

**SECOND HARVEST FOOD BANK
OF ORANGE COUNTY, INC.**

**FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2022 AND 2021**



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**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Second Harvest Food Bank of Orange County, Inc.
Irvine, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Second Harvest Food Bank of Orange County, Inc. (a nonprofit organization) (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Directors
Second Harvest Food Bank of Orange County, Inc.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2022, on our consideration of Second Harvest Food Bank of Orange County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Second Harvest Food Bank of Orange County, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest Food Bank of Orange County, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Irvine, California
November 17, 2022

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND 2021

ASSETS	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 17,231,906	\$ 16,088,085
Restricted Cash	1,656,284	575,893
Accounts Receivable	9,672	508
Grants Receivable	460,572	339,931
Unconditional Promises to Give	79,830	10,450
Inventory	1,576,994	3,545,568
Prepaid Expenses and Deposits	613,286	245,353
Total Current Assets	<u>21,628,544</u>	<u>20,805,788</u>
PROPERTY AND EQUIPMENT, AT NET BOOK VALUE	11,172,226	10,767,329
OTHER ASSETS		
Long-Term Investments - Unrestricted	30,714	47,880
Long-Term Investments - Restricted	196,281	196,281
Long-Term Unconditional Promises to Give, Net	225,000	5,732
Total Other Assets	<u>451,995</u>	<u>249,893</u>
 Total Assets	 <u><u>\$ 33,252,765</u></u>	 <u><u>\$ 31,823,010</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 980,094	\$ 928,812
Deferred Revenue and Deposits	427,420	590,046
Refundable Advances	-	107,500
Total Liabilities	<u>1,407,514</u>	<u>1,626,358</u>
NET ASSETS		
Without Donor Restrictions	26,075,040	25,436,552
With Donor Restrictions	5,770,211	4,760,100
Total Net Assets	<u>31,845,251</u>	<u>30,196,652</u>
 Total Liabilities and Net Assets	 <u><u>\$ 33,252,765</u></u>	 <u><u>\$ 31,823,010</u></u>

See accompanying Notes to Financial Statements.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenue:		
Community Support:		
Grants and Awards	\$ 2,583,043	\$ 2,644,513
Contributions	6,084,444	12,704,268
Nonfinancial Donated Food Products and Merchandise	73,640,686	91,397,465
Events and Solicitation Revenue	3,441,388	3,184,161
Nonfinancial Contributed Services	165,425	146,096
Total Community Support	<u>85,914,986</u>	<u>110,076,503</u>
Revenue:		
Contract Revenue	4,394,998	7,090,251
Fees	123,181	53,140
Other Income (Expense)	33,015	(24,431)
Total Revenue	<u>4,551,194</u>	<u>7,118,960</u>
Net Assets Released from Restrictions	<u>639,061</u>	<u>328,301</u>
Total Support and Revenue	91,105,241	117,523,764
Expenses:		
Non-Financial Program Services	75,175,709	90,316,665
Program Services	11,366,054	13,764,627
Total Program Services	<u>86,541,763</u>	<u>104,081,292</u>
Supporting Services:		
Management and General	2,456,696	2,135,612
Fundraising	1,468,294	1,663,782
Total Supporting Services	<u>3,924,990</u>	<u>3,799,394</u>
Total Expenses	<u>90,466,753</u>	<u>107,880,686</u>
Increase in Net Assets Without Donor Restrictions	638,488	9,643,078
NET ASSETS WITH DONOR RESTRICTIONS		
Donor Restricted Support:		
Contributions Received	1,656,284	501,082
Funds Used for Restricted Purpose	(585,949)	(275,189)
Investment Income (Loss) and Fees, Net	(7,112)	37,872
Depreciation Expense	<u>(53,112)</u>	<u>(53,112)</u>
Increase in Net Assets With Donor Restrictions	<u>1,010,111</u>	<u>210,653</u>
NET INCREASE IN TOTAL NET ASSETS	1,648,599	9,853,731
Total Net Assets - Beginning of Year	<u>30,196,652</u>	<u>20,342,921</u>
TOTAL NET ASSETS - END OF YEAR	<u><u>\$ 31,845,251</u></u>	<u><u>\$ 30,196,652</u></u>

