

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, 2014 with Comparative Totals
for the Year Ended June 30, 2013

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

FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)

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

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties ("Food Bank" or "Second Harvest") (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Santa Clara and San Mateo Counties as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Second Harvest Food Bank of Santa Clara and San Mateo Counties' financial statements for the year ended June 30, 2013, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and other governmental awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over financial reporting and compliance.



BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 2, 2014

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

STATEMENT OF FINANCIAL POSITION

June 30, 2014 with Comparative Totals as of June 30, 2013

	OPERATING FUND		LAND, BUILDING AND EQUIPMENT FUND	TOTAL	
	Unrestricted	Temporarily Restricted		2014	2013
ASSETS:					
Cash and Cash Equivalents	\$ 9,949,746	\$ 2,571,524	\$ -	\$ 12,521,270	\$ 8,252,555
Accounts Receivable	8,926	-	-	8,926	29,986
Grants Receivable	398,631	-	-	398,631	502,328
Pledges Receivable (Note 4)	-	2,315,728	-	2,315,728	4,524,934
Inventory (Note 5)	2,343,516	-	-	2,343,516	3,594,441
Prepaid Expenses and Other Assets	714,048	-	-	714,048	693,363
Investments - Board Designated Endowment (Note 6)	4,494,845	-	-	4,494,845	851,098
Investments - Other (Note 6)	9,921,456	-	7,221,544	17,143,000	15,332,845
Land, Building and Equipment, Net (Note 7)	-	-	23,450,917	23,450,917	23,413,860
TOTAL ASSETS	\$ 27,831,168	\$ 4,887,252	\$ 30,672,461	\$ 63,390,881	\$ 57,195,410
LIABILITIES AND NET ASSETS:					
LIABILITIES:					
Accounts Payable	\$ 1,893,705	\$ -	\$ -	\$ 1,893,705	\$ 706,805
Accrued Expenses	1,004,162	-	-	1,004,162	1,008,079
Note Payable (Note 9)	-	-	991,256	991,256	1,965,176
Total Liabilities	2,897,867	-	991,256	3,889,123	3,680,060
NET ASSETS:					
Unrestricted Net Assets:					
Undesignated	500,000	-	-	500,000	500,000
Board Designated (Note 11)	24,433,301	-	7,221,544	31,654,845	26,556,682
Land, Building and Equipment Fund	-	-	22,459,661	22,459,661	21,448,684
Total Unrestricted Net Assets	24,933,301	-	29,681,205	54,614,506	48,505,366
Temporarily Restricted Net Assets (Note 12)	-	4,887,252	-	4,887,252	5,009,984
Total Net Assets	24,933,301	4,887,252	29,681,205	59,501,758	53,515,350
TOTAL LIABILITIES AND NET ASSETS	\$ 27,831,168	\$ 4,887,252	\$ 30,672,461	\$ 63,390,881	\$ 57,195,410

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, 2014 with Comparative Totals for the Year Ended June 30, 2013

