

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

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**FINANCIAL STATEMENTS  
INCLUDING SUPPLEMENTAL INFORMATION  
ON FEDERAL FINANCIAL AWARDS**

**Year Ended June 30, 2009 with Comparative Totals  
for the Year Ended June 30, 2008**

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, 2009, 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, 2008 and, in our report dated September 2, 2008, 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, 2009, 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 8, 2009, 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 should be considered in 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 8, 2009

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

**STATEMENT OF FINANCIAL POSITION**

June 30, 2009 with Comparative Totals as of June 30, 2008

	<u>OPERATING FUND</u>		<u>LAND, BUILDING AND EQUIPMENT FUND</u>	<u>TOTAL</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>		<u>2009</u>	<u>2008</u>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 3,101,513	\$ 145,770	\$ -	\$ 3,247,283	\$ 1,795,983
Accounts Receivable	-	-	-	-	24,081
Grants Receivable	324,618	-	-	324,618	245,562
Pledges Receivable (Note 4)	224,889	777,402	-	1,002,291	1,306,153
Inventory	1,697,496	-	-	1,697,496	2,050,079
Prepaid Expenses and Other Assets	552,597	-	170,623	723,220	954,443
Cash Designated for New Warehouse	-	-	1,000,000	1,000,000	1,000,000
Investments (Note 5)	7,571,396	-	2,025,621	9,597,017	11,196,760
Land, Building and Equipment, Net (Note 6)	-	-	7,613,695	7,613,695	6,661,228
<b>TOTAL ASSETS</b>	<b>\$ 13,472,509</b>	<b>\$ 923,172</b>	<b>\$ 10,809,939</b>	<b>\$ 25,205,620</b>	<b>\$ 25,234,289</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>LIABILITIES:</b>					
Accounts Payable	\$ 615,497	\$ -	\$ -	\$ 615,497	\$ 797,514
Accrued Expenses	600,807	-	-	600,807	486,324
Deferred Revenue (Note 7)	117,090	-	-	117,090	78,837
<b>Total Liabilities</b>	<b>1,333,394</b>	<b>-</b>	<b>-</b>	<b>1,333,394</b>	<b>1,362,675</b>
<b>NET ASSETS:</b>					
Unrestricted Net Assets:					
Undesignated	472,974	-	-	472,974	707,803
Board Designated (Note 10)	11,666,141	-	3,025,621	14,691,762	14,737,410
Land, Building and Equipment	-	-	7,784,318	7,784,318	7,239,078
<b>Total Unrestricted Net Assets</b>	<b>12,139,115</b>	<b>-</b>	<b>10,809,939</b>	<b>22,949,054</b>	<b>22,684,291</b>
Temporarily Restricted Net Assets (Note 11)	-	923,172	-	923,172	1,187,323
<b>Total Net Assets</b>	<b>12,139,115</b>	<b>923,172</b>	<b>10,809,939</b>	<b>23,872,226</b>	<b>23,871,614</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,472,509</b>	<b>\$ 923,172</b>	<b>\$ 10,809,939</b>	<b>\$ 25,205,620</b>	<b>\$ 25,234,289</b>

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, 2009 with Comparative Totals for the Year Ended June 30, 2008