See accompanying Notes to Financial Statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Total Net Assets	\$ 1,648,599	\$ 9,853,731
Noncash Items Included in Increase (Decrease) in Total Net Assets:		
Depreciation	946,382	856,985
Donated Inventory, Net	1,369,598	(1,222,396)
Loss on Sale of Assets	-	101,449
Unrealized Loss (Gain) on Investments	5,397	(58,734)
Allowance for Uncollectible Promises to Give	-	(1,564)
Changes in:		
Accounts Receivable	(9,164)	6,371
Grants Receivable	(120,641)	(152,203)
Unconditional Promises to Give	(288,648)	31,279
Inventory	598,976	(258,037)
Prepaid Expenses and Deposits	(367,933)	(158,601)
Accounts Payable and Accrued Expenses	51,282	85,803
Deferred Revenue and Deposits	(162,626)	(265,841)
Refundable Advances	(107,500)	107,500
Net Cash and Cash Equivalents and Restricted Cash Provided by Operating Activities	3,563,722	8,925,742
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,351,279)	(1,297,968)
Proceeds from Sale of Assets	-	26,000
Investment Proceeds, Net	11,769	20,864
Net Cash and Cash Equivalents and Restricted Cash Used by Investing Activities	(1,339,510)	(1,251,104)
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	2,224,212	7,674,638
Cash and Cash Equivalents and Restricted Cash - Beginning of Year	16,663,978	8,989,340
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	<u>\$ 18,888,190</u>	<u>\$ 16,663,978</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ -</u>	<u>\$ -</u>
Cash Paid for Taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying Notes to Financial Statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

		Supporting Services			Total
	Program Services	Management and General	Fundraising	Total	Functional Expenses
Salaries and Related Expense:					
Salaries and Wages	\$ 2,680,680	\$ 1,025,950	\$ 537,893	\$ 1,563,843	\$ 4,244,523
Benefits	301,314	114,786	62,176	176,962	478,276
Payroll Taxes and Workers' Compensation	333,447	127,027	68,806	195,833	529,280
Other Personnel Costs	89,687	34,167	18,507	52,674	142,361
Total Salaries and Related Expense	3,405,128	1,301,930	687,382	1,989,312	5,394,440
Other Expenses:					
Donated Food and Supplies, in Kind	74,856,915	-	-	-	74,856,915
Donated Professional Fees and Services, in Kind	-	71,225	247,569	318,794	318,794
Product Fees and Purchases	4,168,053	-	-	-	4,168,053
Freight and Storage	149,716	-	-	-	149,716
Program Costs	1,983,612	-	-	-	1,983,612
Vehicle Operation	356,032	-	-	-	356,032
Professional Fees and Services	2,063	240,160	102,512	342,672	344,735
General Supplies	47,208	13,855	5,290	19,145	66,353
Postage and Printing	15	21,211	3,314	24,525	24,540
Telephone	6,885	41,564	-	41,564	48,449
Occupancy	360,719	26,622	3,006	29,628	390,347
Repairs and Maintenance	98,598	-	-	-	98,598
Insurance	187,051	13,805	1,559	15,364	202,415
Direct Mailing Costs	-	-	50,992	50,992	50,992
Community Events	-	-	329,787	329,787	329,787
Bank Fees	-	115,786	-	115,786	115,786
Dues and Subscriptions	30,968	33,730	2,060	35,790	66,758
Mileage	9,435	6,671	228	6,899	16,334
Advertising and Promotion	3,091	496,175	24,724	520,899	523,990
Conference and Meeting	1,722	9,419	2,584	12,003	13,725
Total Other Expenses	82,262,083	1,090,223	773,625	1,863,848	84,125,931
Expenses Before Depreciation	85,667,211	2,392,153	1,461,007	3,853,160	89,520,371
Depreciation	874,552	64,543	7,287	71,830	946,382
Total Functional Expenses	<u>\$ 86,541,763</u>	<u>\$ 2,456,696</u>	<u>\$ 1,468,294</u>	<u>\$ 3,924,990</u>	<u>\$ 90,466,753</u>

See accompanying Notes to Financial Statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021

