



SECOND HARVEST COMMUNITY FOOD BANK, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019





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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on July 1, 2019, Second Harvest Community Food Bank, Inc. adopted the amendments to the Accounting Standards Update (“ASU”) No. 2018-08, Topic 958, *Not-for-Profit Entities*, ASU 2016-18, Topic 230, *Statement of Cash Flows*, and Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited Second Harvest Community Food Bank, Inc.’s 2019 financial statements, and, in our report dated March 20, 2020, 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, 2019, 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
June 30, 2021

SECOND HARVEST COMMUNITY FOOD BANK, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and restricted cash | \$ 645,370 | \$ 401,552 |
| Investments | 2,160,464 | 1,963,764 |
| Accounts receivable, less allowance for uncollectibles | 314,487 | 196,738 |
| Unconditional promises to give | 16,374 | 237,000 |
| Inventory | 832,761 | 722,184 |
| Prepaid expenses and other assets | 23,915 | 19,169 |
| | <hr/> | <hr/> |
| TOTAL CURRENT ASSETS | 3,993,371 | 3,540,407 |
| PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation | 818,456 | 759,969 |
| INVESTMENTS - ENDOWMENT | 150,000 | 150,000 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | <u>\$ 4,961,827</u> | <u>\$ 4,450,376</u> |
| <u>LIABILITIES</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 315,532 | \$ 117,834 |
| Deferred revenue | 424,993 | - |
| Accrued expenses | 115,325 | 83,433 |
| Current portion of long-term debt | 85,064 | - |
| | <hr/> | <hr/> |
| TOTAL CURRENT LIABILITIES | 940,914 | 201,267 |
| LONG-TERM DEBT, less current portion above | 130,836 | - |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES | 1,071,750 | 201,267 |
| <u>NET ASSETS</u> | | |
| NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| Foodbank | | |
| Undesignated | 1,097,281 | 1,319,228 |
| Board designated - reserve | 2,160,464 | 1,963,764 |
| Total foodbank | <hr/> | <hr/> |
| | 3,257,745 | 3,282,992 |
| Contributed food | 305,561 | 453,910 |
| | <hr/> | <hr/> |
| TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS | 3,563,306 | 3,736,902 |
| NET ASSETS WITH DONOR RESTRICTIONS | 326,771 | 512,207 |
| | <hr/> | <hr/> |
| TOTAL NET ASSETS | 3,890,077 | 4,249,109 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,961,827</u> | <u>\$ 4,450,376</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, 2020, with Summarized Financial Information for the Year Ended June 30, 2019

| | 2020 | | | 2019 | | |
|--|----------------------------|-------------------|---------------------|-------------------------|---------------------|---------------------|
| | Without Donor Restrictions | | | With Donor Restrictions | Total | Total |
| | Total Foodbank | Contributed Food | Total | | | |
| OPERATING SUPPORT AND REVENUE | | | | | | |
| Contributions received | \$ 1,006,345 | \$ - | \$ 1,006,345 | \$ 1,123,859 | \$ 2,130,204 | \$ 1,872,709 |
| Government income | 1,858,946 | - | 1,858,946 | - | 1,858,946 | 1,564,260 |
| Contributed food received | - | 12,862,707 | 12,862,707 | - | 12,862,707 | 8,804,508 |
| Handling fees and other revenues | 172,616 | - | 172,616 | - | 172,616 | 245,339 |
| Investment return | 58,890 | - | 58,890 | 4,160 | 63,050 | 131,195 |
| Net assets released from restrictions | 1,313,455 | - | 1,313,455 | (1,313,455) | - | - |
| TOTAL OPERATING SUPPORT AND REVENUE | 4,410,252 | 12,862,707 | 17,272,959 | (185,436) | 17,087,523 | 12,618,011 |
| EXPENSES | | | | | | |
| Foodbank program | 3,857,733 | - | 3,857,733 | - | 3,857,733 | 2,841,644 |
| Contributed food distributed | - | 13,011,056 | 13,011,056 | - | 13,011,056 | 8,611,293 |
| Management and general | 236,478 | - | 236,478 | - | 236,478 | 193,306 |
| Fund development | 330,540 | - | 330,540 | - | 330,540 | 344,900 |
| TOTAL EXPENSES | 4,424,751 | 13,011,056 | 17,435,807 | - | 17,435,807 | 11,991,143 |
| OTHER EXPENSE | | | | | | |
| Loss on disposal of assets | 10,748 | - | 10,748 | - | 10,748 | - |
| CHANGES IN NET ASSETS | (25,247) | (148,349) | (173,596) | (185,436) | (359,032) | 626,868 |
| NET ASSETS, BEGINNING OF YEAR | 3,282,992 | 453,910 | 3,736,902 | 512,207 | 4,249,109 | 3,622,241 |
| NET ASSETS, END OF YEAR | \$ 3,257,745 | \$ 305,561 | \$ 3,563,306 | \$ 326,771 | \$ 3,890,077 | \$ 4,249,109 |