	2014			2013
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support:				
Contributions	\$ 28,689,147	\$ 2,648,358	\$ 31,337,505	\$ 27,366,526
Contributions - Capital Campaign	-	35,000	35,000	738,524
Contributions In-Kind - Non-Government (Note 14)	67,146,885	-	67,146,885	59,600,964
Special Events (Less Direct Donor Benefits)	-	-	-	75,127
United Way Support	161,410	-	161,410	166,255
Total Support	<u>95,997,442</u>	<u>2,683,358</u>	<u>98,680,800</u>	<u>87,947,396</u>
Revenue:				
Governmental Assistance - Cash	2,109,072	-	2,109,072	2,024,555
Governmental Assistance - In-Kind (Note 14)	7,788,005	-	7,788,005	12,054,715
Net Investment Income (Note 6)	2,358,580	-	2,358,580	1,083,836
Other Losses	(6,470)	-	(6,470)	(96,256)
Total Revenue	<u>12,249,187</u>	<u>-</u>	<u>12,249,187</u>	<u>15,066,850</u>
Total Support and Revenue	108,246,629	2,683,358	110,929,987	103,014,246
Net Assets Released from Restrictions (Note 13)	<u>2,806,090</u>	<u>(2,806,090)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>111,052,719</u>	<u>(122,732)</u>	<u>110,929,987</u>	<u>103,014,246</u>
EXPENSES:				
Program Services:				
Food Distribution (Note 2)	100,291,774	-	100,291,774	92,419,744
Supporting Services:				
Management and General	2,103,188	-	2,103,188	1,841,005
Fundraising	2,548,617	-	2,548,617	2,249,742
Total Supporting Services Expenses	<u>4,651,805</u>	<u>-</u>	<u>4,651,805</u>	<u>4,090,747</u>
Total Expenses	<u>104,943,579</u>	<u>-</u>	<u>104,943,579</u>	<u>96,510,491</u>
CHANGE IN NET ASSETS	6,109,140	(122,732)	5,986,408	6,503,755
NET ASSETS, Beginning of Year	<u>48,505,366</u>	<u>5,009,984</u>	<u>53,515,350</u>	<u>47,011,595</u>
NET ASSETS, End of Year	<u>\$ 54,614,506</u>	<u>\$ 4,887,252</u>	<u>\$ 59,501,758</u>	<u>\$ 53,515,350</u>

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, 2014 with Comparative Totals for the Year Ended June 30, 2013

	PROGRAM SERVICES		SUPPORTING SERVICES		TOTAL EXPENSES	
	Food Distribution	Management and General	Fundraising	Total	2014	2013
Salaries	\$ 5,824,311	\$ 1,043,834	\$ 1,050,314	\$ 2,094,148	\$ 7,918,459	\$ 7,475,096
Employee Benefits	1,324,286	242,132	242,249	484,381	1,808,667	1,608,723
Payroll Taxes	467,258	77,418	80,874	158,292	625,550	573,714
Worker's Compensation Insurance	240,251	43,927	43,949	87,876	328,127	247,615
Total Salaries and Related Expenses	7,856,106	1,407,311	1,417,386	2,824,697	10,680,803	9,905,148
Donated Food and Supplies Distributed	75,981,440	-	-	-	75,981,440	69,593,888
Purchased Food and Supplies Distributed	9,439,652	-	-	-	9,439,652	9,195,889
Supplies, Including In-Kind	731,507	19,260	28,744	48,004	779,511	549,810
Freight and Storage	908,985	-	-	-	908,985	760,927
Occupancy	714,623	94,099	94,163	188,262	902,885	741,553
Advertising and Media, Including In-Kind	684,536	-	-	-	684,536	444,664
Direct Mailing Costs	14,293	-	636,668	636,668	650,961	445,718
Vehicle Operating Costs	568,667	147	-	147	568,814	554,820
Outside Services	524,518	4,271	12,115	16,386	540,904	679,418
Postage and Printing	291,627	2,492	69,679	72,171	363,798	566,553