	Program Services	Supporting Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expense:					
Salaries and Wages	\$ 2,678,879	\$ 988,532	\$ 746,628	\$ 1,735,160	\$ 4,414,039
Benefits	267,445	96,455	74,534	170,989	438,434
Payroll Taxes and Workers' Compensation	322,861	116,442	89,978	206,420	529,281
Other Personnel Costs	51,700	18,646	14,408	33,054	84,754
Total Salaries and Related Expense	3,320,885	1,220,075	925,548	2,145,623	5,466,508
Other Expenses:					
Donated Food and Supplies, in Kind	89,840,605	15,060	314,904	329,964	90,170,569
Donated Professional Fees and Services, in Kind	-	43,562	102,534	146,096	146,096
Product Fees and Purchases	8,159,850	-	-	-	8,159,850
Freight and Storage	195,000	-	-	-	195,000
Program Costs	783,471	-	-	-	783,471
Vehicle Operation	294,440	-	-	-	294,440
Professional Fees and Services	36,798	202,256	79,311	281,567	318,365
General Supplies	21,313	44,225	484	44,709	66,022
Postage and Printing	283	14,495	12,165	26,660	26,943
Telephone	11,043	38,418	486	38,904	49,947
Occupancy	330,486	24,390	2,754	27,144	357,630
Repairs and Maintenance	93,146	-	1,417	1,417	94,563
Insurance	170,089	12,553	11,360	23,913	194,002
Direct mailing Costs	-	-	180,246	180,246	180,246
Bank Fees	-	142,684	-	142,684	142,684
Dues and Subscriptions	29,904	44,540	5,609	50,149	80,053
Mileage	471	6,862	1,500	8,362	8,833
Advertising and Promotion	1,363	264,130	18,795	282,925	284,288
Conference and Meeting	205	3,916	70	3,986	4,191
Total Other Expenses	99,968,467	857,091	731,635	1,588,726	101,557,193
Expenses Before Depreciation	103,289,352	2,077,166	1,657,183	3,734,349	107,023,701
Depreciation	791,940	58,446	6,599	65,045	856,985
Total Functional Expenses	<u>\$ 104,081,292</u>	<u>\$ 2,135,612</u>	<u>\$ 1,663,782</u>	<u>\$ 3,799,394</u>	<u>\$ 107,880,686</u>

See accompanying Notes to Financial Statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Second Harvest Food Bank of Orange County, Inc. (the Organization or Second Harvest) is a nonprofit organization that provides hunger relief services throughout the local community. The Organization acts as a clearinghouse through which food processors, wholesalers, retailers, and government agencies donate food items that are distributed via qualified charitable agencies to assist those in need.

Basis of Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). References to the "ASC" hereafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board (FASB) as the source of authoritative U.S. GAAP.

In accordance with U.S. GAAP, the accounts of the Organization are reported in the following net asset categories:

Net Assets Without Donor Restrictions – Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions, including the carrying value of all unrestricted physical properties (land, building, and equipment). Items that affect (i.e., increase or decrease) this net asset category include revenue and contributions related to expenses associated with core programs.

Net Assets With Donor Restrictions – Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity but permit an organization to use or expend part or all the income derived from the contribution. Donor-imposed restrictions are released when a restriction expires (that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both).

The Organization records gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions. Contributions with donor-imposed restrictions that are received and spent in the same year have been recorded as net assets without donor restrictions in the accompanying statement of activities and changes in net assets.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents and Restricted Cash

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash. Amounts included in restricted cash represent those amounts required to be set aside by grant agreements with donors for use during a specific time period.

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position at June 30, 2022 and 2021, that sum to the total of the same such amounts shown in the statements of cash flows for the years ended June 30:

	2022	2021
Cash and Cash Equivalents	\$ 17,231,906	\$ 16,088,085
Restricted Cash	1,656,284	575,893
Total Cash and Cash Equivalents and Restricted Cash Shown in the Statement of Cash Flows	<u>\$ 18,888,190</u>	<u>\$ 16,663,978</u>

Unconditional Promises to Give

Unconditional promises to give are recognized when the donor makes a promise to give. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. At June 30, 2022 and 2021, unconditional promises to give due within a year totaled \$79,830 and \$10,450, respectively. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2022 and 2021, total long-term unconditional promises to give totaled \$225,000 and \$5,732, respectively. Management has provided a reserve for uncollectible promises to give that totaled \$254 and \$852 at June 30, 2022 and 2021, respectively, that are applied to the long-term amounts.