	2009			2008
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
<b>SUPPORT AND REVENUE:</b>				
Support:				
Contributions	\$ 17,811,109	\$ 465,495	\$ 18,276,604	\$ 15,266,256
Contributions In-Kind (Note 12)	39,445,476	-	39,445,476	33,045,581
Special Events	49,197	-	49,197	35,087
Less: Direct Donor Benefits	(20,961)	-	(20,961)	(17,759)
United Way Support	152,275	-	152,275	4,897
Total Support	57,437,096	465,495	57,902,591	48,334,062
Revenue:				
Governmental Assistance - Cash	1,758,659	-	1,758,659	1,272,265
Governmental Assistance - In-Kind (Note 12)	2,566,363	-	2,566,363	1,013,761
Service Fees	133,844	-	133,844	92,140
Net Investment Loss (Note 5)	(1,352,514)	-	(1,352,514)	(613,587)
Loss on Sale of Equipment	(9,041)	-	(9,041)	(6,581)
Other Income	20,881	-	20,881	30,525
Total Revenue	3,118,192	-	3,118,192	1,788,523
Total Support and Revenue	60,555,288	465,495	61,020,783	50,122,585
Net Assets Released from Restrictions (Note 13)	729,646	(729,646)	-	-
Total Support, Revenue and Net Assets Released from Restrictions	61,284,934	(264,151)	61,020,783	50,122,585
<b>EXPENSES:</b>				
Program Services:				
Food Distribution (Note 2)	58,017,159	-	58,017,159	48,781,980
Supporting Services:				
Management and General	1,348,819	-	1,348,819	892,272
Fundraising	1,654,193	-	1,654,193	1,372,175
Total Supporting Services Expenses	3,003,012	-	3,003,012	2,264,447
Total Expenses	61,020,171	-	61,020,171	51,046,427
CHANGE IN NET ASSETS	264,763	(264,151)	612	(923,842)
NET ASSETS, Beginning of Year	22,684,291	1,187,323	23,871,614	24,795,456
NET ASSETS, End of Year	\$ 22,949,054	\$ 923,172	\$ 23,872,226	\$ 23,871,614

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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, 2009 with Comparative Totals for the Year Ended June 30, 2008

	PROGRAM SERVICES	SUPPORTING SERVICES			TOTAL EXPENSES	
	Food Distribution	Management and General	Fundraising	Total	2009	2008
Salaries	\$ 3,894,956	\$ 704,812	\$ 720,294	\$ 1,425,106	\$ 5,320,062	\$ 4,735,247
Employee Benefits	838,208	122,019	166,262	288,281	1,126,489	1,021,844
Payroll Taxes	320,600	53,771	57,140	110,911	431,511	371,858
Total Salaries and Related Expenses	5,053,764	880,602	943,696	1,824,298	6,878,062	6,128,949
Donated Food and Supplies Distributed	41,497,193	-	-	-	41,497,193	33,406,679
Purchased Food and Supplies Distributed	7,605,173	-	-	-	7,605,173	6,423,145
Outside Services	517,245	2,846	48,587	51,433	568,678	489,671
Occupancy, Including In-Kind	472,167	27,977	41,879	69,856	542,023	625,157
Freight and Storage	495,893	-	-	-	495,893	451,458
Advertising and Media, Including In-Kind	436,158	-	-	-	436,158	713,526
Vehicle Operating Costs	277,777	694	399	1,093	278,870	249,693
Direct Mailing Costs, Including In-Kind	-	-	257,566	257,566	257,566	215,797
Supplies, Including In-Kind	201,140	28,130	23,741	51,871	253,011	242,961
Postage and Printing, Including In-Kind	201,181	21,133	30,320	51,453	252,634	301,818
Equipment Rental and Maintenance	153,626	14,077	38,510	52,587	206,213	301,619
Bank and Payroll Charges	-	178,783	-	178,783	178,783	99,781
Insurance	164,038	11,527	2,405	13,932	177,970	148,227
Contract Services	69,178	2,115	55,778	57,893	127,071	154,853
Professional Fees, Including In-Kind	-	54,832	58,774	113,606	113,606	54,887
Telephone	81,450	9,227	13,275	22,502	103,952	94,465
Dues and Subscriptions	22,806	9,433	14,909	24,342	47,148	25,648
Recruitment Expenses	3,952	37,492	117	37,609	41,561	21,224
Conferences, Conventions and Meetings	18,549	13,508	7,639	21,147	39,696	34,831
Affiliation Fees (Note 14)	16,096	-	7,500	7,500	23,596	16,221
Travel	9,264	2,615	8,300	10,915	20,179	22,485
Equipment, In-Kind	17,960	-	-	-	17,960	3,881
Volunteer Expenses	9,473	117	283	400	9,873	19,233
Interest	-	5,764	-	5,764	5,764	-
Total Expenses Before Depreciation	57,324,083	1,300,872	1,553,678	2,854,550	60,178,633	50,246,209
Depreciation and Amortization	693,076	47,947	100,515	148,462	841,538	800,218
Total Functional Expenses	\$ 58,017,159	\$ 1,348,819	\$ 1,654,193	\$ 3,003,012	\$ 61,020,171	\$ 51,046,427
Percentage of Total	95.1 %	2.2 %	2.7 %	4.9 %	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, 2009 with Comparative Totals for the Year Ended June 30, 2008