Professional Services, Including In-Kind	221,499	84,986	52,355	137,341	358,840	279,245
Equipment for Agency Infrastructure	301,000	-	-	-	301,000	-
Bank and Payroll Charges	-	243,424	-	243,424	243,424	235,038
Telephone	168,195	30,752	30,767	61,519	229,714	207,106
Equipment Rental and Maintenance	173,072	21,582	21,392	42,974	216,046	205,091
Insurance	143,250	26,858	4,680	31,538	174,788	157,154
Conferences, Conventions and Meetings	45,949	9,914	10,570	20,484	66,433	44,522
Dues and Subscriptions	28,871	8,718	13,781	22,499	51,370	49,328
Travel	28,664	1,623	7,821	9,444	38,108	33,386
Volunteer Expenses	33,423	-	-	-	33,423	37,306
Interest	26,080	-	-	-	26,080	43,113
Affiliation Fees (Note 15)	18,044	-	-	-	18,044	15,980
Recruitment Expenses	5,505	317	440	757	6,262	15,910
Total Expenses Before Depreciation	98,909,506	1,955,754	2,400,561	4,356,315	103,265,821	94,761,567
Depreciation	1,382,268	147,434	148,056	295,490	1,677,758	1,748,924
Total Functional Expenses	\$ 100,291,774	\$ 2,103,188	\$ 2,548,617	\$ 4,651,805	\$ 104,943,579	\$ 96,510,491
Percentage of Total	95.6 %	2.0 %	2.4 %	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, 2014 with Comparative Totals for the Year Ended June 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 5,986,408	\$ 6,503,755
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	1,677,758	1,748,924
Loss on Sale of Equipment	41,535	153,598
Donated Vehicles and Equipment	(39,326)	(461,883)
Net Present Value Amortization Adjustment	36,896	(35,333)
Contributions Restricted for Long-Term Purposes	(1,461,413)	(738,524)
In-Kind Contributions of Food and Non-Food (Including USDA)	(74,630,163)	(71,057,867)
Distribution of Food and Non-Food Received In-Kind	75,981,440	69,593,888
Net Realized and Unrealized Gains on Investments	(1,983,692)	(805,264)
(Increase) Decrease in Assets:		
Accounts Receivable	21,060	(18,914)
Grants Receivable	103,697	(77,711)
Pledges Receivable	2,198,390	480,920
Purchased Inventory (Food)	(100,352)	334,818
Prepaid Expenses and Other Assets	(20,685)	(67,892)
Increase (Decrease) in Liabilities:		
Accounts Payable	946,344	(502,729)
Accrued Expenses	(3,917)	20,235
Net Cash Provided by Operating Activities	8,753,980	5,070,021
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Land, Building and Equipment	(1,510,092)	(1,945,382)
Proceeds from Sale of Equipment	33,624	5,084
Purchase of Investments	(10,227,644)	(9,882,699)
Proceeds from Sale of Investments	6,757,434	6,251,536
Net Cash Flows Used by Investing Activities	(4,946,678)	(5,571,461)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Long-Term Purposes	1,461,413	738,524
Payment on Note Payable	(1,000,000)	(1,000,000)
Net Cash Provided (Used) by Financing Activities	461,413	(261,476)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,268,715	(762,916)
CASH AND CASH EQUIVALENTS, Beginning of Year	8,252,555	9,015,471
CASH AND CASH EQUIVALENTS, End of Year	\$ 12,521,270	\$ 8,252,555
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Land, Building and Equipment Acquired with Short-Term Debt	\$ 240,556	\$ -

