

SECOND HARVEST FOOD BANK OF SANTA CLARA
AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS
INCLUDING SUPPLEMENTAL INFORMATION
ON FEDERAL FINANCIAL AWARDS

Year Ended June 30, 2008 with Comparative Totals
for the Year Ended June 30, 2007

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

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SECTION I

FINANCIAL SECTION

FINANCIAL STATEMENTS

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Second Harvest Food Bank of Santa Clara and San Mateo Counties
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the accompanying statement of financial position of Second Harvest Food Bank of Santa Clara and San Mateo Counties (a California nonprofit public benefit corporation) as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's financial statements for the year ended June 30, 2007 and, in our report dated August 31, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Santa Clara and San Mateo Counties as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2008, on our consideration of Second Harvest Food Bank of Santa Clara and San Mateo Counties' 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties taken as a whole. The accompanying schedule of expenditures of federal and other governmental awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Berger/Lewis Accountancy Corporation

BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
September 2, 2008

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2008 with Comparative Totals as of June 30, 2007

	OPERATING FUND		LAND, BUILDING AND EQUIPMENT FUND	TOTAL	
	Unrestricted	Temporarily Restricted		2008	2007
ASSETS					
Cash and Cash Equivalents	\$ 2,684,813	\$ 111,170	\$ -	\$ 2,795,983	\$ 2,726,348
Accounts Receivable	24,081	-	-	24,081	15,552
Grants Receivable	245,562	-	-	245,562	204,791
Pledges Receivable	230,000	1,076,153	-	1,306,153	225,471
Inventory	2,050,079	-	-	2,050,079	2,064,320
Prepaid Expenses and Other Assets	376,593	-	577,850	954,443	828,237
Investments (Note 4)	7,904,218	-	3,292,542	11,196,760	13,227,500
Land, Building and Equipment, Net (Note 5)	-	-	6,661,228	6,661,228	6,298,186
TOTAL ASSETS	\$ 13,515,346	\$ 1,187,323	\$ 10,531,620	\$ 25,234,289	\$ 25,590,405
LIABILITIES AND NET ASSETS					
LIABILITIES:					
Accounts Payable	\$ 797,514	-	\$ -	\$ 797,514	\$ 427,335
Accrued Expenses	486,324	-	-	486,324	353,161
Deferred Revenue (Note 6)	78,837	-	-	78,837	14,453
Total Liabilities	1,362,675	-	-	1,362,675	794,949
NET ASSETS:					
Unrestricted Net Assets:					
Undesignated	707,803	-	-	707,803	517,758
Board Designated (Note 9)	11,444,868	-	3,292,542	14,737,410	17,263,633
Land, Building and Equipment	-	-	7,239,078	7,239,078	6,621,854
Total Unrestricted Net Assets	12,152,671	-	10,531,620	22,684,291	24,403,245
Temporarily Restricted Net Assets (Note 10)	-	1,187,323	-	1,187,323	392,211
Total Net Assets	12,152,671	1,187,323	10,531,620	23,871,614	24,795,456
TOTAL LIABILITIES AND NET ASSETS	\$ 13,515,346	\$ 1,187,323	\$ 10,531,620	\$ 25,234,289	\$ 25,590,405

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008 with Comparative Totals for the Year Ended June 30, 2007

	2008		2007
	Unrestricted	Temporarily Restricted	TOTAL
SUPPORT AND REVENUE:			
Support:			
Contributions			
Contributions In-Kind (Note 11)	\$ 14,328,871	\$ 937,385	\$ 15,266,256
Special Events	33,045,581	-	33,045,581
Less: Direct Donor Benefits	35,087	-	35,087
United Way Support	(17,759)	-	(17,759)
	-	4,897	4,897
Total Support	47,391,780	942,282	48,334,062
Revenue:			
Governmental Assistance - Cash	1,272,265	-	1,272,265
Governmental Assistance - In-Kind	1,013,761	-	1,013,761
Service Fees	92,140	-	92,140
Net Investment Income (Loss) (Note 4)	(613,587)	-	(613,587)
Loss on Sale of Equipment	(6,581)	-	(6,581)
Other Income	30,525	-	30,525
Total Revenue	1,788,523	-	1,788,523
Total Support and Revenue	49,180,303	942,282	50,122,585
Net Assets Released from Restrictions (Note 12)	147,170	(147,170)	-
Total Support, Revenue and Net Assets Released from Restrictions	49,327,473	795,112	50,122,585
EXPENSES:			
Program Services:			
Food Distribution (Note 2)	48,781,980	-	48,781,980
Supporting Services:			
Management and General	892,272	-	892,272
Fundraising	1,372,175	-	1,372,175
Total Supporting Services Expenses	2,264,447	-	2,264,447
Total Expenses	51,046,427	-	51,046,427
CHANGE IN NET ASSETS			
NET ASSETS, Beginning of Year	(1,718,954)	795,112	(923,842)
NET ASSETS, End of Year	24,403,245	392,211	24,795,456
	\$ 22,684,291	\$ 1,187,323	\$ 23,871,614
			\$ 24,795,456