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 612	\$ (923,842)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation and Amortization	841,538	800,218
Donated Investments	-	(650)
Loss on Sale of Equipment	9,041	6,581
Donated Vehicle, Equipment and Construction in Progress	(331,907)	(30,700)
In-Kind Contributions of Food and Non-Food (Including USDA)	(41,255,348)	(33,424,476)
Distribution of Food and Non-Food Received In-Kind	41,497,193	33,406,679
Realized and Unrealized Losses on Investments	1,657,804	1,056,503
(Increase) Decrease in Assets:		
Accounts Receivable	24,081	(8,529)
Grants Receivable	(79,056)	(40,771)
Pledges Receivable	303,862	(1,080,682)
Purchased Inventory (Food)	110,737	32,038
Prepaid Expenses and Other Assets	(176,004)	127,976
Increase (Decrease) in Liabilities:		
Accounts Payable	(182,017)	370,179
Accrued Expenses	114,482	133,163
Deferred Revenue	38,253	64,384
Net Cash Provided (Used) by Operating Activities	<u>2,573,271</u>	<u>488,071</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash Designated for New Warehouse	-	(1,000,000)
Purchase of Equipment and Construction in Progress	(1,068,859)	(1,393,974)
Proceeds from Sale of Equipment	4,950	650
Purchase of Investments	(3,414,524)	(4,222,192)
Proceeds from Sale of Investments	<u>3,356,462</u>	<u>5,197,080</u>
Net Cash Used by Investing Activities	<u>(1,121,971)</u>	<u>(1,418,436)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,451,300	(930,365)
<b>CASH AND CASH EQUIVALENTS, Beginning of Year</b>	<u>1,795,983</u>	<u>2,726,348</u>
<b>CASH AND CASH EQUIVALENTS, End of Year</b>	<u>\$ 3,247,283</u>	<u>\$ 1,795,983</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash Paid for Interest	<u>\$ 5,764</u>	<u>\$ -</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

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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 2.5 million where over 185,000 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 its direct distribution sites and by supplying food to partnering nonprofit agencies at 834 different food distribution sites.

The Agency's Strategic Objectives are:

- Provide enough food to ensure that low-income individuals do not go hungry
- Provide healthy foods to address the nutritional needs of low-income populations
- Provide access to food assistance that is both dignified and convenient
- Drive advocacy efforts forward for food assistance, nutrition and poverty – relief 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 \$8.1 million procuring, packaging, and transporting protein and other food to supplement donated items, ensuring nutritious meals to an average of 207,566 people each month. This is a 17% increase over last year. This involved the distribution of 39.1 million pounds of food, equivalent to about 30.1 million meals and up 13% over last year. This makes the Agency the 5th 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) 2008 Annual Poundage Report (Table POU4).

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 and similar safety-net organizations are seeing a "new face of need." People with strong work histories and solid educational backgrounds are seeking help for the first time in their lives. These people have been pushed into seeking food assistance after being caught up in a perfect storm of the mortgage crisis, job loss, hiring freezes, loss of medical benefits and a reduction in hours by many local companies.

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 2 - PROGRAM SERVICES (Continued):

**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, 2009, individuals and companies donated 41,283 gifts and 3,101 companies and individuals ran food drives. During the fiscal year, volunteers worked 262,056 hours on Second Harvest's behalf, the equivalent of 126 full time employees and more manpower than the Agency employs. This saved the Agency over \$4.8 million in wages in the past year.

**Second Harvest Food Bank of Santa Clara and San Mateo Counties' Programs** – Second Harvest collaborates with community based agencies in providing food at 834 different distribution sites that feed low-income members of our community.