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)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

Second Harvest Food Bank of Santa Clara and San Mateo Counties ("Food Bank" or "Second Harvest") is a nonprofit 501(c)(3) organization incorporated in 1979. Second Harvest Food Bank of Santa Clara and San Mateo Counties is the trusted leader dedicated to ending local hunger. Since its inception in 1974, Second Harvest has become one of the largest food banks in the nation, providing food to an average of one quarter of a million people each month. The Food Bank mobilizes individuals, companies and community partners to connect people to the nutritious food they need. More than half of the food distributed is fresh produce. Second Harvest also plays a leading role in promoting federal nutrition programs and educating families on how to make healthier food choices. Visit www.SHFB.org for more information.

As part of its determination to ensure that anyone who needs a meal can get one, Second Harvest launched a new three-year strategic plan during the past year. The Food Bank is focusing its efforts in the following areas:

- Efficiency - Optimizing the supply chain to maximize impact;
- Technology - Using technology to connect more people to food; and
- Leadership - Leading and educating around the issue of hunger.

The Food Bank will measure its success based on its ability to increase the number of meals provided to hungry households in the community, improve its efficiency as captured by a variety of measures and to improve the nutritional quality and variety of the foods provided.

Second Harvest procures food donations from a number of channels, including local manufacturers, growers and retailers; corporate and community food drives; government food programs such as United States Department of Agriculture (USDA); and the California Association of Food Banks' Farm to Family Program, which provides large volumes of fresh fruits and vegetables. In the most recent fiscal year, Second Harvest spent approximately \$11.4 million procuring, packaging, and transporting food to supplement donated items, ensuring nutritious meals to an average of 246,217 people each month. Of the 55.3 million pounds of food distributed, 54% was fresh fruits and vegetables. Second Harvest provides food through its direct-distribution sites and by supplying food to partnering nonprofit agencies at more than 770 different food distribution sites. In addition, local households signed up by Second Harvest for CalFresh (food stamps) benefits were able to obtain approximately 6.5 million additional pounds of food by virtue of that successful outreach effort. The incremental food provided via Second Harvest efforts—both through direct distribution and CalFresh outreach – totaled over 61.8 million pounds.

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Support

To operate its programs and services, the Food Bank depends on strong donor and volunteer support. During the fiscal year that ended on June 30, 2014, 51,935 individuals, foundations, organizations and companies donated 97,862 gifts. During that same fiscal year, volunteers worked 316,176 hours on Second Harvest's behalf, the equivalent of 152 full-time employees, more than the Food Bank employs. This saved Second Harvest an estimated \$6.6 million in wages.

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:

Second Harvest Food Bank of Santa Clara and San Mateo Counties and similar safety-net organizations continue to be impacted by the economic downturn with its uneven recovery, which has continued to generate historically high demand for support services. The area's high cost of living has left many low and middle class households struggling to make ends meet. Vulnerable populations such as seniors and children have seen elimination of, or significant cuts in, traditional government-funded programs and services. Need for food assistance appears to be shifting from "crisis" to "chronic", with a growing number of clients seeking help on an on-going and less episodic basis. This has increased community reliance on nonprofit service organizations such as Second Harvest and its agency partners.

Second Harvest's Hunger Index, developed in collaboration with the Leavey School of Business and the Food and Agribusiness Institute at Santa Clara University, shows that the Food Bank, and its partner network, accounts for 19% of the food assistance provided in Santa Clara and San Mateo Counties. However, the Hunger Index also indicates there is a "meal gap" of more than 200 million missing meals in our community – meals that seniors, children and families need but are not able to provide from any source. To bridge the meal gap and strengthen the nutritional safety net, Second Harvest has begun working differently with its 333 partner agencies that are on the front lines of fighting hunger every day. At town hall meetings in the spring, Second Harvest launched the new **Community Partner Strategy**. Agencies were evaluated and placed in specific categories based on their capacity and willingness to distribute more food and feed more people. Those partners willing and able to grow with the Food Bank will receive additional food, services, investment and support to assist them in doing more.

Additionally, Second Harvest divided its service area into nine zones each with specific needs, demographics and partner engagement. Second Harvest had initially focused on preparing services plans in two specific areas: southern Santa Clara County and southern San Mateo County. The resulting "deep dive" strategies will be models for how the Food Bank collaborates and empowers its partners, and ultimately increases services for the other seven zones.

To address the continued high demand, Second Harvest increased its purchasing budget to provide additional high-quality, nutritious food. Examples of the extra and/or new food: more protein for family programs; yogurt, cheese sticks and other individually wrapped healthy items for children's programs; milk and canned food specifically for soup kitchens; food in easy open containers appropriate for the increasing homeless population; and additional chicken, tuna and canned goods for pantries. Funds were allocated to obtain fresh produce from farther away as the California drought deepened.

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Programs

Second Harvest collaborates with community-based organizations to provide food at more than 770 different distribution sites for low-income members of our community. The Food Bank does this through agency partners and via direct-service programs to demographic groups and geographic locations that would otherwise be underserved.

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

NOTE 2 - PROGRAM SERVICES (Continued):

Agency Partners:

- The Food Assistance Program is Second Harvest's primary food distribution program. Food is provided without charge to 333 local nonprofit agencies that feed hungry people, including pantries, shelters, soup kitchens, children's afterschool programs and senior meal sites. Second Harvest is one of only a handful of food banks nationally that does not charge anything for the food it provides. Second Harvest's goal is to deliberately and directly leverage its partners' complementary efforts to address homelessness, to provide job training and to improve educational outcomes...all of which also impact food insecurity.
- Agency Infrastructure Grants were provided and strengthen the nutritional safety net. Second Harvest provided equipment valued at over \$300,000 to its partner agencies. That infrastructure support will allow them to increase the amount of food they distribute as well as increase food storage, safety and handling capabilities. The equipment included walk-in cold storage units, shelving, flooring, and pallet jacks.