See Notes to Financial Statements

SECOND HARVEST COMMUNITY FOOD BANK, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2020 and 2019

| | 2020 | | | | 2019 | | | |
|---|----------------------|---------------------------|---------------------|----------------------|----------------------|---------------------------|---------------------|----------------------|
| | Foodbank Program | Management and General | Fund Development | Total | Foodbank Program | Management and General | Fund Development | Total |
| Compensation | \$ 1,050,770 | \$ 204,695 | \$ 109,171 | \$ 1,364,636 | \$ 908,557 | \$ 167,366 | \$ 119,547 | \$ 1,195,470 |
| Insurance, contracts, and leases | 50,797 | 2,233 | 2,791 | 55,821 | 29,647 | 1,303 | 1,629 | 32,579 |
| Fees and dues | 206,460 | 9,075 | 11,344 | 226,879 | 180,369 | 7,928 | 9,910 | 198,207 |
| Supplies, printing, and postage | 96,233 | 4,230 | 5,288 | 105,751 | 89,410 | 3,930 | 4,913 | 98,253 |
| Repairs and maintenance | 144,812 | 6,365 | 7,957 | 159,134 | 96,216 | 4,229 | 5,287 | 105,732 |
| Services and staff support | 66,539 | 2,925 | 142,395 | 211,859 | 34,391 | 1,512 | 148,409 | 184,312 |
| Utilities and telephone | 44,106 | 1,939 | 2,423 | 48,468 | 43,033 | 1,892 | 2,364 | 47,289 |
| Vehicle cost and freight | 95,590 | - | - | 95,590 | 84,970 | - | - | 84,970 |
| Meetings | - | - | 42,901 | 42,901 | - | - | 46,409 | 46,409 |
| Purchased food distributed | 1,988,306 | - | - | 1,988,306 | 1,257,988 | - | - | 1,257,988 |
| Depreciation expense | 114,120 | 5,016 | 6,270 | 125,406 | 117,063 | 5,146 | 6,432 | 128,641 |
| Expenses before contributed food distributed | 3,857,733 | 236,478 | 330,540 | 4,424,751 | 2,841,644 | 193,306 | 344,900 | 3,379,850 |
| Contributed food distributed | 13,011,056 | - | - | 13,011,056 | 8,611,293 | - | - | 8,611,293 |
| TOTAL EXPENSES | \$ 16,868,789 | \$ 236,478 | \$ 330,540 | \$ 17,435,807 | \$ 11,452,937 | \$ 193,306 | \$ 344,900 | \$ 11,991,143 |
| | 96.75% | 1.35% | 1.90% | 100.00% | 95.51% | 1.61% | 2.88% | 100.00% |

See Notes to Financial Statements

SECOND HARVEST COMMUNITY FOOD BANK, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ (359,032) | \$ 626,868 |
| Adjustments to reconcile changes in net assets to net cash flows from operating activities: | | |
| Net contributed food | (148,349) | 193,215 |
| Loss on sale of property and equipment | 10,748 | - |
| Realized and unrealized gain on investments | (21,250) | (88,397) |
| Depreciation | 125,406 | 128,641 |
| Change in operating assets: | | |
| Accounts receivable | (117,749) | (44,598) |
| Unconditional promises to give | 220,626 | (191,000) |
| Inventory | 37,772 | (369,523) |
| Prepaid expenses and other assets | (4,746) | (4,781) |
| Change in operating liabilities: | | |
| Accounts payable | 197,698 | 25,253 |
| Accrued expenses | 31,892 | 5,682 |
| Deferred revenue | 424,993 | - |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | <u>398,009</u> | <u>281,360</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 897,456 | 621,065 |
| Purchase of investments | (1,072,906) | (679,677) |
| Purchase of property and equipment | (195,841) | (20,866) |
| Proceeds from disposal of property and equipment | 1,200 | - |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | <u>(370,091)</u> | <u>(79,478)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Payment Protection Program loan | 215,900 | - |
| NET CHANGE IN CASH | 243,818 | 201,882 |
| CASH, BEGINNING OF YEAR | 401,552 | 199,670 |
| CASH, END OF YEAR | <u>\$ 645,370</u> | <u>\$ 401,552</u> |
| Cash per Statements of Financial Position | | |
| Cash | \$ 484,973 | \$ 276,345 |
| Restricted cash | 160,397 | 125,207 |
| Total cash and restricted cash | <u>\$ 645,370</u> | <u>\$ 401,552</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, 2020 and 2019.