Food Programs include:

- Brown Bag - Groceries provided on a weekly basis to an average of 14,608 people, including seniors and disabled individuals on fixed incomes.
- Family Harvest - Groceries provided monthly to low-income families with minor dependent children serving an average of 18,980 individuals per month, representing 4,365 households.
- Food Assistance - Food provided to nonprofit partner agencies including shelter, pantries, soup kitchens, children's programs, senior meal sites and residential programs.
- Partners in Need - Groceries provided on a weekly basis for an average of 579 low-income Food Bank volunteers.
- Produce Mobile - A refrigerated truck brings high quality, fresh fruits and vegetables to communities for immediate distribution to low-income residents.
- Kids NOW - (Nutrition on Weekends) Weekly bags of child friendly food distributed through partnering agencies that already work with children.
- Mobile Pantry - Food delivered to geographically-isolated communities and those with limited services.

Additional Services:

- Food Connection - Phone referral hotline links people needing food with local food assistance programs. In the past year, Food Connection provided 40,204 referrals which represented a 44% increase year-over-year and 69% of the callers sought food assistance for the first time.
- Community Nutrition - Offers training, workshops, and technical assistance to agencies and program participants in the areas of nutrition education, food safety, and handling practices. Helps clients complete the application to public programs such as Food Stamps.

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

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NOTE 2 - PROGRAM SERVICES (Continued):

- Food Stamp Outreach - To help individuals maximize the food assistance resources available to them, the Agency has partnered with the Counties of Santa Clara and San Mateo to increase Food Stamp participation. 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 benefits will be distributed faster to those in need, many of whom are unaware that they are eligible to receive assistance.

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, 2008, from which the summarized information was derived.

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

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

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 support, 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.

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 12.

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, 2009 and 2008 was valued at \$1.58 and \$1.49 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.

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

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

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and 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.

The Agency adopted the provisions of SFAS No. 157, *Fair Value Measurements*, effective July 1, 2008. Under SFAS No. 157, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

SFAS No. 157 establishes a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Agency. Unobservable inputs reflect the Agency's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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.

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Accrued Flexible Time Off (FTO) - Accrued FTO represents vacation and sick time earned, but not taken as of June 30, 2009 and 2008. The maximum FTO that can be accrued and carried over to the next year is 300 hours for employees hired prior to March 10, 2008 and 240 hours for employees hired after March 10, 2008. The accrued FTO balance as of June 30, 2009 and 2008 was \$447,434 and \$365,985, 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, 2009 and 2008 totaled \$436,158 and \$713,526, respectively. The total cost for the years ended June 30, 2009 and 2008 includes \$140,000 and \$510,000 respectively, in donated advertising.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2009 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2009. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 8, 2009.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

NOTE 4 - PLEDGES RECEIVABLE:

Pledges receivable as of June 30, consisted of the following:

	2009	2008
Receivable in Less Than One Year	\$ 884,349	\$ 650,554
Receivable in One to Five Years	<u>150,000</u>	<u>689,735</u>
Total Pledges Receivable	1,034,349	1,340,289
Less Discounts to Net Present Value	<u>(32,058)</u>	<u>(34,136)</u>
Total Net Present Value of Pledges Receivable	1,002,291	1,306,153
Current Portion of Pledges Receivable	<u>(868,990)</u>	<u>(650,554)</u>
Long-Term Portion of Pledges Receivable	<u>\$ 133,301</u>	<u>\$ 655,599</u>

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

NOTE 5 - 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. In accordance with SFAS No. 157 all of the following investments are classified as Level 1 investments (See Note 3).

The fair value of investments as of June 30, was as follows:

	<u>2009</u>	<u>2008</u>
Investments at Fair Value:		
Money Market Investments	\$ 502,976	\$ 785,109
U.S. Government Securities and Agency Obligations	2,106,193	2,315,607
Corporate Bonds and Notes	2,641,081	2,115,092
Equity Investments	3,864,909	5,294,809
Mutual Funds	<u>481,858</u>	<u>686,143</u>
Total Investments at Fair Value	<u>\$ 9,597,017</u>	<u>\$ 11,196,760</u>
Net Investment Loss:		
Interest and Dividends, Net of Investment		
Expenses of \$73,229 and \$101,118	\$ 305,290	\$ 442,916
Net Realized and Unrealized Losses	<u>(1,657,804)</u>	<u>(1,056,503)</u>
Total Net Investment Loss	<u>\$ (1,352,514)</u>	<u>\$ (613,587)</u>

