

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2023 AND 2022

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	4
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	5
STATEMENTS OF CASH FLOWS	6
STATEMENTS OF FUNCTIONAL EXPENSES	7
NOTES TO FINANCIAL STATEMENTS	9



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, 2023 and 2022, 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, 2023 and 2022, 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 9, 2023, 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 9, 2023

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 18,096,240	\$ 18,888,190
Accounts Receivable	15,897	9,672
Grants Receivable	755,446	460,572
Unconditional Promises to Give	116,000	79,830
Inventory	1,217,300	1,576,994
Prepaid Expenses and Deposits	216,649	613,286
Total Current Assets	<u>20,417,532</u>	<u>21,628,544</u>
PROPERTY AND EQUIPMENT, AT NET BOOK VALUE	14,091,360	11,172,226
OTHER ASSETS		
Long-Term Investments	232,118	226,995
Long-Term Unconditional Promises to Give, Net	217,450	225,000
Total Other Assets	<u>449,568</u>	<u>451,995</u>
Total Assets	<u><u>\$ 34,958,460</u></u>	<u><u>\$ 33,252,765</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 857,025	\$ 980,094
Deferred Revenue and Deposits	314,005	427,420
Total Liabilities	1,171,030	1,407,514
NET ASSETS		
Without Donor Restrictions	27,441,146	26,075,040
With Donor Restrictions	6,346,284	5,770,211
Total Net Assets	<u>33,787,430</u>	<u>31,845,251</u>
Total Liabilities and Net Assets	<u><u>\$ 34,958,460</u></u>	<u><u>\$ 33,252,765</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, 2023 AND 2022**

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Support and Revenue:		
Community Support:		
Grants and Awards	\$ 2,612,421	\$ 2,583,043
Contributions	5,856,787	6,084,444
Nonfinancial Donated Food Products and Merchandise	68,160,885	73,640,686
Events and Solicitation Revenue	3,109,226	3,441,388
Nonfinancial Contributed Services	791,575	165,425
Total Community Support	80,530,894	85,914,986
Revenue:		
Contract Revenue	9,031,464	4,394,998
Fees	74,838	123,181
Investment Return	393,192	8,100
Other Income	33,471	24,915
Total Revenue	9,532,965	4,551,194
Net Assets Released from Restrictions	469,516	639,061
Total Support and Revenue	90,533,375	91,105,241
Expenses:		
Non-Financial Program Services	68,666,865	74,856,915
Program Services	15,707,511	11,684,848
Total Program Services	84,374,376	86,541,763
Supporting Services:		
Management and General	2,735,332	2,456,696
Fundraising	2,057,561	1,468,294
Total Supporting Services	4,792,893	3,924,990
Total Expenses	89,167,269	90,466,753
Increase in Net Assets Without Donor Restrictions	1,366,106	638,488
NET ASSETS WITH DONOR RESTRICTIONS		
Donor Restricted Support:		
Contributions Received	1,029,989	1,656,284
Funds Used for Restricted Purpose	(416,404)	(585,949)
Investment Income (Loss) and Fees, Net	15,600	(7,112)
Depreciation Expense	(53,112)	(53,112)
Increase in Net Assets With Donor Restrictions	576,073	1,010,111
NET INCREASE IN TOTAL NET ASSETS	1,942,179	1,648,599
Total Net Assets - Beginning of Year	31,845,251	30,196,652
TOTAL NET ASSETS - END OF YEAR	\$ 33,787,430	\$ 31,845,251