Contributions

In accordance with FASB ASC 958-605, *Revenue Recognition*, contributions received are recorded as contributions without donor restrictions or contributions with donor restrictions depending on the existence and/or nature of any donor restrictions. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other support that is restricted by the donor is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

A majority of the Organization's grants and contracts support are from federal pass-through funds from the United States Department of Agriculture, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Other support is from agency fees and contributions from community individuals and businesses. The Organization recognizes contributions when cash or other assets are received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. There are no conditional promises to give at June 30, 2022 and 2021. Conditional contributions received are recognized as deferred revenue until the conditions are met.

Exchange Transactions

The Organization recognizes revenue from contracts with customers in accordance with FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes new revenue recognition guidance (ASC 606), which replaces the current revenue recognition guidance and applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization records exchange transaction revenue in its statements of activities for the years ended June 30, 2022 and 2021, as stated below.

Event and Solicitation Revenue: The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event (the exchange component) and a portion represents a contribution to the Organization. Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exchange Transactions (Continued)

Event and Solicitation Revenue (Continued): The performance obligation is holding the event, which is usually accompanied by a presentation. The event fees are set by the Organization. ASC 606 requires allocation of the transaction price to the performance obligation. The exchange portion of the event and solicitation revenue included in the statement of activities and changes in net assets for the years ended June 30, 2022 and 2021 is \$1,021,921 and \$822,350, respectively. Special event fees collected by the Organization in advance of the events are initially recognized as liabilities (deferred income) and are recognized as special event revenue after the event.

Fees: The performance obligation is the delivery of food and merchandise to the customer. The transaction price is established by the Organization. Fees include program supplies, staffing, and facility costs. As is customary, these items are not separately priced and are therefore considered to be one performance obligation.

Accounts and Grants Receivable

The Organization's accounts and grants receivable are primarily reimbursements and fees from governmental agencies. They are based on services performed by the Organization as written under contractual agreements.

Inventory

Donations of food products to the Organization are recorded at fair value. The fair value of donated food and commodities is based on management's estimates and the use of the *Product Valuation Survey* prepared by Feeding America, a third-party network for food banks (formerly America's Second Harvest). The costs associated with distributing food to the community are recorded as donated food and supplies, in kind in the accompanying statements of functional expenses. Donated property is recorded at fair value when there is an objective basis available to measure its value.

The net realizable value of inventory for food is based on the maximum shared maintenance rate, which ranges from \$0.00 to \$0.18 per pound for the years ended June 30, 2022 and 2021. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from purchasing agencies. Beginning March 2020, the Organization no longer charged shared maintenance fees to its community partners.

As of June 30, 2022, donated food inventory is valued at a fair value of \$1.92 per gross pound in the statement of financial position, which totaled \$1,484,554. The actual net realizable value of such inventory is a fraction of that amount. Had the donated food been valued at its net realizable value using the maximum shared maintenance rate of \$0.18, inventory and donated food and supplies, in kind expense would have been reduced by \$476,687 and \$67,454,469, respectively, at June 30, 2022, with a corresponding decrease in donated food products and merchandise community support during the period. The reduction of inventory and distribution of donated food products noted above is exclusive of 626,506 and 5,971,855 pounds, respectively, of inventory received from government agencies to which the shared maintenance rate cannot be applied.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory (Continued)

As of June 30, 2021, donated food inventory was valued at a fair value of \$1.79 per gross pound on the statement of financial position, which totaled \$2,854,152. The actual net realizable value of such inventory was a fraction of that amount. Had the donated food been valued at its net realizable value using the maximum shared maintenance rate of \$0.18, inventory and donated food and supplies, in kind expense would have been reduced by \$1,301,922 and \$85,792,765, respectively, at June 30, 2021, with a corresponding decrease in donated food products and merchandise community support during the period. The reduction of inventory and distribution of donated food products noted above was exclusive of 827,455 and 22,737,315 pounds, respectively, of inventory received from government agencies to which the shared maintenance rate cannot be applied.

Property and Equipment

Land, building, furniture, fixtures, and equipment are stated at cost, less accumulated depreciation if purchased or estimated fair value if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets ranging from 3 to 39 years. For the years ended June 30, 2022 and 2021, depreciation expense totaled \$946,382 and \$856,985, respectively.