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008 with Comparative Totals for the Year Ended June 30, 2007

	PROGRAM SERVICES		SUPPORTING SERVICES		TOTAL EXPENSES	
	Distribution	Management and General	Fundraising	Total	2008	2007
Salaries	\$ 3,665,577	\$ 384,357	\$ 685,313	\$ 1,069,670	\$ 4,735,247	\$ 3,910,386
Employee Benefits	780,624	113,265	127,955	241,220	1,021,844	737,165
Payroll Taxes	287,308	29,524	55,026	84,550	371,858	308,621
Total Salaries and Related Expenses	4,733,509	527,146	868,294	1,395,440	6,128,949	4,956,172
Donated Food and Supplies Distributed	33,406,679	-	-	-	33,406,679	30,837,480
Purchased Food and Supplies Distributed	6,423,145	-	-	-	6,423,145	5,570,093
Outside Services	369,226	24,318	96,127	120,445	489,671	534,142
Occupancy, Including In-Kind	556,657	31,234	37,266	68,500	625,157	512,353
Freight and Storage	451,458	-	-	-	451,458	413,444
Advertising and Media, Including In-Kind	713,526	-	-	-	713,526	391,745
Postage and Printing, Including In-Kind	277,453	21,740	2,625	24,365	301,818	251,244
Vehicle Operating Costs	249,693	-	-	-	249,693	217,079
Direct Mailing Costs, Including In-Kind	-	-	215,797	215,797	215,797	205,520
Equipment Rental and Maintenance	249,312	14,976	37,331	52,307	301,619	182,652
Professional Fees, Including In-Kind	104,181	157,265	48,075	205,340	309,521	159,001
Supplies, Including In-Kind	205,748	22,256	14,957	37,213	242,961	156,566
Insurance	139,365	8,149	713	8,862	148,227	151,469
Telephone	70,818	10,752	12,895	23,647	94,465	85,861
Recruitment Expenses	5,126	15,141	957	16,098	21,224	74,914
Conferences, Conventions and Meetings	16,031	15,931	2,869	18,800	34,831	36,768
Dues and Subscriptions	6,243	16,545	2,860	19,405	25,648	25,821
Travel	8,751	7,487	6,247	13,734	22,485	17,615
Volunteer Expenses	19,233	-	-	-	19,233	17,372
Affiliation Fees (Note 13)	16,221	-	-	-	16,221	15,280
Equipment, In-Kind	3,881	-	-	-	3,881	-
Total Expenses Before Depreciation	48,026,256	872,940	1,347,013	2,219,953	50,246,209	44,812,591
Depreciation and Amortization	755,724	19,332	25,162	44,494	800,218	534,842
Total Functional Expenses	\$ 48,781,980	\$ 892,272	\$ 1,372,175	\$ 2,264,447	\$ 51,046,427	\$ 45,347,433
Percentage of Total	95.6 %	1.7 %	2.7 %	4.4 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008 with Comparative Totals for the Year Ended June 30, 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (923,842)	\$ 3,065,066
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	800,218	534,842
Donated Investments	(650)	(18,288)
Loss on Sale of Equipment	6,581	1,626
Donated Vehicle and Equipment	(30,700)	-
In-Kind Contributions of Food and Non-Food (Including USDA)	(33,424,476)	(30,772,100)
Distribution of Food and Non-Food Received In-Kind	33,406,679	30,837,480
Realized and Unrealized (Gains) Losses on Investments	1,056,503	(1,073,981)
(Increase) Decrease in Assets:		
Accounts Receivable	(8,529)	(7,532)
Grants Receivable	(40,771)	39,999
Pledges Receivable	(1,080,682)	48,053
Purchased Inventory (Food)	32,038	(316,547)
Prepaid Expenses and Other Assets	(126,206)	(412,209)
Increase (Decrease) in Liabilities:		
Accounts Payable	370,179	197,566
Accrued Expenses	133,163	149,897
Deferred Revenue	64,384	(156,572)
Net Cash Provided by Operating Activities	<u>233,889</u>	<u>2,117,300</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	(1,139,792)	(595,181)
Proceeds from Sale of Equipment	650	650
Purchase of Investments	(4,222,192)	(5,271,268)
Proceeds from Sale of Investments	<u>5,197,080</u>	<u>2,795,258</u>
Net Cash Used by Investing Activities	<u>(164,254)</u>	<u>(3,070,541)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	69,635	(953,241)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>2,726,348</u>	<u>3,679,589</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 2,795,983</u>	<u>\$ 2,726,348</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Second Harvest Food Bank of Santa Clara and San Mateo Counties ("Agency" or "Second Harvest") is a nonprofit 501(c)(3) organization incorporated in 1979. The Agency's service area covers a population of 2.6 million where over 210,000 people live below the federal poverty line (FPL). With the area's high cost of living, even families living at 300% - 400% of the FPL are struggling to afford enough to eat. The Agency provides food through both direct distribution and by supplying food to hundreds of area nonprofit programs.