Food Bank Direct-Service Programs:

- Brown Bag provides food on a weekly basis to low-income seniors.
- Family Harvest provides monthly food assistance to families with dependent children.
- Produce Mobile operates like a mobile farmer's market, providing fresh fruits and vegetables to communities for immediate distribution to low-income residents.
- Kids NOW (Nutrition on Weekends) provides weekly bags of healthy, kid-friendly food for children to take home every Friday.

Second Harvest also provides weekly food assistance for low-income Food Bank volunteer households and delivers food to geographically-isolated communities and those with limited services.

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Services:

- Advocacy serves an important role in raising a voice for the needs of the Food Bank's clients. This is done by educating policy makers and stakeholders about the importance of public-private partnerships in addressing hunger. Second Harvest works with a range of local, state and national organizations to help shape structural changes to food and nutrition programs that impact its services and those of its client populations.
- Food Connection is a multi-lingual food referral hotline (1-800-984-3663) that links people needing food with local assistance programs and CalFresh screening. In the past year, Food Connection provided 43,768 referrals.

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):

- Community Nutrition Education provides nutrition, food safety and food handling training and support materials for clients and partner agencies. Multi-lingual nutritionists use innovative teaching tools to educate clients to make the healthiest food choices. This year, staff worked on two United States Department of Agriculture (USDA) Supplemental Nutrition Assistance Program (SNAP) education grants. The first focused on developing a train-the-trainer teaching program for partner agencies. The second allowed Second Harvest to provide a broader range of educational and resource materials to clients at food distribution sites while also measuring the behavioral impact of those efforts.
- CalFresh Outreach helps families and individuals in need apply for this locally underutilized Federal government food-assistance program (also known as SNAP, formerly Food Stamps), which provides a debit card to low-income households to purchase food. Working in partnership with Santa Clara and San Mateo county governments and scores of other community partners, Second Harvest's CalFresh Outreach Specialists conduct outreach in community locations such as libraries, medical clinics, schools, food-distribution partner organizations and nonprofits. As a result of that work, over \$12 million in incremental benefits were distributed to 4,066 needy households over the course of the fiscal year that ended June 30, 2014. This also provided an economic boost of nearly \$22 million for the local community in the form of incremental purchasing, employment, etc. This program has also seen cuts in client benefits over the past year. This public-private partnership further leverages the Food Bank's limited resources and is essential to ending local hunger.

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Special Project

During the year, Second Harvest finalized data collection for **Hunger in America 2014**, an extensive national study of hunger, which has been conducted quadrennially since 1993 with Feeding America. The study includes multi-lingual client surveys using technology and surveys of local community-based organizations to capture detailed information about people seeking food assistance, their circumstances and the nonprofits providing services. Results of the study were published in August 2014 and will be used to improve food-assistance services for households facing hunger.

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 - In accordance with accounting principles generally accepted in the United States of America, the Food Bank 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.

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):

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Food Bank. Under this category, the Food Bank 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. There are currently no permanently restricted net assets.

Land, building and equipment fund 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Food Bank's financial statements for the year ended June 30, 2013, 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 support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

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 Food Bank maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Food Bank 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 Food Bank considers all accounts, grants and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

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):

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, 2014 and 2013 was valued at \$1.72 and \$1.69 per pound, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

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 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.

Fair Value Measurements - 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."

A hierarchy has been established 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 Food Bank. Unobservable inputs reflect the Food Bank'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 Food Bank's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
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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.

Revenue Recognition - The Food Bank 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 recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Second Harvest will not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. A promise that calls for specific outcomes to be achieved will be treated as a conditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in unrestricted net assets if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in temporarily restricted net assets. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - 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 Food Bank would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Food Bank also receives donated services that do not require specific expertise but which are nonetheless central to the Food Bank's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 14.