Revenues and other support - Contributions and grants, including unconditional promises to give, recognized in accordance with Accounting Standards Codification ("ASC"), following the guidance described in Accounting Standards Update ("ASU") 2018-08 Topic 958, *Not-for-Profit Entities, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which was adopted on July 1, 2019. Under this guidance revenue is considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are restricted for future periods or restricted by the donor are reported as restricted contributions and increase net assets with donor restrictions.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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.

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.

Revenue from contracts is recognized in accordance with Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*, which was adopted on July 1, 2019 using the modified retrospective transition method. Revenue recognition is based on the five-step model: (i) identify the contract with the customer; (ii) identify the performance obligation in the contract; (iii) determine the contract price; (iv) allocate the transaction price; and (v) recognize revenue (or as) each performance obligation is satisfied. If it is determined that a contract with an enforceable right and obligation does not exist, revenues are deferred until all criteria for an enforceable contract are met.

If any funding is received from contracts in advance of the expenditure, it is recorded as deferred revenue on the statement of financial position. Revenues from program service fees (handling fees) are recognized as earned from member agencies who receive food. The Organization applies the right to invoice practical expedient to contract revenue, and recognizes revenue as invoiced, since the Organization's right to payment is for an amount that corresponds directly with the value provided to customers based on the Organization's performance to-date.

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, 2020 and 2019, 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 \$17,435 and \$7,517 for the years ended June 30, 2020 and 2019, respectively, for donated services and goods other than contributed food.

Deferred revenue - As a result of the adoption of ASU 2018-08, the Organization was required to record contributions received for which the criteria for an enforceable contract have not been met as deferred revenue. At June 30, 2020 and June 30, 2019, the balance in deferred revenue totaled \$424,993 and \$0, respectively.

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, 2020 and June 30, 2019 the Organization's uninsured balances totaled \$457,020 and \$199,418, respectively. The Organization has not experienced any losses in such accounts and management believes the risk of loss is negligible.

Restricted cash - Amounts included in restricted cash represent donor-restricted funds that have been received but not spent. At June 30, 2020 and June 30, 2019 the restricted cash balance was \$160,397 and \$125,207, respectively. The restriction will lapse when the donor-restricted purpose is met.

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

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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, 2020 and 2019, 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, 2020 and 2019 respectively, contributed food was valued at \$1.74 and \$1.62 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. The Organization capitalizes fixed asset additions with a cost exceeding \$5,000 and an expected useful life of at least one year. 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 years ended June 30, 2020 and 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.

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, 2020 and 2019, 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 2017.

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 \$113,524 and \$115,763 for the years ended June 30, 2020 and 2019, respectively.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

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, 2019, from which the summarized information was derived.

Recent accounting pronouncements - On July 1, 2019 the Organization adopted the amendment to ASC Topic 958 in ASU 2018-08, *Not-for-Profit Entities*, ASC Topic 230 in ASU 2016-18, *Statement of Cash Flows*, and ASC Topic 606 *Revenue from Contracts with Customers*, and related amendments. Other than the deferred revenue recognition described previously, the adoption of the amendments and the ASC did not have a material impact on the Organization's financial position, statement of activities or cash flows. As such, the Organization did not make any adjustments to its financial position upon adoption as there are no differences in 2020 as reported under ASC Topics 606 and 958 and prior guidance.

(2) 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, 2020 and 2019, as all unconditional promises are anticipated to be received in less than one year. No allowance was recorded at June 30, 2020 and 2019 as management considered all unconditional promises to give to be collectible. Unconditional promises to give at June 30, 2020 and 2019 were \$16,374 and \$237,000, respectively.