Second Harvest procures large food donations through corporate food drives, from the USDA and FEMA, and through membership in Feeding America (formerly America's Second Harvest). But simply distributing donated food would not provide nutritious, nor balanced, meals. The Agency spent approximately \$6.9 million procuring, packaging, and transporting protein and other food to supplement donated items, ensuring nutritious meals to an average of 176,731 people per month. This involved the distribution of 34.6 million pounds of food, equivalent to about 26.6 million meals and up 11.3% over last year. This makes the Agency the 9th most effective food bank in the nation based on pounds distributed per person in poverty as reported in Feeding America (formerly America's Second Harvest) 2007 Annual Poundage Report (Table POU46) "Percentage of Need Met within Service Area, Based on Meals Provided".

The Agency's recent Food Gap Analysis showed that tremendous need for food still exists in the community. Approximately half the need is being met even when considering all food programs, including Food Stamps. In response, Second Harvest has embarked on an effort to replace its smaller existing warehouse in San Mateo County with a larger warehouse that will enable it to distribute more food to people and agencies throughout both Santa Clara and San Mateo Counties. The Agency intends to have a new facility operational in the next several years.

NOTE 2 - PROGRAM SERVICES:

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Goals – In January 2007, Second Harvest conducted 18 agency focus groups throughout Santa Clara and San Mateo Counties. As a result of these focus groups, the Agency developed three goals that guide its operations:

- Provide low-income families, seniors, and individuals with more food
- Deliver wholesome, healthy food
- Address access issues so low-income families, seniors, and individuals can get the food they need

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Support – To operate its programs, the Agency depends on strong donor and volunteer support. During the fiscal year ended June 30, 2008, 29,086 individuals and companies donated gifts and 2,633 companies and individuals ran food drives. Every month volunteers worked an average of 17,867 hours on Second Harvest's behalf, the equivalent of 103 full time employees and more manpower than the Agency employs. This saved the Agency over \$3.1 million in wages in the past year.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Programs – Second Harvest operates two types of outreach. Direct Service Programs provide food directly to the hungry, and Indirect Service Programs provide food for the numerous community-based nonprofits and agencies that feed the hungry.

The Agency's Direct Service Programs, distributed at 126 sites, include:

- Brown Bag - Groceries provided on a weekly basis to an average of 13,199 people, including seniors and disabled individuals on fixed incomes.
- Family Harvest - Groceries provided monthly to low-income families with dependent children serving an average of 14,136 individuals per month.
- Partners in Need - Weekly groceries for an average of 397 people in exchange for volunteer hours.

Indirect and Community Service Programs:

Second Harvest's Food Assistance Program supports 306 community-based nonprofit organizations running through 1,051 sites. The Agency removes much of the burden for those managing food programs by providing highly nutritious foods at a minimal annual fee, appropriate storage and handling, delivery options, as well as training workshops. These hundreds of community programs can focus their resources on their own primary missions, not on procuring food.

Food Connection, a phone referral program, further ensures that those in need have access to nutritious food. In the past year, Food Connection helped thousands of people each month and made 30,649 referrals to Second Harvest's food program partners. Community Nutrition offers training, workshops, and technical assistance to agencies and program participants in the areas of nutrition education, food safety, and handling practices.

The Produce Mobile, a refrigerated truck, brings high quality, fresh produce to Family Harvest sites for immediate distribution. The Family Harvest sites lack the ability to store large quantities of produce so they depend on the Agency's regular deliveries.