See accompanying Notes to Financial Statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Total Net Assets	\$ 1,942,179	\$ 1,648,599
Noncash Items Included in Increase (Decrease) in Total Net Assets:		
Depreciation	1,047,252	946,382
Donated Inventory, Net	396,756	1,369,598
Gain on Sale of Assets	(14,182)	-
Unrealized Loss (Gain) on Investments	(16,651)	5,397
Allowance for Uncollectible Promises to Give	17,296	-
Changes in:		
Accounts Receivable	(6,225)	(9,164)
Grants Receivable	(294,874)	(120,641)
Unconditional Promises to Give	(45,916)	(288,648)
Inventory	(37,062)	598,976
Prepaid Expenses and Deposits	396,637	(367,933)
Accounts Payable and Accrued Expenses	(123,069)	51,282
Deferred Revenue and Deposits	(113,415)	(162,626)
Refundable Advances	-	(107,500)
Net Cash and Cash Equivalents and Restricted Cash Provided by Operating Activities	3,148,726	3,563,722
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(4,020,805)	(1,351,279)
Proceeds from Sale of Assets	68,601	-
Investment Proceeds, Net	11,528	11,769
Net Cash and Cash Equivalents and Restricted Cash Used by Investing Activities	(3,940,676)	(1,339,510)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(791,950)	2,224,212
Cash and Cash Equivalents - Beginning of Year	18,888,190	16,663,978
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 18,096,240</u>	<u>\$ 18,888,190</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, 2023

	Program Services	Supporting Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expense:					
Salaries and Wages	\$ 3,417,537	\$ 1,184,546	\$ 643,656	\$ 1,828,202	\$ 5,245,739
Benefits	327,884	116,020	60,532	176,552	504,436
Payroll Taxes and Workers' Compensation	352,720	124,809	65,117	189,926	542,646
Other Personnel Costs	116,885	41,359	21,579	62,938	179,823
Total Salaries and Related Expense	4,215,026	1,466,734	790,884	2,257,618	6,472,644
Other Expenses:					
Donated Food and Supplies, in Kind	68,546,865	-	-	-	68,546,865
Donated Professional Fees and Services, in Kind	120,000	11,050	671,300	682,350	802,350
Product Fees and Purchases	6,447,900	-	-	-	6,447,900
Freight and Storage	176,802	-	-	-	176,802
Program Costs	2,602,016	-	10,285	10,285	2,612,301
Vehicle Operation	429,227	-	-	-	429,227
Professional Fees and Services	9,016	444,181	102,883	547,064	556,080
General Supplies	42,421	11,952	1,241	13,193	55,614
Postage and Printing	-	23,477	1,592	25,069	25,069
Telephone	-	49,579	-	49,579	49,579
Occupancy	347,937	25,678	2,899	28,577	376,514
Repairs and Maintenance	182,576	-	-	-	182,576
Insurance	195,509	14,429	1,629	16,058	211,567
Direct Mailing Costs	-	-	58,087	58,087	58,087
Community Events	-	-	351,004	351,004	351,004
Bank Fees	-	93,773	-	93,773	93,773
Dues and Subscriptions	55,786	103,926	36,939	140,865	196,651
Mileage	10,100	7,126	85	7,211	17,311
Advertising and Promotion	7,341	375,920	8,933	384,853	392,194
Conference and Meeting	18,088	36,085	11,736	47,821	65,909
Total Other Expenses	79,191,584	1,197,176	1,258,613	2,455,789	81,647,373
Expenses Before Depreciation	83,406,610	2,663,910	2,049,497	4,713,407	88,120,017
Depreciation	967,766	71,422	8,064	79,486	1,047,252
Total Functional Expenses	<u>\$ 84,374,376</u>	<u>\$ 2,735,332</u>	<u>\$ 2,057,561</u>	<u>\$ 4,792,893</u>	<u>\$ 89,167,269</u>

See accompanying Notes to Financial Statements.

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

	Program Services	Supporting Services			Total Functional Expenses
		Management and General	Fundraising	Total	
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	15,304	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.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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, 2023 AND 2022

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

Cash and Cash Equivalents and Donor 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.

Included in the cash and cash equivalents at June 30, 2023 and 2022, is approximately \$16,200,000 and \$17,010,000, respectively, of U.S. Treasury Bills, BlackRock Fed Funds, and FDIC insured Certificates of Deposit.