(3) Investments

Investments are comprised of the following:

| | June 30, | |
|-------------------------|-----------------|--------------|
| | 2020 | 2019 |
| Money market funds | \$ 36,784 | \$ 76,005 |
| Equity securities | 837,214 | 866,339 |
| Fixed income securities | 1,344,045 | 1,111,197 |
| Mututal funds | 92,421 | 60,223 |
| Total investments | \$ 2,310,464 | \$ 2,113,764 |

Investment income is comprised of the following:

| | June 30, | |
|------------------------------|-----------------|-------------|
| | 2020 | 2019 |
| Interest and dividend income | \$ 51,771 | \$ 52,588 |
| Investment fees | (9,971) | (9,790) |
| Unrealized gain | 10,606 | 23,655 |
| Realized gain | 10,644 | 64,742 |
| Total investment return | \$ 63,050 | \$ 131,195 |

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.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Investments (continued)

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, 2020 and 2019:

| | June 30, 2020 | | | |
|-------------------------|----------------------|---------------------|----------------|----------------|
| | Fair Value | Level 1 | Level 2 | Level 3 |
| Money market funds | \$ 36,784 | \$ 36,784 | \$ - | \$ - |
| Equity securities | 837,214 | 837,214 | - | - |
| Fixed income securities | 1,344,045 | 1,344,045 | - | - |
| Mututal funds | 92,421 | 92,421 | - | - |
| Total investments | <u>\$ 2,310,464</u> | <u>\$ 2,310,464</u> | <u>\$ -</u> | <u>\$ -</u> |

| | 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 | <u>\$ 2,113,764</u> | <u>\$ 2,113,764</u> | <u>\$ -</u> | <u>\$ -</u> |

(4) Property and equipment

| | June 30, | |
|-------------------------------------|--------------------|--------------------|
| | 2020 | 2019 |
| Cost | | |
| Land | \$ 302,065 | \$ 338,255 |
| Buildings and building improvements | 793,810 | 795,175 |
| Equipment and vehicles | 914,818 | 820,547 |
| Total cost | <u>2,010,693</u> | <u>1,953,977</u> |
| Less: accumulated depreciation | <u>(1,192,237)</u> | <u>(1,194,008)</u> |
| Net property and equipment | <u>\$ 818,456</u> | <u>\$ 759,969</u> |

Depreciation expense charged to operations for the years ended June 30, 2020 and 2019 was \$125,406 and \$128,641, respectively.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(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 \$2,160,464 and \$1,963,764 at June 30, 2020 and 2019, 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:

| | June 30, | |
|--|-------------------|-------------------|
| | 2020 | 2019 |
| Purpose restricted | | |
| Backpack buddies | \$ 64,544 | \$ 46,999 |
| Mobile food pantry | 6,502 | 28,100 |
| SNAP grant | - | 45,633 |
| Campus cupboards | 4,173 | 4,475 |
| COVID-19 Relief in Kansas | 84,126 | - |
| Marketing | 1,052 | - |
| Total purpose restricted | <u>160,397</u> | <u>125,207</u> |
| Time restricted | 16,374 | 237,000 |
| Restricted in perpetuity | 150,000 | 150,000 |
| Total net assets with donor restrictions | <u>\$ 326,771</u> | <u>\$ 512,207</u> |

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

| | Year Ended June 30, | |
|----------------------------|----------------------------|-------------------|
| | 2020 | 2019 |
| Purpose restricted | | |
| Backpack buddies | \$ 335,321 | \$ 463,188 |
| COVID-19 | 585,266 | - |
| Mobile food pantry | 76,598 | 173,279 |
| SNAP grant | 45,633 | 4,367 |
| KHF grant | 15,874 | 25,000 |
| Campus cupboards | 303 | 1,125 |
| Disaster relief | - | 22,467 |
| Children's initiatives | 2,400 | 51,678 |
| No hunger summer | 3,612 | - |
| Family and community trust | 3,948 | - |
| Other | 7,500 | 2,250 |
| Total purpose restricted | <u>1,076,455</u> | <u>743,354</u> |
| Time restricted | 237,000 | 46,000 |
| Total | <u>\$ 1,313,455</u> | <u>\$ 789,354</u> |

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(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, 2020 | | |
|--------------------------------------|--|--|--------------|
| | Subject to appropriation or expenditure | Not subject to appropriation or expenditure | Total |
| Beginning balance, July 1, 2019 | \$ - | \$ 150,000 | \$ 150,000 |
| Investment return | 4,160 | - | 4,160 |
| Amounts appropriated for expenditure | (4,160) | - | (4,160) |
| Total change in endowment funds | - | - | - |
| Ending balance, June 30, 2020 | \$ - | \$ 150,000 | \$ 150,000 |

| | 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 | \$ - | \$ 150,000 | \$ 150,000 |