The Kids NOW (Nutrition on Weekends) backpack program distributes weekly bags of child-friendly food through partnering agencies that already work with youth.

The Mobile Pantry involves delivering pre-packaged food to clients who live in densely populated communities that are relatively isolated because there are no full service grocery stores within walking distance and residents often lack transportation, and to communities that are geographically isolated on the Coast of San Mateo County.

To help individuals maximize the food assistance resources available to them, Second Harvest has partnered with the County of Santa Clara to increase Food Stamp outreach. Food Stamps are one of the most readily available yet under-utilized avenues through which low-income families, seniors, and individuals can receive food. Second Harvest is streamlining the application process so that these federal benefits will be distributed faster to those in need, many of whom are unaware that they are eligible to receive assistance.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties have been prepared on the accrual basis of accounting.

Basis of Presentation - The Agency follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, the Agency reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Agency. Under this category, the Agency maintains an operating fund, any net assets designated by the Board for specific purposes and the unrestricted land, building and equipment fund.

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments.

Land, building and equipment funds are designated for equipment acquisitions and for recording the cost of the land, building, equipment and accumulated depreciation. The net asset value of those items that are temporarily or permanently restricted are included in the appropriate net asset category, otherwise the net asset value is included in unrestricted net assets.

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Revenue Recognition - The Agency recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions - Contributions are reported in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets. If a donor's restriction is met in the same period that the revenue is recognized, the contribution is reported as an increase in unrestricted net assets.

Contributions In-Kind - Contributions in-kind are also recognized in accordance with the provisions of SFAS No. 116. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Agency would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Agency also receives donated services that do not require specific expertise but which are nonetheless central to the Agency's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 11.

Cash and Cash Equivalents - Cash equivalents include highly liquid investments and investments with a maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Agency maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts, Grants and Pledges Receivable - The Agency considers all accounts, grants and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Inventory - Inventory consists of donated food and non-food items, purchased food and United States Department of Agriculture (USDA) commodities received from the government. Donated food for the years ended June 30, 2008 and 2007 was valued at \$1.49 and \$1.69 per pound, respectively. This valuation is based on a cost study conducted for Feeding America (formerly America's Second Harvest). Purchased food is valued at latest purchase price. USDA commodities are valued based on published USDA fair market values.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains or losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land, Building and Equipment - Land, building and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Equipment purchases over \$5,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is charged to the activity benefiting from the use of the facilities or equipment. Amounts expended for maintenance and repairs are charged to operations as incurred.

Accrued Flexible Time Off (FTO) - During the year ended June 30, 2007 the Agency implemented a flexible time off program. Accrued FTO represents vacation and sick time earned, but not taken as of June 30, 2008 and 2007. Previously, the Agency's policy for payment on termination accounted for vacation time only, but not for sick time. The Agency has modified it's policy to include sick time, which increases the accrued FTO. The maximum FTO that can be accrued and carried over to the next year is 300 hours. The accrued FTO balance as of June 30, 2008 and 2007 was \$365,985 and \$261,574, respectively, and is included in accrued expenses.

Allocation of Functional Expenses - Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of periodic time studies.

Income Taxes - Second Harvest Food Bank of Santa Clara and San Mateo Counties is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

Advertising - Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2008 and 2007 totaled \$713,526 and \$391,745, respectively. The total cost for the years ended June 30, 2008 and 2007 includes \$510,000 and \$359,498, respectively in donated advertising.

NOTE 4 - INVESTMENTS:

The Agency's investment policy is to maintain a moderately conservative but balanced portfolio, with the primary investment objectives being the preservation of purchasing power and the preservation of capital. The Agency's investment portfolio is structured and maintained with the overall objective of providing the resources and liquidity for the Agency to fulfill its Mission Statement. The fair value of investments as of June 30, was as follows:

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS (Continued):

	<u>2008</u>	<u>2007</u>
Investments at Fair Value:		
Money Market Investments	\$ 785,109	\$ 990,384
U.S. Government Securities and Agency Obligations	2,315,607	3,256,071
Corporate Bonds and Notes	2,115,092	1,889,903
Equity Investments	5,294,809	6,461,537
Mutual Funds	<u>686,143</u>	<u>629,605</u>
Total Investments at Fair Value	<u>\$ 11,196,760</u>	<u>\$ 13,227,500</u>
Net Investment Income:		
Interest and Dividends, Net of Investment		
Expenses of \$101,118 and \$90,161	\$ 442,916	\$ 390,051
Net Realized and Unrealized Gains (Losses)	<u>(1,056,503)</u>	<u>1,073,981</u>
Total Net Investment Income (Loss)	<u>\$ (613,587)</u>	<u>\$ 1,464,032</u>