Long-Lived Assets and Asset Impairment

The Organization accounts for impairment and disposition of long-lived assets in accordance with FASB ASC 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amounts. There was no impairment of the value of such assets for the years ended June 30, 2022 and 2021.

Deferred Revenue and Deposits

As of June 30, 2022 and 2021, deferred revenue and deposits consist principally of amounts received from participants in advance for fundraising events occurring subsequent to year-end. At June 30, 2022 and 2021, deferred revenue and deposits totaled \$427,420 and \$590,046, respectively.

Advertising and Promotion Costs

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion costs charged to operations for the years ended June 30, 2022 and 2021, totaled \$523,990 and \$284,288, respectively.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Services

Contributed services are recognized as contributions in accordance with FASB ASC 958-605, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Such items are capitalized or charged to operations at fair value as appropriate. The fair value of these services at the time of donation was determined to be \$162,950 and \$130,309 for the years ended June 30, 2022 and 2021, respectively. Many volunteers provide services throughout the year that are not recognized as contributions in the financial statements because the recognition criteria under FASB ASC 958-605 were not met.

The value of such volunteer time was estimated using minimum wage rates and determined to be the following for the year ended June 30, 2022 (unaudited):

Number of Volunteers	Number of Hours	Value
4,925	37,414	\$ 542,503

The value of such volunteer time was estimated using the minimum wage rates and determined to be the following for the year ended June 30, 2021 (unaudited):

Number of Volunteers	Number of Hours	Value
670	7,718	\$ 104,193

Donated Services and Product

For the years ended June 30, donated services and product recognized within the statements of activities and changes in net assets included:

	2022	2021
Food	\$ 73,487,317	\$ 91,063,001
Professional Fees	162,950	130,309
Operating Supplies	153,369	321,964
Facility Improvements	2,475	28,287
Total	<u>\$ 73,806,111</u>	<u>\$ 91,543,561</u>

All contributed services are unrestricted and the Organization does not sell any donated services or product, and only distributes goods for program use.

The valuation of donated food is previously described in the Inventory portion of this footnote. All other donated services and product is valued using estimated prices of identical or similar products and services in the local market using pricing data of similar products under a "like-kind" methodology, considering the goods condition and utility for use at the time of the contribution.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is recognized as tax exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code and is classified as an organization other than private foundation. Accordingly, there is no provision for income taxes in the accompanying financial statements.

The Organization accounts for the provisions of FASB ASC 740-10-25, whereby an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not that the position will be sustained. The Organization does not believe that there are any material uncertain tax positions, and accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties. The Organization's 2019-2021 tax returns are open for federal income tax purposes, and its 2018-2021 tax returns are open to review for state income tax purposes.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of functional expenses. Certain categories of expenses that are attributable to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Expenses are allocated in the following ways: labor expenses, including salaries, payroll taxes, workers' compensation, employee benefits, travel, and staff training, are allocated based on the percentage of time that each employee spends working on projects specific to the program or supporting function; and nonlabor direct expenses are allocated based on each program's direct expenses. Occupancy, insurance, and depreciation expenses are allocated based on the square footage of the building dedicated to each of the functional areas.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 changes in net assets during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Organization's investments held by the Orange County Community Fund include common stocks, bonds, mutual funds, alternative investments, and cash equivalents. The investments are valued at net asset value which is the valuation method used to determine fair value.

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gains and/or losses are reported the day after the trade date.

Net realized and unrealized activity is recorded in the accompanying statements of activities and changes in net assets in other income. Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements – Adopted

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*. ASU 2020-07 requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021. All necessary changes required by the new standard, included those related to the Organization's accounting policies, controls, and disclosures, have been identified and implemented as of July 1, 2021 and have been retrospectively applied to prior years presented.

