2018 was \$128,641 and \$128,711, respectively.

(5) Board designated reserve

The Board of Directors authorized the establishment of an operating reserve fund. This fund, which is maintained in the Organization's investment account, consists of \$1,963,764 and \$1,816,755 at June 30, 2019 and 2018, respectively. Reserve funds are to be available as necessary for unexpected costs, loan payoffs, and capital expenditures based on Board approval.

(6) Net assets with donor restrictions

Net assets with donor restrictions consisted of donor restricted contributions received for the following:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Purpose restricted		
Backpack buddies	\$ 46,999	\$ 90,537
Mobile food pantry	28,100	-
SNAP grant	45,633	-
Campus cupboards	4,475	-
Total purpose restricted	<u>125,207</u>	<u>90,537</u>
Time restricted	237,000	46,000
Restricted in perpetuity	150,000	150,000
Total net assets with donor restrictions	<u>\$ 512,207</u>	<u>\$ 286,537</u>

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(6) Net assets with donor restrictions

Releases from net assets with donor restrictions consisted of the following:

	Year Ended June 30,	
	2019	2018
Purpose restricted		
Backpack buddies	\$ 463,188	\$ 367,159
Mobile food pantry	173,279	150,000
SNAP grant	4,367	-
Campus cupboards	1,125	-
Disaster relief	22,467	-
Children's initiatives	51,678	-
KHF grant	25,000	-
Other	2,250	-
Total purpose restricted	<u>743,354</u>	<u>517,159</u>
Time restricted	46,000	140,500
Total	<u>\$ 789,354</u>	<u>\$ 657,659</u>

(7) Endowments

The Organization's endowment consists of one fund and only includes donor-restricted funds. In accordance with FASB ASC 958, net assets associated with endowment funds and funds designated by the Board of Directors are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment balance is included in endowment investments in the statements of financial position. Restricted endowment balances include the original value at the date of gift, which is not subject to appropriation or expenditure, and the earnings on the funds which are subject to appropriation or expenditure.

The Organization had the following endowment-related activities:

	For the year ended June 30, 2019		
	Subject to appropriation or expenditure	Not subject to appropriation or expenditure	Total
Beginning balance, July 1, 2018	\$ -	\$ 150,000	\$ 150,000
Investment return	10,647	-	10,647
Amounts appropriated for expenditure	(10,647)	-	(10,647)
Total change in endowment funds	-	-	-
Ending balance, June 30, 2019	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>
	For the year ended June 30, 2018		
	Subject to appropriation or expenditure	Not subject to appropriation or expenditure	Total
Beginning balance, July 1, 2017	\$ -	\$ 150,000	\$ 150,000
Investment return	6,724	-	6,724
Amounts appropriated for expenditure	(6,724)	-	(6,724)
Total change in endowment funds	-	-	-
Ending balance, June 30, 2018	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(7) Endowments (continued)

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds. In order to obtain maximum benefits from the assets of the Organization, the investment goals include achieving long-term growth of capital within specified risk constraints, production of a reasonable rate of return on the investment assets, consistent with the assumption of a prudent level of risk, and protection of the Organization's assets from inflation, so that they will be available for the long-term use.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization's risk tolerance is low. The Organization targets an asset allocation that places a greater emphasis on fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy

The purpose of the Organization's investment assets is to provide funds to supplement operating revenue for the Organization's program costs and organizational expenses that are not covered by fees for services or by donations and grants. During the years ended June 30, 2019 and 2018, all earnings on the endowment fund were appropriated for expenditure.

(8) Line of credit

The Organization maintained a \$100,000 line of credit during the year ended June 30, 2018, which was increased in August 2019 to \$250,000 for the year ended June 30, 2019. The line available during the year ended June 30, 2019 matured on February 17, 2020, and bears interest at 0.75% less than the Prime Rate (4.25% and 3.5% at June 30, 2019 and 2018, respectively). At June 30, 2019 and 2018, there was no outstanding balance on the line of credit. Subsequent to June 30, 2019, the line was renewed until February 2021.

(9) Lease commitments

The Organization entered into several non-cancelable lease agreements with expiration dates through September 2022. Minimum future lease payments under the non-cancelable operating leases with initial or remaining terms in excess of one year as of June 30, 2019 are as follows:

Years ending June 30,

2020	\$	16,968
2021		1,155
2022		1,155
2023		866
Total	\$	<u>20,144</u>

Total lease expense for the years ended June 30, 2019 and 2018 were \$26,409 and \$26,274, respectively.

(10) Concentrations

During the years ended June 30, 2019 and 2018, approximately 32% and 37% of the Organization's purchases were paid to one vendor and two vendors, respectively, for the acquisition of food items. During the years ended June 30, 2019 and 2018, approximately 28% and 60% of the Organization's accounts payable were due to one vendor and two vendors, respectively.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(11) Recent accounting pronouncements

Recent accounting pronouncements - Revenue recognition - In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for the Organization's June 30, 2020 financial statements. The Organization may adopt the standard retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Contribution accounting - In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958)*. This standard is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The contribution guidance in Subtopic 958-605 requires an entity to determine whether a transaction is conditional, which affects the timing of the revenue recognized. Contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. The standard is effective for the Organization's June 30, 2020 consolidated financial statements. The amendments in this Update should be applied only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance. No prior-period results should be restated, and there should be no cumulative-effect adjustment to the opening balance of net assets or retained earnings at the beginning of the year of adoption. The Organization is evaluating the impact that this updated standard will have on the consolidated financial statements and related notes to the consolidated financial statements.

Recent accounting pronouncements - Leases - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statements of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months. Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statements of financial position. The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis. This ASU is effective for the Organization's June 30, 2021 financial statements and early adoption is permitted. The Organization is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(12) Liquidity disclosure

The Organization has various sources of liquidity at its disposal, including cash, investments, accounts receivable, and unconditional promises to give. For purposes of analyzing resources available over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures. Financial assets available for general expenditure have not been reduced by board designated or donor restricted amounts as they are to be available for general expenditure. Additionally, the Organization monitors its budget and anticipates sufficient revenue to cover general expenditures over the next 12 months. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash. As of June 30, 2019 the following financial assets could be made available within one year of the statement of financial position date to meet general obligations.

Cash	\$ 401,552
Investments	1,963,764
Accounts receivable, less allowance for uncollectibles	196,738
Unconditional promises to give	<u>237,000</u>
Financial assets available for general expenditures	<u><u>\$ 2,799,054</u></u>

(13) Subsequent events

The Organization has evaluated subsequent events through March 20, 2020, which is the date the financial statements were available to be issued. The following significant matters were identified for disclosure during this evaluation, in addition to the matters described in Note 8.

On March 11, 2020 the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The operations of the Organization may be significantly impacted by the pandemic and could result in material changes to the Organization's financial position, revenues and expenses, and cash flows.