NOTE 5 - LAND, BUILDING AND EQUIPMENT:

The cost and accumulated depreciation of land, building and equipment as of June 30, consisted of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 838,453	\$ 838,453
Building and Improvements	8,031,943	7,924,722
Equipment	<u>4,255,362</u>	<u>3,389,090</u>
	13,125,758	12,152,265
Less: Accumulated Depreciation	<u>(6,464,530)</u>	<u>(5,854,079)</u>
Land, Building and Equipment, Net	<u>\$ 6,661,228</u>	<u>\$ 6,298,186</u>

Depreciation expense for the years ended June 30, 2008 and 2007 totaled \$800,218 and \$534,842, respectively.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - DEFERRED REVENUE:

The Agency's deferred revenue as of June 30, consisted of the following:

	<u>2008</u>	<u>2007</u>
Federal Emergency Management Agency	<u>\$ 78,837</u>	<u>\$ 14,453</u>
Total Deferred Revenue	<u>\$ 78,837</u>	<u>\$ 14,453</u>

NOTE 7 - RETIREMENT PLAN:

The Agency maintains a tax deferred 403(b) retirement plan to provide retirement benefits for all eligible employees. The plan provides for Agency contributions of 5% of eligible employee compensation. Vesting is based on years of service, with 100% vesting after six years of credited service. Agency contributions for the years ended June 30, 2008 and 2007 were \$139,994 and \$106,054, respectively. All of the costs of the Plan's administration were paid for by participants.

NOTE 8 - OPERATING LEASE COMMITMENTS:

The Agency leases from the County of Santa Clara the land on which the San Jose distribution center is located. The lease term is 50 years, commencing July 30, 1991, at the rate of \$1 per year, with three 10-year renewal options. In the event the premises cease to be used as a nonprofit food collection and distribution facility, the County of Santa Clara has the right to terminate the lease. Due to the impracticality of determining the fair value of the lease, the financial statements do not include an in-kind contribution for this amount.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - BOARD DESIGNATED NET ASSETS:

Board designated net assets as of June 30, consisted of the following:

	<u>2008</u>	<u>2007</u>
Unrestricted Operating Fund:		
Designated for Operating Reserves	\$ 8,522,687	\$ 7,326,027
Designated for Disaster Relief	872,102	1,707,264
Inventory	<u>2,050,079</u>	<u>2,064,320</u>
Total Unrestricted Operating Fund	<u>11,444,868</u>	<u>11,097,611</u>
Land, Building and Equipment Fund:		
Designated for Capital Replacement Fund	2,292,542	2,561,049
Designated for New Warehouse	1,000,000	-
Designated for Capacity Building Fund	<u>-</u>	<u>3,604,973</u>
Total Land, Building and Equipment	<u>3,292,542</u>	<u>6,166,022</u>
Total Board Designated Net Assets	<u>\$ 14,737,410</u>	<u>\$ 17,263,633</u>

As part of the Agency's annual review of designated assets, the Board recently adopted specific guidelines for establishing the level of each designation. Operating Reserves include a full six months of the coming year's annual budget, with adjustments for purchased inventory on hand and current liabilities. Disaster Relief funds are based on the cost of meals expected to be provided immediately following a local disaster. Long-term disaster support would be funded through government agreements. Current investment in inventory is reviewed on a monthly basis and is generally below one month's distribution. The Capital Replacement designation is calculated as the present-value of a ten year current asset replacement plan. The Capacity Building Fund designation is based on expectations that the Agency will pursue a significant increase in its capacity to distribute food in the next one to five years as part of a strategic plan.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS:

The Agency's temporarily restricted net assets as of June 30, consisted of the following:

	<u>2008</u>	<u>2007</u>
Temporarily Restricted Net Assets:		
Family Harvest	\$ 386,741	\$ -
Share Your Lunch	318,212	-
Packaging Costs	125,644	-
Season of Sharing	98,670	128,340
United Way Allocation and Designations for Next Year	97,923	143,075
Media Advertisement for Holiday Food	80,000	-
Sequoia Children Nutrition Program	42,898	85,796
IT Equipment	24,735	-
Strategic Planning	<u>12,500</u>	<u>35,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 1,187,323</u>	<u>\$ 392,211</u>