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, 2023 and 2022, unconditional promises to give due within a year totaled \$116,000 and \$79,830, respectively. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2023 and 2022, total long-term unconditional promises to give totaled \$217,450 and \$225,000, respectively. Management has provided a reserve for uncollectible promises to give that totaled \$17,550 and \$254 at June 30, 2023 and 2022, 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.

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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Contributions (Continued)

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, 2023 and 2022. 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, 2023 and 2022, 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.

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, 2023 and 2022 is \$53,250 and \$38,700, 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Exchange Transactions (Continued)

Fees: The performance obligation is the hosting of a fashion show and luncheon fundraising event. The transaction price is established by the Organization. Fees include the value of admission to the event and refreshments. 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.

As of June 30, 2023, donated food inventory is valued at a fair value of \$1.93 per gross pound in the statement of financial position, which totaled \$1,087,798. As of June 30, 2022, donated food inventory was valued at a fair value of \$1.92 per gross pound on the statement of financial position, which totaled \$1,484,554.

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, 2023 and 2022, depreciation expense totaled \$1,047,252 and \$946,382, 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, 2023 and 2022.

Deferred Revenue and Deposits

As of June 30, 2023 and 2022, deferred revenue and deposits consist principally of amounts received from participants in advance for fundraising events occurring subsequent to year-end. At June 30, 2023 and 2022, deferred revenue and deposits totaled \$314,005 and \$427,420, respectively.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

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, 2023 and 2022, totaled \$392,194 and \$523,990, respectively.

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 \$791,575 and \$162,950 for the years ended June 30, 2023 and 2022, 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, 2023 (unaudited):

Number of Volunteers	Number of Hours	Value
18,204	70,353	\$ 1,072,876

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, 2022 (unaudited):

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

Donated Food Products, Merchandise, and Services

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

	2023	2022
Food	\$ 67,838,687	\$ 73,487,317
Professional Fees	791,575	162,950
Operating Supplies	301,923	153,369
Facility Improvements	20,275	2,475
Total Contributed Nonfinancial Assets Revenue	<u>\$ 68,952,460</u>	<u>\$ 73,806,111</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Contributed Services (Continued)

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.

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 2020-2022 tax returns are open for federal income tax purposes, and its 2019-2022 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Investment Valuation and Income Recognition

The Organization's investments held by the Orange County Community Foundation 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. Cash equivalents at June 30, 2023 and 2022, of approximately \$16,200,000 and \$17,010,000, respectively, held at Union Banc and Whittier Trust primarily consist of U.S. Treasury bills, other government backed funds, and FDIC insured Certificates of Deposit.

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. Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

Investment return, net consists of the following for the year ended June 30, 2023:

	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total</u>
Dividends and Interest	\$ 1,315	\$ 393,192	\$ 394,507
Realized and Unrealized Gain	16,651	-	16,651
Investment Expenses	(2,366)	-	(2,366)
	<u>\$ 15,600</u>	<u>\$ 393,192</u>	<u>\$ 408,792</u>

Investment return, net consists of the following for the year ended June 30, 2022:

	<u>With Donor Restrictions</u>	<u>Without Donor Restrictions</u>	<u>Total</u>
Dividends and Interest	\$ 739	\$ 8,100	\$ 8,839
Realized and Unrealized Loss	(5,397)	-	(5,397)
Investment Expenses	(2,454)	-	(2,454)
	<u>\$ (7,112)</u>	<u>\$ 8,100</u>	<u>\$ 988</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

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

Recent Accounting Pronouncements – Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the statement of financial position. The most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization considered the impact of the standard and determined that leases in effect for the year ended June 30, 2023, are not material to the financial statements. Leases at June 30, 2022, are reported in accordance with ASC 840.

Recent Accounting Pronouncements – Not Yet Adopted

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.