NOTE 6 - LAND, BUILDING AND EQUIPMENT:

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

	<u>2009</u>	<u>2008</u>
Land	\$ 838,453	\$ 838,453
Building and Improvements	8,715,804	8,031,943
Equipment	<u>5,139,013</u>	<u>4,255,362</u>
	14,693,270	13,125,758
Less: Accumulated Depreciation	<u>(7,079,575)</u>	<u>(6,464,530)</u>
Land, Building and Equipment, Net	<u>\$ 7,613,695</u>	<u>\$ 6,661,228</u>

Depreciation expense for the years ended June 30, 2009 and 2008 totaled \$841,538 and \$800,218, respectively.



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

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NOTE 7 - DEFERRED REVENUE:

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

	<u>2009</u>	<u>2008</u>
Federal Emergency Management Agency	\$ 117,090	\$ 78,837
Total Deferred Revenue	<u>\$ 117,090</u>	<u>\$ 78,837</u>

NOTE 8 - 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, 2009 and 2008 were \$195,617 and \$139,994, respectively. All of the costs of the Plan's administration were paid for by participants.

NOTE 9 - 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.

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 10 - BOARD DESIGNATED NET ASSETS:

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

	<u>2009</u>	<u>2008</u>
Unrestricted Operating Fund:		
Designated for Operating Reserves	\$ 9,968,645	\$ 8,522,687
Designated for Disaster Relief	-	872,102
Inventory	<u>1,697,496</u>	<u>2,050,079</u>
Total Unrestricted Operating Fund	<u>11,666,141</u>	<u>11,444,868</u>
Land, Building and Equipment Fund:		
Designated for Capital Replacement Fund	2,025,621	2,292,542
Designated for New Warehouse	<u>1,000,000</u>	<u>1,000,000</u>
Total Land, Building and Equipment	<u>3,025,621</u>	<u>3,292,542</u>
Total Board Designated Net Assets	<u>\$ 14,691,762</u>	<u>\$ 14,737,410</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. 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.

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2009</u>	<u>2008</u>
Temporarily Restricted Net Assets:		
Family Harvest Program	\$ 363,820	\$ 386,741
Share Your Lunch	183,301	318,212
Capital Campaign	108,500	-
Food Solicitor Salary	85,000	-
Holiday Food Drive	45,000	-
Season of Sharing	26,995	98,670
Produce Mobile	25,000	-
IT Equipment	24,735	24,735
Sequoia Children Nutrition Program	12,898	42,898
Media Advertisement for Holiday Food Drive	-	80,000
United Way Allocation for Next Year	47,923	97,923
Packaging Costs	-	125,644
Strategic Planning	-	12,500
Total Temporarily Restricted Net Assets	<u>\$ 923,172</u>	<u>\$ 1,187,323</u>

NOTE 12 - 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, 2009 and 2008 was valued at \$1.58 and \$1.49 per pound, respectively. This valuation is based on a cost study conducted by 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:

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 12 - CONTRIBUTIONS IN-KIND (Continued):

	<u>2009</u>	<u>2008</u>
Contributions In-Kind - Government:		
Food - Government	\$ 2,496,363	\$ 1,013,761
Gift Certificates - Government	<u>70,000</u>	<u>-</u>
Total Contributions In-Kind - Government:	<u>2,566,363</u>	<u>1,013,761</u>
Contributions In-Kind - Non-Government:		
Food and Non-Food Inventory - Non-Government	38,727,640	32,282,247
Vehicle and Equipment	331,907	30,700
Media	140,000	510,000
Warehouse Space	132,600	132,600
Gift Certificates	8,408	13,356
Supplies and Minor Equipment	57,871	52,617
Professional Services	47,050	5,088
Printing and Mailings	-	14,887
Racks and Supplies	<u>-</u>	<u>4,086</u>
Total Contributions In-Kind - Non-Government:	<u>39,445,476</u>	<u>33,045,581</u>
Total Contributions In-Kind	<u>\$ 42,011,839</u>	<u>\$ 34,059,342</u>