NOTE 11 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated food, supplies and expert services received are recorded as contributions. Donated food for the years ended June 30, 2008 and 2007 was valued at \$1.49 and \$1.69 per pound, respectively. This valuation is based on a cost study conducted for Feeding America (formerly America's Second Harvest). Purchased food is valued at latest purchase price. USDA commodities are valued based on published USDA fair market values. During the years ended June 30, the following in-kind contributions were received by the Agency:

	<u>2008</u>	<u>2007</u>
Food and Non-Food Inventory	\$ 32,282,247	\$ 29,547,605
Media	510,000	359,498
Warehouse Space	132,600	99,450
Supplies and Minor Equipment	52,617	-
Vehicle and Equipment	30,700	-
Printing and Mailings	14,887	2,804
Gift Certificates	13,356	5,349
Professional Services	5,088	3,490
Racks and Supplies	<u>4,086</u>	<u>2,363</u>
Total Contributions In-Kind	<u>\$ 33,045,581</u>	<u>\$ 30,020,559</u>

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11 - CONTRIBUTIONS IN-KIND (Continued):

The Agency also receives donated services that do not require specific expertise but which are nonetheless central to the Agency's operations. For the years ended June 30, 2008 and 2007 the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$3,776,609 and \$3,146,867, respectively. In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, the value of these services is not reflected in the financial statements.

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2008</u>
Net Assets Released from Restrictions:	
United Way Allocation and Designations	\$ 50,000
Sequoia Children Nutrition Program	45,000
Season of Sharing	29,670
Strategic Planning	<u>22,500</u>
Total Net Assets Released from Restrictions	<u>\$ 147,170</u>

NOTE 13 - PAYMENTS TO AFFILIATES:

In accordance with the affiliation agreement between Feeding America (formerly America's Second Harvest) and the Second Harvest Food Bank of Santa Clara and San Mateo Counties, the Agency pays fees based on total poundage of food received from Feeding America (formerly America's Second Harvest). Affiliation payments for the years ended June 30, 2008 and 2007 were \$16,221 and \$15,280, respectively.

NOTE 14 - CONFLICT OF INTEREST POLICY:

Included among the Agency's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Agency in the development of policies and programs and in the evaluation of business transactions. The Agency has adopted a conflict of interest policy whereby board members are disqualified from participation in the final decisions regarding any action affecting their related company or organization.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - CONTINGENCIES:

Grants and contracts awarded to Second Harvest Food Bank of Santa Clara and San Mateo Counties are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Agency could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

SECTION II

SUPPLEMENTARY INFORMATION

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS

Year Ended June 30, 2008

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant Period/ Period in Current Fiscal Year	Pass-through Grantor's Number/ Grant Number	Award Amount	Receivable (Deferred Revenue) From Prior Year	Receipt of Federal Awards	Federal Expenditures	Receivable (Deferred Revenue) at June 30, 2008
MAJOR PROGRAMS								
<u>U.S. Department of Agriculture</u>								
Passed through: State of California Department of Social Services: Emergency Food Assistance Program (Food Commodities) (Note A)	10.569	7-1-07 to 6-30-08	N/A	\$ 1,013,761	\$ -	\$ 1,013,761	\$ 1,013,761	\$ -
NON-MAJOR PROGRAMS								
<u>U.S. Department of Agriculture</u>								
Passed through: State of California Department of Social Services: Emergency Food Assistance Program (Administrative Costs)	10.568	7-1-06 to 6-30-07	L61059	-	29,612	29,612	-	-
Emergency Food Assistance Program (Administrative Costs)	10.568	10-1-07 to 9-30-08	L61059	119,813	-	31,716	119,813	88,097
Emergency Food Assistance Program (Tax Check Off)	10.568	7-1-07 to 6-30-08	L61059	11,837	-	11,837	11,837	-
Total U.S. Department of Agriculture				131,650	29,612	73,165	131,650	88,097
<u>U.S. Department of Health and Human Services</u>								
CNN - Food Stamp Outreach		7-1-07 to 6-30-08	N/A	45,878	24,966	46,487	45,878	24,357
CNN - Nutrition Education		7-1-07 to 6-30-08	N/A	101,492	63,036	143,085	101,492	21,443
Total U.S. Department of Health and Human Services		7-1-07 to 6-30-08	N/A	147,370	88,002	189,572	147,370	45,800

NOTE A - Emergency Food Assistance Program (Food Commodities):
Nonmonetary assistance is reported in the schedule at the USDA fair value of the commodities received. At June 30, 2008, the Agency had USDA food commodities totaling \$106,047 in inventory.