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:

	2023	2022
Cash and Cash Equivalents	\$ 18,096,240	\$ 18,888,190
Accounts Receivable	15,897	9,672
Grants Receivable	755,446	460,572
Unconditional Promises to Give	116,000	79,830
Total Financial Assets Available to Meet		
General Expenditures Within One Year	<u>\$ 18,983,583</u>	<u>\$ 19,438,264</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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 3 CONCENTRATIONS, RISKS, AND UNCERTAINTIES

The Organization maintains cash balances at multiple financial institutions. At June 30, 2023 and 2022, accounts at these institutions are insured by the Federal Deposit Insurance Corporation for up to \$250,000. As of June 30, 2023 and 2022 the Organization had approximately \$2,000,000 and \$7,600,00 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 \$232,118 and \$226,995 as of June 30, 2023 and 2022, respectively.

NOTE 4 INVENTORY

Inventory consists of the following at June 30:

	2023	2022
Donated Food	\$ 1,087,798	\$ 1,484,554
Purchased Commodities	129,502	92,440
Total Inventory	<u>\$ 1,217,300</u>	<u>\$ 1,576,994</u>

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2023	2022
Land	\$ 2,400,000	\$ 2,400,000
Building	10,613,812	9,073,110
Vehicles	4,164,194	3,362,491
Furniture and Equipment	4,407,897	3,820,666
Construction in Progress	1,011,700	-
Total Property and Equipment, at Cost	<u>22,597,603</u>	<u>18,656,267</u>
Less: Accumulated Depreciation	<u>(8,506,243)</u>	<u>(7,484,041)</u>
Property and Equipment, at Net Book Value	<u>\$ 14,091,360</u>	<u>\$ 11,172,226</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 6 NET ASSETS

Net assets consist of the following at June 30:

	<u>2023</u>	<u>2022</u>
Net Assets Without Donor Restrictions:		
Investment in Property and Equipment, Net of Related Debt	\$ 10,257,540	\$ 7,285,294
Available for Operations	<u>17,183,606</u>	<u>18,789,746</u>
Total Net Assets Without Donor Restrictions	27,441,146	26,075,040
Net Assets With Donor Restrictions:		
Subject to Expenditures for Specific Purposes:	974,989	406,284
Subject to Passage of Time:		
Building, Net of Depreciation	1,433,820	1,486,932
Land	<u>2,400,000</u>	<u>2,400,000</u>
Total Time Restrictions	3,833,820	3,886,932
Subject to Endowment Spending Policy and Appropriations:	<u>1,537,475</u>	<u>1,476,995</u>
Total Net Assets With Donor Restrictions	<u>6,346,284</u>	<u>5,770,211</u>
Total Net Assets	<u><u>\$ 33,787,430</u></u>	<u><u>\$ 31,845,251</u></u>

NOTE 7 COMMITMENTS AND CONTINGENCIES

Operating Leases – ASC 840

The Organization elected to apply the provisions of FASB ASC 842 to the beginning period of the adoption. However, the Organization's leases for the year ended June 30, 2023 are immaterial and are not reported in the financial statements. Lease disclosures for the year ended June 30, 2022, are made under guidance in FASB ASC 840. 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, 2022, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 10,700
2024	4,796
2025	<u>1,178</u>
Total Minimum Lease Payments	<u><u>\$ 16,674</u></u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 8 ALLOCATION OF JOINT COSTS

For the years ended June 30, 2023 and 2022, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$410,591 and \$381,376, respectively. These activities include direct mail costs of \$58,087 and fundraising campaigns and special event costs totaling \$352,504 for the year ended June 30, 2023. For the year ended June 30, 2022, these activities included direct mail costs of \$50,992 and fundraising campaigns and special event costs totaling \$330,384.

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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 9 ENDOWMENT FUND (CONTINUED)

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 Senior and Children's programs, Farm Programs, and Operating and Infrastructural expenses.