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, 2009 and 2008 the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$4,791,076 and \$3,776,609, 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 13 - 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:

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

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NOTE 13 - NET ASSETS RELEASED FROM RESTRICTIONS (Continued):

	<u>2009</u>
Net Assets Released from Restrictions:	
Share Your Lunch	\$ 134,910
Sequoia Children Nutrition Program	30,000
Packaging Cost	125,644
Season of Sharing	98,670
Media Advertisement for Holiday Food Drive	80,000
Family Harvest Program	172,922
Strategic Planning	12,500
United Way Allocation	<u>75,000</u>
Total Net Assets Released from Restrictions	<u>\$ 729,646</u>

NOTE 14 - 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, 2009 and 2008 were \$23,596 and \$16,221, respectively.

NOTE 15 - 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.

NOTE 16 - 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.

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 17 - LINE OF CREDIT:

During the year ended June 30, 2009 the Agency established a revolving line of credit to meet short term borrowing needs. Borrowings under the line are limited to a maximum of \$3,000,000. Interest is payable monthly at the bank's prime rate and the maturity date is October 10, 2009. The loan is secured by inventory and equipment and contains a covenant clause that requires \$6,000,000 of liquidity in cash and investments. There was no balance outstanding on the line of credit at June 30, 2009. Total interest expense related to the line was \$5,764 for the year ended June 30, 2009.

## **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, 2009

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, 2009
<b>MAJOR PROGRAMS</b>								
<b>U.S. Department of Agriculture</b>								
Passed through:								
State of California Department of Social Services:								
Emergency Food Assistance Program (Food Commodities) (Note A)	10.569	7-1-08 to 6-30-09	N/A	\$ 2,496,363	\$ -	\$ 2,496,363	\$ 2,496,363	\$ -
Emergency Food Assistance Program (Administrative Costs)	10.568	10-1-07 to 9-30-08	L61059	-	88,097	88,097	-	-
Emergency Food Assistance Program (Administrative Costs)	10.568	10-1-08 to 9-30-09	L61059	232,762	-	88,097	232,762	144,665
Emergency Food Assistance Program (Tax Check Off)	10.568	7-1-08 to 6-30-09	L61059	13,619	-	13,619	13,619	-
Total U.S. Department of Agriculture				2,742,744	88,097	2,686,176	2,742,744	144,665
<b>U.S. Department of Homeland Security</b>								
Direct Program:								
Emergency Food and Shelter National Board Program (Santa Clara County)	97.114	10-1-08 to 9-30-09	N/A	79,445	-	79,445	51,138	(28,307)
(San Mateo County)		10-1-08 to 9-30-09 (Continued)	N/A	50,000	-	-	18,530	50,000 (31,470)
Emergency Food and Shelter National Board Program (Santa Clara County)	97.024	10-1-08 to 9-30-09	N/A	220,555	-	220,555	188,241	(32,314)
(San Mateo County)		4-1-09 to 12-31-09 (Continued)	N/A	50,000	-	25,000	25,000	25,000 (25,000)
Total U.S. Department of Homeland Security				400,000	-	325,000	282,909	(42,091)
<b>Federal Emergency Management Agency</b>								
Emergency Food and Shelter National Board Program (Santa Clara County)	83.523	10-1-07 to 9-30-08	24-0880-00 007	-	(51,337)	51,337	51,337	-
(San Mateo County)		1-1-08 to 12-31-08	24-0880-00 007	-	13,750	13,750	-	-
(San Mateo County)		1-1-08 to 12-31-08	24-0880-00 007	-	(27,500)	-	27,500	-
Total Emergency Food and Shelter National Board Program					(65,087)	65,087	78,837	

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, 2009, the Agency had USDA food commodities totaling \$310,391 in inventory.