Recent Accounting Pronouncements – Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, with subsequently issued improvements and corrections. ASU 2016-02 amends a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021; however, early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, with subsequently issued improvements, which requires that credit losses on most financial assets measured at amortized cost and certain other instruments be measured using an expected credit loss model. The ASU also replaces the current accounting model for purchased credit-impaired loans and debt securities. Further, ASU 2016-13 makes certain targeted amendments to the existing impairment model for available-for-sale debt securities. For nonpublic entities, the amendments are effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of the provisions of this pronouncement on the presentation of its financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 LIQUIDITY

The Organization's financial assets available for general expenditure (that is, without donor or other restrictions limiting their use), within one year of the statement of financial position date, are as follows as of June 30:

	2022	2021
Cash and Cash Equivalents	\$ 17,231,906	\$ 8,639,340
Accounts Receivable	9,672	508
Grants Receivable	460,572	339,931
Unconditional Promises to Give	79,830	10,450
Total Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 17,781,980</u>	<u>\$ 8,990,229</u>

As part of the Organization's liquidity management plan, it invests cash in excess of daily requirements in short-term investments and certificates of deposit.

NOTE 3 CONCENTRATIONS, RISKS, AND UNCERTAINTIES

The Organization maintains cash balances at multiple financial institutions. At June 30, 2022 and 2021, accounts at these institutions are insured by the Federal Deposit Insurance Corporation for up to \$250,000. As of June 30, 2022 and 2021 the Organization had approximately \$7,600,000 and \$5,400,000 in uninsured cash at these institutions, respectively. Additionally, the Organization holds treasury bills that at times during the year may exceed insured limits of Securities Investor Protection Corporation.

The Second Harvest endowment fund investments maintained by the Orange County Community Foundation (see Note 9) are not insured. The uninsured balance was \$226,995 and \$244,161 as of June 30, 2022 and 2021, respectively.

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of an outbreak of a new strain of coronavirus (COVID-19). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase of the virus and its global exposure.

The Organization's operations are heavily dependent on donations from individuals, foundations, and corporations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown. The situation may depress donations during fiscal year 2023. As such, this may hinder the Organization's ability to advance its mission.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the Organization's financial condition, liquidity, operations, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 4 INVENTORY

Inventory consists of the following at June 30:

	2022	2021
Donated Food	\$ 1,484,554	\$ 2,854,152
Purchased Commodities	92,440	691,416
Total Inventory	<u>\$ 1,576,994</u>	<u>\$ 3,545,568</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2022	2021
Land	\$ 2,400,000	\$ 2,400,000
Building	9,073,110	9,019,168
Vehicles	3,362,491	3,136,268
Furniture and Equipment	3,820,666	2,917,815
Total Property and Equipment, at Cost	18,656,267	17,473,251
Less: Accumulated Depreciation	(7,484,041)	(6,705,922)
Property and Equipment, at Net Book Value	<u>\$ 11,172,226</u>	<u>\$ 10,767,329</u>

NOTE 6 NET ASSETS

Net assets consist of the following at June 30:

	2022	2021
Net Assets Without Donor Restrictions:		
Investment in Property and Equipment, Net of Related Debt	\$ 7,285,294	\$ 6,827,285
Available for Operations	18,789,746	18,609,267
Total Net Assets Without Donor Restrictions	26,075,040	25,436,552
Net Assets With Donor Restrictions:		
Subject to Expenditures for Specific Purposes:		
Program Activities	406,284	575,893
Total Purpose Restrictions	406,284	575,893
Subject to Passage of Time:		
Building, Net of Depreciation	1,486,932	1,540,044
Land	2,400,000	2,400,000
Total Time Restrictions	3,886,932	3,940,044
Subject to Endowment Spending Policy and Appropriations:		
Program Activities	1,476,995	244,163
	1,476,995	244,163
Total Net Assets With Donor Restrictions	5,770,211	4,760,100
Total Net Assets	<u>\$ 31,845,251</u>	<u>\$ 30,196,652</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 7 COMMITMENTS AND CONTINGENCIES

Line of Credit

The Organization held a line of credit with a financial institution for borrowings of up to \$250,000, which accrued interest at the bank's reference rate on the unpaid principal balance. The line of credit was secured by substantially all the assets of the Organization. The line was closed on June 2, 2022 resulting in no principal balance outstanding on this line of credit at June 30, 2022 and 2021.

The line of credit agreement with the bank contained various covenants pertaining to the maintenance of tangible net worth. At June 30, 2021, the Organization was in compliance with respect to all terms of the line of credit agreement.

Operating Lease

The Organization has leases for the use of copy and postage machines expiring November 2024.