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.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(7) Endowments (continued)

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, 2020 and 2019, 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, 2019, which was increased in August 2019 to \$250,000 for the year ended June 30, 2020. The line available during the year ended June 30, 2020 matured on February 17, 2021, and bears interest at 0.75% less than the Prime Rate (3.25% and 4.25% at June 30, 2020 and 2019, respectively). Subsequent to year end, the line was renewed at the same terms and a maturity date of February 17, 2022. At June 30, 2020 and 2019, there was no outstanding balance on the line of credit.

(9) Long-term debt

During the year ended June 30, 2020 the Organization received a Paycheck Protection Program (PPP) loan of \$215,900, granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The loan bears interest of 1.0% and requires monthly payments of principal and interest beginning December 1, 2020 and maturing on May 1, 2022.

Maturities on long-term debt are as follows:

Years ending June 30,

| | |
|-------|-------------------|
| 2021 | \$ 85,064 |
| 2022 | 130,836 |
| Total | <u>\$ 215,900</u> |

(10) 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, 2020 are as follows:

Years ending June 30,

| | |
|-------|------------------|
| 2021 | \$ 17,902 |
| 2022 | 4,082 |
| 2023 | 866 |
| Total | <u>\$ 22,850</u> |

Total lease expense for the years ended June 30, 2020 and 2019 were \$25,712 and \$26,409, respectively.

(11) Concentrations

During the years ended June 30, 2020 and 2019, approximately 30% and 27%, respectively, of the Organization's purchases were paid to one vendor for the acquisition of food items. During the years ended June 30, 2020 and 2019, approximately 58% and 43% of the Organization's accounts payable were due to two vendors and one vendor, respectively.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(12) Recent accounting pronouncements

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, 2023 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.

(13) 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, 2020 the following financial assets could be made available within one year of the statement of financial position date to meet general obligations.

| | <u>June 30,</u> | |
|--|---------------------|---------------------|
| | <u>2020</u> | <u>2019</u> |
| Cash and restricted cash | \$ 645,370 | \$ 401,552 |
| Investments | 2,160,464 | 1,963,764 |
| Accounts receivable, less allowance for uncollectibles | 314,487 | 196,738 |
| Unconditional promises to give | <u>16,374</u> | <u>237,000</u> |
| Financial assets available for general expenditures | <u>\$ 3,136,695</u> | <u>\$ 2,799,054</u> |

Cash and restricted cash - the amount shown above reflects cash on hand available to meet general expenditures, with the exception of \$160,397, which is purpose restricted.

Investments - Included in the amount above is \$2,010,464 designated as an operating reserve by the Board. Second Harvest does not intend to spend from the reserve in the upcoming year, but this amount is available for general expenditures as needed. These funds are invested at Commerce Trust Company.

Accounts receivable, less allowance for uncollectibles - Receivables due within the year from Second Harvest's agency partners, government partners, and others.

SECOND HARVEST COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

(13) Liquidity disclosure (continued)

Unconditional promises to give - The amount reflected above includes those unconditional promises to give within one year and which may be used for general expenditures. Unconditional promises to give with donor-imposed restrictions are included when such gifts are restricted for use in Second Harvest's regular, ongoing activities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, management and Board consider all expenditures of the organization, including operating expenses, capital acquisition needs and debt service requirements. Based on these expenditures, the Organization prepares a balanced budget; deficit budgets are not prepared except in unusual circumstances. Liquidity is monitored regularly by management and Board. In addition to the financial assets shown above, Second Harvest has a \$250,000 line of credit which it can draw upon as needed.

(14) Risk and uncertainties

On March 11, 2020 the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. The COVID-19 outbreak began disrupting operations and affecting a wide range of industries and their employees. The extent of the impact of COVID-19 on the Organization's operational and financial performance as of June 30, 2020 was not deemed significant with exception of the Paycheck Protection Program funding discussed in Note 9, but the extent of the impact moving forward will depend on certain developments, including the duration and spread of the outbreak and the related impact on its programs, employees, and vendors, all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact the Organization's financial condition or results of operations is uncertain and cannot be reasonably estimated.

(15) Subsequent events

The Organization has evaluated subsequent events through June 30, 2021, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.