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



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

Year Ended June 30, 2009

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, 2009
<b>NON-MAJOR PROGRAMS</b>								
<b>U.S. Department of Health and Human Services</b>								
CNN - Food Stamp Outreach	N/A	10-1-07 to 9-30-08	N/A	94,771	-	13,223	13,223	-
		10-1-08 to 9-30-09	N/A	109,152	-	23,065	35,685	12,620
		10-1-07 to 6-30-08	N/A	-	24,357	24,357	-	-
CNN - Nutrition Education	N/A	10-1-07 to 9-30-08	N/A	80,866	-	26,784	26,784	-
		10-1-08 to 9-30-09	N/A	109,109	-	56,144	85,456	29,312
		10-1-07 to 6-30-08	N/A	-	21,443	21,443	-	-
Total U.S. Department of Health and Human Services				393,898	45,800	165,016	161,148	41,932
<b>Total U.S. Department of Agriculture</b>								
Passed through:								
State of California Department of Education Senior Farmers' Market Nutrition Program)	N/A	7-1-08 to 6-30-09	N/A	70,000	-	70,000	70,000	-
School Nutrition Program and the Summer Food Service Program	N/A	7-1-08 to 6-30-09	N/A	975	-	975	975	-
Total U.S. Department of Agriculture				70,975	-	70,975	70,975	-

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

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES  
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SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS  
(Continued)

Year Ended June 30, 2009

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, 2009
<u>U.S. Department of Housing and Urban Development</u>								
Community Development Block Grants, passed through:								
City of Cupertino	14.218	7-1-07 to 6-30-08	N/A	-	878	878	-	-
		7-1-08 to 6-30-09	N/A	3,430	-	2,573	3,430	857
City of Daly City	14.218	7-1-07 to 6-30-08	N/A	-	2,375	2,375	-	-
		7-1-08 to 6-30-09	N/A	9,500	-	7,125	9,500	2,375
City of Gilroy	14.218	7-1-07 to 6-30-08	N/A	-	1,500	1,500	-	-
		7-1-08 to 6-30-09	N/A	7,500	-	7,500	7,500	-
Town of Los Gatos	14.218	7-1-07 to 6-30-08	N/A	-	950	950	-	-
		7-1-08 to 6-30-09	N/A	3,800	-	2,850	3,800	950
City of Menlo Park	14.218	7-1-08 to 6-30-09	N/A	7,500	-	7,500	7,500	-
City of Milpitas	14.218	7-1-07 to 6-30-08	N/A	-	1,250	1,250	-	-
		7-1-08 to 6-30-09	N/A	5,000	-	3,750	5,000	1,250
City of Morgan Hill	14.218	7-1-07 to 6-30-08	N/A	-	1,485	1,485	-	-
		7-1-08 to 6-30-09	N/A	6,000	-	4,500	6,000	1,500
City of Mountain View	14.218	7-1-07 to 6-30-08	N/A	-	1,087	1,087	-	-
		7-1-08 to 6-30-09	N/A	5,797	-	3,699	3,993	294
Town of Los Altos	14.218	7-1-08 to 6-30-09	N/A	2,800	-	2,800	2,800	-
City of San Jose	14.218	7-1-07 to 6-30-08	N/A	-	6,250	6,250	-	-
		7-1-08 to 6-30-09	N/A	25,950	-	19,461	25,950	6,489
City of Santa Clara	14.218	7-1-07 to 6-30-08	N/A	-	2,736	2,736	-	-
		7-1-08 to 6-30-09	N/A	6,041	-	3,611	6,041	2,430
City of South San Francisco	14.218	7-1-07 to 6-30-08	N/A	-	1,125	1,125	-	-
		7-1-08 to 6-30-09	N/A	5,000	-	3,750	5,000	1,250
City of Sunnyvale	14.218	7-1-08 to 6-30-09	N/A	3,925	-	3,925	3,925	-
Total U.S. Department of Housing and Urban Development				92,243	19,636	92,680	90,439	17,395
Total Federal Awards				3,699,860	88,446	3,404,934	3,427,052	161,901