The future aggregate minimum annual lease payments under this noncancelable lease for subsequent years ending June 30 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 10,700
2024	10,700
2025	4,796
2026	1,178
Total Minimum Lease Payments	<u>\$ 27,374</u>

NOTE 8 ALLOCATION OF JOINT COSTS

For the years ended June 30, 2022 and 2021, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$381,376 and \$193,170, respectively. These activities include direct mail costs of \$50,992 and fundraising campaigns and special event costs totaling \$330,384 for the year ended June 30, 2022. For the year ended June 30, 2021, these activities included direct mail costs of \$11,360 and fundraising campaigns and special event costs totaling \$181,810.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 ENDOWMENT FUND

As required by U.S. GAAP, net assets associated with endowment funds, including unrestricted investment funds designated by the board of directors to be included in the endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

In 2008, the state of California enacted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, Second Harvest is required to act prudently when making decisions to spend or accumulate donor-restricted endowment assets, and, in doing so, to consider a number of factors, including the duration and preservation of its donor-restricted endowment funds. As a result of this interpretation, Second Harvest classifies as donor-restricted endowment funds the original value of the gifts with donor-imposed restrictions and maintains that such funds be retained as a permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions until those amounts are appropriated for expenditure by Second Harvest in a manner consistent with the standard of prudence prescribed by UPMIFA.

Second Harvest has outsourced the management of the Kids Café fund to the Orange County Community Foundation (OCCF). The oversight of the investment portfolio is the responsibility of the OCCF Investment Committee whose members are appointed by and serve the OCCF Board of Directors, which shall administer the investment portfolio in compliance with all written policies approved by the OCCF Board of Directors. Annual distributions are subject to the policies of the OCCF, which limit them to a maximum of 5% of the rolling average of the total account balance over the prior 12 months. The OCCF Investment Committee has contracted with an independent trust foundation for the purpose of managing the investment and reinvestment of fund assets in a manner consistent with the overall investment policy as approved by the OCCF Board of Directors. Second Harvest's primary investment mission is to preserve principal and to provide income to help sustain the Kid's Café program in future years.

During the year ended June 30, 2022, the Organization started an endowment campaign. The primary objective of the endowment is to secure long-term sustainability in serving the Organization's mission of providing access to nutritious food for the community. Maintaining the mission of the Organization would include using the funds to enhance operations, infrastructure, and programs and provide an accessible fund for emergency operations, if needed. Earnings from the endowment are primarily designated toward funding the Children's programs, Farm Programs, and Operating and Infrastructural expenses.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 9 ENDOWMENT FUND (CONTINUED)

The following is the endowment net asset composition as of June 30, 2022:

	With Donor Restrictions
Endowment Funds	<u>\$ 1,476,995</u>

The following is the endowment net asset composition as of June 30, 2021:

	With Donor Restrictions
Endowment Funds	<u>\$ 244,163</u>

The following are the changes in the endowment net assets for the year ended June 30:

	2022	2021
Endowment Net Assets - Beginning of Year	\$ 244,163	\$ 206,291
Investment Return:		
Investment Income, Net	(7,112)	57,199
Contributions	1,250,000	-
Distributions	(10,056)	(19,327)
Endowment Net Assets - End of Year	<u>\$ 1,476,995</u>	<u>\$ 244,163</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or applicable state law requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2022 and 2021. The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) and applicable state trust law to permit spending from underwater endowments in accordance with prudent measures required under law.

NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions consist of the following for the years ended June 30:

	2022	2021
Satisfaction of Time Restriction	\$ 53,112	\$ 53,112
Satisfaction of Purpose Restriction	585,949	275,189
Total Net Assets Released from Restrictions	<u>\$ 639,061</u>	<u>\$ 328,301</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 11 FAIR VALUE MEASUREMENTS

Second Harvest has adopted FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurement.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs in the valuation of an asset as of the measurement date. The three levels are defined as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measurement considered from the perspective of a market participant rather than an entity-specific measurement. Therefore, even when market assumptions are not readily available, Second Harvest's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at 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.

A description of the valuation methodologies used for assets measured at fair value is disclosed in Note 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the years ended June 30, 2022 and 2021.

The methods described in Note 1 (Investment Valuation and Income Recognition) may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Second Harvest 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.