See Accompanying Notes to Schedule of Expenditures of Federal and Other Governmental Awards.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS
(Continued)

Year Ended June 30, 2008

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant Period/ Period in Current Fiscal Year	Pass-through Grantor's Number/ Grant Number	Award Amount	Receivable (Deferred Revenue) From Prior Year	Receipt of Federal Awards	Federal Expenditures	Receivable (Deferred Revenue) at June 30, 2008
NON-MAJOR PROGRAMS (Continued)								
<u>Federal Emergency Management Agency</u>								
Direct Program:								
Emergency Food and Shelter National Board Program (Santa Clara County)	83.523	10-1-06 to 9-30-07 10-1-07 to 9-30-08	24-0880-00 007 Phase XXIV	- 105,000	(14,294) -	- 105,000	14,294 53,663	- (51,337)
Emergency Food and Shelter National Board Program (Santa Mateo County)	83.523	1-1-07 to 12-31-07 1-1-07 to 12-31-07 1-1-08 to 12-31-08 (Continued)	24-0880-00 007 Phase XXIV	- 27,500 -	13,750 (159) -	13,750 - 13,750	- 159 -	- 13,750 (27,500)
Total Federal Emergency Management Agency				132,500	(703)	132,500	68,116	(65,087)
<u>U.S. Department of Housing and Urban Development</u>								
Community Development Block Grants, passed through:								
City of Campbell	14.218	7-1-07 to 6-30-08	N/A	7,200	-	7,200	7,200	-
City of Cupertino	14.218	7-1-06 to 6-30-07 7-1-07 to 6-30-08	N/A N/A	- 3,512	877 -	877 2,634	- 3,512	- 878
City of Daly City	14.218	7-1-06 to 6-30-07 7-1-07 to 6-30-08	N/A N/A	- 9,500	2,250 -	2,250 7,125	- 9,500	- 2,375
City of Gilroy	14.218	7-1-07 to 6-30-08	N/A	6,000	-	4,500	6,000	1,500
Town of Los Gatos	14.218	7-1-06 to 6-30-07 7-1-07 to 6-30-08	N/A N/A	- 3,802	950 -	950 2,852	- 3,802	- 950
City of Menlo Park	14.218	7-1-06 to 6-30-07 7-1-07 to 6-30-08	N/A N/A	- 6,650	6,650 -	6,650 1,250	- 6,650	- -
City of Milpitas	14.218	7-1-06 to 6-30-07 7-1-07 to 6-30-08	N/A N/A	- 5,000	- -	1,250 3,750	- 5,000	- 1,250
City of Morgan Hill	14.218	7-1-07 to 6-30-08	N/A	5,940	-	4,455	5,940	1,485
City of Mountain View	14.218	7-1-06 to 6-30-07 7-1-07 to 6-30-08	N/A N/A	- 4,348	1,878 -	4,455 3,261	- 4,348	- 1,087
City of Palo Alto	14.218	7-1-06 to 6-30-07 7-1-07 to 6-30-08	N/A N/A	- 7,372	- 1,843	1,878 1,843	- 7,372	- 1,745
City of Redwood City	14.218	7-1-07 to 6-30-08	N/A	6,000	-	6,000	6,000	-

See Accompanying Notes to Schedule of Expenditures of Federal and Other Governmental Awards.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS
(Continued)