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

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

**Year Ended June 30, 2009**

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, 2009
<b>OTHER GOVERNMENTAL AWARDS</b>								
Santa Clara County - Department of Social Services	N/A	7-1-07 to 6-30-08	N/A	-	38,417	38,417	-	-
		7-1-08 to 6-30-09	N/A	722,702	-	722,702	722,702	-
Santa Clara County-Department of Social Services-First 5	N/A	7-1-08 to 6-30-09	N/A	15,000	-	15,000	15,000	-
San Mateo County - Department of Social Services	N/A	7-1-06 to 6-30-07	N/A	-	3,164	3,164	-	-
		7-1-07 to 6-30-08	N/A	-	12,658	12,658	-	-
		7-1-08 to 6-30-09	N/A	52,152	-	39,114	52,152	13,038
		7-1-08 to 6-30-09	N/A	13,038	-	9,779	13,038	3,259
San Mateo Co. - Food Stamp Outreach	N/A	7-1-07 to 6-30-08	N/A	-	17,982	17,982	-	-
		7-1-08 to 6-30-09	N/A	37,082	-	18,727	37,082	18,355
Aging and Adult Services of San Mateo (Gift Certificates)	N/A	7-1-07 to 6-30-08	N/A	-	2,428	2,428	-	-
		7-1-08 to 6-30-09	N/A	3,204	-	3,204	3,204	-
California Department of Aging - CBSP - Brown Bag	N/A	7-1-05 to 6-30-08	N/A	-	1,885	1,885	-	-
		7-1-08 to 6-30-09	N/A	21,087	-	19,060	21,087	2,027
City of Colma - General Fund	N/A	7-1-08 to 6-30-09	N/A	2,500	-	2,500	2,500	-
City of Palo Alto - General Fund	N/A	7-1-05 to 6-30-08	N/A	-	1,745	1,745	-	-
		7-1-08 to 6-30-09	N/A	7,503	-	5,758	7,503	1,745
City of Redwood City - General Fund	N/A	7-1-08 to 6-30-09	N/A	8,000	-	8,000	8,000	-
City of Campbell - General Fund	N/A	7-1-08 to 6-30-09	N/A	7,500	-	7,500	7,500	-
City of San Mateo - General Fund	N/A	7-1-08 to 6-30-09	N/A	7,200	-	-	7,200	7,200
City of Foster City - General Fund	N/A	7-1-08 to 6-30-09	N/A	1,000	-	1,000	1,000	-
Total Other Governmental Awards				897,968	78,279	930,623	897,968	45,624
<b>TOTAL GOVERNMENTAL AWARDS</b>				<b>\$ 4,597,828</b>	<b>\$ 166,725</b>	<b>\$ 4,335,557</b>	<b>\$ 4,325,020</b>	<b>\$ 207,525</b>

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

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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**

EMERITUS

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

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

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, 2009, and have issued our report thereon dated September 8, 2009. 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 8, 2009.

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 cursive script that reads "Berger/Lewis Accountancy Corporation".

BERGER/LEWIS ACCOUNTANCY CORPORATION  
San Jose, California  
September 8, 2009



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, 2009. 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, 2009.



## 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 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 8, 2009

## **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, 2009

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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, Emergency Food Assistance Program (Administrative Costs) - CFDA 10.568, Emergency Food and Shelter National Board Program - CFDA 97.114, Emergency Food and Shelter National Board Program - CFDA 97.024, Emergency Food and Shelter National Board Program - CFDA 83.523.
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 qualified as 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 - 7/1/08 to 6/30/09

None

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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, 2009

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Name of program - Emergency Food Assistance Program (Administrative Costs)  
CFDA No. - 10.568  
Grant period - 7/1/08 to 6/30/09  
None

U.S. DEPARTMENT OF HOMELAND SECURITY

Name of program - Emergency Food and Shelter National Board Program  
CFDA No. - 97.114  
Grant period - 7/1/08 to 6/30/09  
None

Name of program - Emergency Food and Shelter National Board Program  
CFDA No. - 97.024  
Grant period - 7/1/08 to 6/30/09  
None

FEDERAL EMERGENCY MANAGEMENT AGENCY

Name of program - Emergency Food and Shelter National Board Program  
CFDA No. - 83.523  
Grant period - 7/1/08 to 6/30/09  
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, 2009

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NONE