The following table sets forth by level, withing the fair value hierarchy, the Organization's assets at fair value as of June 30, 2022:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment Assets Held by Community Foundation	<u>\$ 226,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 226,995</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment Assets Held by Community Foundation	<u>\$ 244,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,163</u>

Realized and unrealized gains (losses) included in earnings are reported in the statements of activities and changes in net assets. The principal valuation technique for the Endowment Assets Held by Community Foundation valuation technique is net asset value and the unobservable inputs are the value of underlying assets.

NOTE 12 RECLASSIFICATIONS

Certain reclassifications have been made to the June 30, 2021 financial statements in order to conform with the current-year presentation. These reclassifications had no effect on June 30, 2021 net income.

NOTE 13 SUBSEQUENT EVENTS

Events occurring after June 30, 2022, have been evaluated for possible adjustment to the financial statements or disclosure as of November 17, 2022, which is the date the financial statements were available to be issued.



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclosure. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

**SECOND HARVEST FOOD BANK
OF ORANGE COUNTY, INC.**

**SINGLE AUDIT OF FEDERALLY ASSISTED
GRANT PROGRAMS**

YEAR ENDED JUNE 30, 2022



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Second Harvest Food Bank of Orange County, Inc.
Irvine, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of Orange County, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2022, 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, and have issued our report thereon dated November 17, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Second Harvest Food Bank of Orange County, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Irvine, California
November 17, 2022



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE,
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Second Harvest Food Bank of Orange County, Inc.
Irvine, California

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Orange County, Inc.'s (the Organization) compliance with the types of compliance requirements described in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 US Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Directors
Second Harvest Food Bank of Orange County, Inc.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2022, and have issued our report thereon dated November 17, 2022, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Irvine, California
November 17, 2022

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number (CFDA No.)	Grantor Contract Number	Federal Expenditures
United States Department of Agriculture:			
Passed through the California Department of Social Services			
Food Distribution Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568	15-MOU-00131	\$ 413,139
Emergency Food Assistance Program - COVID-19	10.568	15-MOU-00131	338,648
Total Emergency Food Assistance Program (Administrative Costs)			<u>751,787</u>
Emergency Food Assistance Program (Food Commodities)	10.569	15-MOU-00131	9,438,740
Total Food Distribution Cluster			<u>10,190,527</u>
Passed through the California Department of Education			
Child Nutrition Fiscal Services:			
Summer Food Service Program for Children	10.559	05660-SFSP-30	199,593
Child and Adult Care Food Program	10.558	05660-CACFP-30-NP-50IC	955,931
Passed through National Resources Conservation Service:			
Urban Agriculture and Innovative Product	10.935	NR213A750001G016	120,570
Total United States Department of Agriculture			<u>11,466,621</u>
United States Department of the Treasury			
Passed through the County of Orange Social Services Agency:			
Coronavirus Relief Fund - COVID-19	21.027		1,500,000
Total United States Department of the Treasury			<u>1,500,000</u>
United States Department of Homeland Security:			
Passed through the Emergency Food and Shelter National Board:			
Emergency Food and Shelter Program	97.024	38-078600-058	227,000
Total United States Department of Homeland Security			<u>227,000</u>
Total Federal Expenditures			<u>\$ 13,193,621</u>

There were no subrecipient expenditures for the year ended June 30, 2022.

See accompanying Notes to Schedule of Expenditures of Federal Awards.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2022

NOTE 1 GENERAL

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Second Harvest Food Bank of Orange County, Inc. (the Organization). The information in the Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing 21.019, which follows criteria determined by the Department of Treasury for allowability of costs. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 INDIRECT COST RATE

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 CONTINGENCIES

Under the terms of federal and state grants, additional audits may be requested by the grantor agencies and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to a request for reimbursement to the grantor agencies.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

1. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings that are required to be reported in accordance with the 2 CFR Section 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.558	Child and Adult Care Food Program
21.027	Coronavirus State and Local Fiscal Recovery Funds
97.024	Emergency Food and Shelter Program

Dollar threshold used for distinguishing between Type A and B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

2. Findings Relating to Financial Statements

None noted.

3. Findings and Questioned Costs Relating to Major Federal Awards

None noted.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2022**

Financial Statement Findings

There were no findings or questioned costs for the year ended June 30, 2021.

Major Federal Awards Findings

There were no findings or questioned costs for the year ended June 30, 2021.



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