Year Ended June 30, 2008

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Grant Period/ Period in Current Fiscal Year	Pass-through Grantor's Number/ Grant Number	Award Amount	Receivable (Deferred Revenue) From Prior Year	Receipt of Federal Awards	Federal Expenditures	Receivable (Deferred Revenue) at June 30, 2008
NON-MAJOR PROGRAMS (Continued)								
<u>Community Development Block Grants, passed through</u>								
<u>(Continued):</u>								
City of San Jose	14.218	7-1-06 to 6-30-07	N/A	-	4,422	4,422	-	-
		7-1-07 to 6-30-08	N/A	25,000	-	18,750	25,000	6,250
City of San Mateo	14.218	7-1-06 to 6-30-07	N/A	-	2,284	2,284	-	-
City of Santa Clara	14.218	7-1-06 to 6-30-07	N/A	-	2,808	2,808	-	-
		7-1-07 to 6-30-08	N/A	5,866	-	3,130	5,866	2,736
City of South San Francisco	14.218	7-1-06 to 6-30-07	N/A	-	1,125	1,125	-	-
		7-1-07 to 6-30-08	N/A	4,500	-	3,375	4,500	1,125
City of Sunnyvale	14.218	7-1-07 to 6-30-08	N/A	3,925	-	3,925	3,925	-
City of Colma	14.218	7-1-07 to 6-30-08	N/A	2,500	-	2,500	2,500	-
City of Hillsborough	14.218	7-1-07 to 6-30-08	N/A	2,000	-	2,000	2,000	-
City of Monte Sereno	14.218	7-1-07 to 6-30-08	N/A	600	-	600	600	-
City of Los Altos Hills	14.218	7-1-07 to 6-30-08	N/A	2,000	-	2,000	2,000	-
Total U.S. Department of Housing and Urban Development				111,715	26,337	116,671	111,715	21,381
Total Federal Awards				1,536,996	143,248	1,525,669	1,472,612	90,191
OTHER GOVERNMENTAL AWARDS								
Santa Clara County - Department of Social Services	N/A	7-1-06 to 6-30-07	N/A	-	25,178	25,178	-	-
		7-1-07 to 6-30-08	N/A	705,075	-	666,658	705,075	38,417
San Mateo County - Department of Social Services	N/A	7-1-07 to 6-30-08	N/A	50,633	-	37,975	50,633	12,658
		7-1-06 to 6-30-07	N/A	12,658	-	9,494	12,658	3,164
		7-1-06 to 6-30-07	N/A	-	12,112	12,112	-	-
		7-1-06 to 6-30-07	N/A	-	3,249	3,249	-	-
San Mateo Co. - Food Stamp Outreach Aging and Adult Services of San Mateo (Gift Certificates)	N/A	1-1-08 to 6-30-08	N/A	17,982	-	-	17,982	17,982
State of California	N/A	7-1-07 to 6-30-08	N/A	25,853	-	21,540	25,853	4,313
		7-1-06 to 6-30-07	N/A	-	6,550	6,550	-	-
		7-1-05 to 6-30-08	N/A	1,213	-	1,213	1,213	-
Total Other Governmental Awards				813,414	47,089	783,969	813,414	76,534
TOTAL GOVERNMENTAL AWARDS				\$ 2,350,410	\$ 190,337	\$ 2,309,638	\$ 2,286,026	\$ 166,725

See Accompanying Notes to Schedule of Expenditures of Federal and Other Governmental Awards.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL
AWARDS

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal and other governmental awards includes the federal grant activity of Second Harvest Food Bank of Santa Clara and San Mateo Counties and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SECTION III

REPORTS

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*

To the Board of Directors
Second Harvest Food Bank of Santa Clara and San Mateo Counties
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have audited the financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties (a California nonprofit public benefit corporation) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 2, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Santa Clara and San Mateo Counties' financial statements are free of 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 determination of financial statement amounts. 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*.

We noted certain other matters that we reported to management of Second Harvest Food Bank of Santa Clara and San Mateo Counties in separate letter dated September 2, 2008.

This report is intended solely for the information and use of management, the audit committee, others within the Agency, the board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Berger/Lewis Accountancy Corporation". The script is cursive and fluid, with the company name written in a single line.

BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
September 2, 2008

EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

To the Board of Directors
Second Harvest Food Bank of Santa Clara and San Mateo Counties
(A California Nonprofit Public Benefit Corporation)
San Jose, California

Compliance

We have audited the compliance of Second Harvest Food Bank of Santa Clara and San Mateo Counties (a California nonprofit public benefit corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Second Harvest Food Bank of Santa Clara and San Mateo Counties' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Second Harvest Food Bank of Santa Clara and San Mateo Counties' management. Our responsibility is to express an opinion on Second Harvest Food Bank of Santa Clara and San Mateo Counties' compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Second Harvest Food Bank of Santa Clara and San Mateo Counties' 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. Our audit does not provide a legal determination of Second Harvest Food Bank of Santa Clara and San Mateo Counties' compliance with those requirements.

In our opinion, Second Harvest Food Bank of Santa Clara and San Mateo Counties complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Second Harvest Food Bank of Santa Clara and San Mateo Counties is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, others within the Agency, the board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
September 2, 2008

SECTION IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Second Harvest Food Bank of Santa Clara and San Mateo Counties expresses an unqualified opinion on all major federal programs.
6. No audit findings which would be required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included: Emergency Food Assistance Program (Food Commodities) - CFDA 10.569.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Second Harvest Food Bank of Santa Clara and San Mateo Counties was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT:

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

U.S. DEPARTMENT OF AGRICULTURE

Name of program - Emergency Food Assistance Program (Food Commodities)

CFDA No. - 10.569

Grant period - 7/1/07 to 6/30/08

None

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

NONE