The following is the endowment net asset composition as of June 30, 2023:

Cash Equivalents	\$ 1,305,357
Long-Term Investments	232,118
	<u>\$ 1,537,475</u>

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

Cash Equivalents	\$ 1,250,000
Long-Term Investments	226,995
	<u>\$ 1,476,995</u>

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

	2023	2022
Endowment Net Assets - Beginning of Year	\$ 1,476,995	\$ 244,163
Investment Return:		
Investment Income, Net	15,600	(7,112)
Contributions	55,000	1,250,000
Distributions	(10,120)	(10,056)
Endowment Net Assets - End of Year	<u>\$ 1,537,475</u>	<u>\$ 1,476,995</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, 2023 and 2022. 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 10 NET ASSETS RELEASED FROM RESTRICTIONS

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

	2023	2022
Satisfaction of Time Restriction	\$ 53,112	\$ 53,112
Satisfaction of Purpose Restriction	416,404	585,949
Total Net Assets Released from Restrictions	<u>\$ 469,516</u>	<u>\$ 639,061</u>

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, 2023 and 2022.

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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

NOTE 11 FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, withing the fair value hierarchy, the Organization's assets at fair value as of June 30, 2023:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Endowment Assets Held by Community Foundation	<u>\$ 232,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,118</u>

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>

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, 2022 financial statements in order to conform with the current-year presentation. These reclassifications had no effect on June 30, 2022 increase in total net assets.

NOTE 13 SUBSEQUENT EVENTS

Events occurring after June 30, 2023, have been evaluated for possible adjustment to the financial statements or disclosure as of November 9, 2023, 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/disclaimer. 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, 2023



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAconnect.com

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2023

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 <i>GOVERNMENT AUDITING STANDARDS</i>	1
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	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	8
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	10

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

Report on 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 9, 2023



**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

Opinion on Each Major Federal Program

We have audited Second Harvest Food Bank of Orange County, Inc.'s (the Organization) compliance requirements identified as subject to audit in the OMB *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, 2023. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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

We have audited the financial statements of the Organization Second Harvest Food Bank Single Audit as of and for the year ended June 30, 2023, and have issued our report thereon dated November 9, 2023, which contained an unmodified opinion on those financial statements. Our audit was performed 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 9, 2023

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-Through Grantor Program Title	Federal Assistance Listing Number (ALN)	Pass-Through Entity Identifying Number	Federal Expenditures	Subrecipient 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	\$ 782,838	\$ -
Emergency Food Assistance Program (Food Commodities)	10.569	15-MOU-00131	<u>7,335,348</u>	<u>-</u>
Total Food Distribution Cluster			8,118,186	-
Commodity Credit Corporation	10.187		13,446	-
Passed through the California Department of Education				
Child Nutrition Fiscal Services:				
Summer Food Service Program for Children	10.559	05660-SFSP-30	209,215	-
Child and Adult Care Food Program	10.558	05660-CACFP-30-NP-S01C	1,057,447	-
Passed through National Resources Conservation Service:				
Urban Agriculture and Innovative Product	10.935	NR213A750001G016	<u>128,870</u>	<u>-</u>
Total United States Department of Agriculture			9,527,164	-
United States Department of the Treasury				
Passed through the County of Orange Social Services Agency:				
Coronavirus Relief Fund - COVID-19	21.027		<u>1,184,921</u>	<u>-</u>
Total United States Department of the Treasury			1,184,921	-
United States Department of Homeland Security:				
Passed through the Emergency Food and Shelter National Board:				
Emergency Food and Shelter Program	97.024	39-078600-058	225,000	
Emergency Food and Shelter Program	97.024	ARPA-078600-058	<u>708,500</u>	<u>-</u>
Total United States Department of Homeland Security			<u>933,500</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 11,845,585</u>	<u>\$ -</u>

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, 2023

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, 2023**

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:

CFDA Number(s)

Name of Federal Program or Cluster

10.568 and 10.569

Food Distribution Cluster

21.027

Coronavirus State and Local Fiscal Recovery Funds

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, 2023**

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, 2023**

Financial Statement Findings

There were no findings or questioned costs for the year ended June 30, 2022.

Major Federal Awards Findings

There were no findings or questioned costs for the year ended June 30, 2022.



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