Accrued Flexible Time Off (FTO) - Accrued FTO represents vacation and sick time earned, but not taken as of June 30, 2014 and 2013. 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, 2014 and 2013 was \$625,009 and \$570,153, respectively, and is included in accrued expenses.

Allocation of Functional Expenses - Management estimates Second Harvest's indirect salary expense allocation based on individual employees estimated time spent by function or time studies. Management's estimate of other indirect costs are based on salary expense, poundage, or actual food distribution by counties.

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.

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

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

Uncertainty in Income Taxes - Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Food Bank in its federal and state exempt organization tax returns are more-likely-than-not to be sustained upon examination.

The Food Bank's federal returns for the years ended June 30, 2013, 2012 and 2011 could be subject to examination by federal taxing authorities, generally for 3 years after they are filed. The Food Bank's state returns for the years ended June 30, 2013, 2012, 2011 and 2010 could be subject to examination by state taxing authorities, generally for 4 years after they are filed.

Advertising - Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2014 and 2013 totaled \$684,536 and \$444,664, respectively. Of these costs, \$174,692 and \$74,289, respectively were in-kind contributions.

Subsequent Events - Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2014 for potential recognition or disclosure in the financial statements. The Food Bank did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2014. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 2, 2014.

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:

	<u>2014</u>	<u>2013</u>
Receivable in Less Than One Year	\$ 1,567,522	\$ 3,090,610
Receivable in One to Five Years	<u>832,383</u>	<u>1,507,685</u>
Total Pledges Receivable	2,399,905	4,598,295
Less Discounts to Net Present Value	<u>(84,177)</u>	<u>(73,361)</u>
Total Net Present Value of Pledges Receivable	2,315,728	4,524,934
Current Portion of Pledges Receivable	<u>(1,567,522)</u>	<u>(3,090,610)</u>
Long-Term Portion of Pledges Receivable	<u>\$ 748,206</u>	<u>\$ 1,434,324</u>

Cypress Semiconductor pledged \$4 million to enable the acquisition of the new facility. The amount and timing of the pledge payments coincides with the terms of the installment loan (see Note 9).

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

NOTE 5 - 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 non-government food and donated government food was valued at \$1.72 and \$1.69 per pound for the years ended June 30, 2014 and 2013, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price. All donated food, non-food items and USDA commodities inventory are classified as Level 2 assets and all purchased food inventory is classified as a Level 1 asset (see Note 3).

Inventory as of June 30, was as follows:

	2014	2013
Inventory:		
Donated Non-Government Food and Non-Food	\$ 1,284,295	\$ 2,171,973
USDA Food Commodities	603,648	1,067,247
Purchased Food	455,573	355,221
Total Inventory	\$ 2,343,516	\$ 3,594,441

NOTE 6 - INVESTMENTS:

The Food Bank'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 Food Bank's investment portfolio is structured and maintained with the overall objective of providing the resources and liquidity for the Food Bank to fulfill its mission statement. 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:

	2014	2013
Investments at Fair Value:		
Equity Investments	\$ 8,567,285	\$ 6,764,156
U.S. Government Securities and Agency Obligations	5,844,362	4,045,146
Mutual Funds	3,111,418	1,077,562
Corporate Bonds and Notes	2,533,542	2,565,830
Money Market Investments	1,209,905	1,731,249
Real Estate Investment Trusts	371,333	-
Total Investments at Fair Value	\$ 21,637,845	\$ 16,183,943

Investments as presented on the Statement of Financial Position:

	2014	2013
Investments - Board Designated Endowment (Note 19)	\$ 4,494,845	\$ 851,098
Investments - Other	17,143,000	15,332,845
Total Investments	\$ 21,637,845	\$ 16,183,943

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

NOTE 6 - INVESTMENTS (Continued):

Net investment income for the years ended June 30, was as follows:

	<u>2014</u>	<u>2013</u>
Interest and Dividends, Net of Investment		
Expenses of \$133,914 and \$89,775	\$ 374,888	\$ 278,572
Net Realized and Unrealized Gains	<u>1,983,692</u>	<u>805,264</u>
Total Net Investment Income	<u>\$ 2,358,580</u>	<u>\$ 1,083,836</u>

NOTE 7 - LAND, BUILDING AND EQUIPMENT:

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

	<u>2014</u>	<u>2013</u>
Land	\$ 3,865,858	\$ 3,865,858
Building and Improvements	22,383,939	21,341,734
Equipment	8,983,245	8,600,782
Assets in Progress	<u>64,603</u>	<u>332,286</u>
	35,297,645	34,140,660
Less: Accumulated Depreciation	<u>(11,846,728)</u>	<u>(10,726,800)</u>
Land, Building and Equipment, Net	<u>\$ 23,450,917</u>	<u>\$ 23,413,860</u>

Depreciation expense for the years ended June 30, 2014 and 2013 totaled \$1,677,758 and \$1,748,924, respectively.

NOTE 8 - LINES OF CREDIT:

The Food Bank established a revolving line of credit with Wells Fargo Bank to meet short-term working capital borrowing needs. Borrowings under the line of credit for the fiscal years ended June 30, 2014 and 2013 were limited to a maximum of \$4,000,000. Interest on outstanding funds is payable monthly at the bank's prime rate. The maturity date is April 10, 2015. The credit line is secured by certain assets owned by the Food Bank and contains a covenant clause that requires \$10,000,000 of liquidity in cash and investments to be maintained with Wells Fargo Bank or any Wells Fargo Affiliated financial institution. There was no balance outstanding or related interest expense on this line of credit for either of the years ended June 30, 2014 and 2013.

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

NOTE 9 - NOTE PAYABLE:

During the year ended June 30, 2011 the Food Bank acquired from Cypress Semiconductor a building to be used as a food distribution warehouse. To acquire the building, the Food Bank entered into a loan payable in the amount \$4,000,000 to Cypress Semiconductor. The loan bears 0% interest and is payable in four equal annual payments of \$1,000,000 beginning on December 31, 2011. Second Harvest owed \$991,256 and \$1,965,176 (net of imputed interest) on this note as of June 30, 2014 and 2013, respectively.

Future payments for the above notes payable are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,000,000
Less Imputed Interest	<u>(8,744)</u>
Total Present Value of Future Payments	<u>\$ 991,256</u>

During the year ended June 30, 2011 the lender also made an irrevocable contribution of \$4,000,000 to the Food Bank which will be paid in four separate installments beginning on December 31, 2011.

NOTE 10 - OPERATING LEASE COMMITMENTS:

The Food Bank 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
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 11 - BOARD DESIGNATED NET ASSETS:

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

	2014	2013
Unrestricted Operating Fund:		
Designated for Operating Reserves	\$ 16,094,940	\$ 14,874,984
Urgent Food and Infrastructure Fund	1,500,000	1,000,000
Inventory	2,343,516	3,594,441
Total Unrestricted Operating Fund	19,938,456	19,469,425
Land, Building and Equipment Fund:		
Designated for Capital Replacement Fund	7,221,544	6,236,159
Board Designated Endowment Fund	4,494,845	851,098
Total Board Designated Net Assets	\$ 31,654,845	\$ 26,556,682

As part of the Food Bank's annual review of designated assets, the Board adopted specific guidelines for establishing the level of each designation. Operating Reserves include approximately six months of the coming year's annual budget, with adjustments for purchased inventory on hand and current liabilities. Current investment in inventory is reviewed on a monthly basis and is generally below one month's distribution. The Designated for Capital Replacement Fund is calculated as the present-value of a ten year current asset replacement plan.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS:

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

	2014	2013
Temporarily Restricted Net Assets:		
Purpose Restrictions:		
Share Your Lunch	\$ 2,231,157	\$ 46,538
Capital Campaign	1,439,278	2,820,206
Season of Sharing	128,700	120,900
CalFresh	100,000	145,000
Brown Bag	86,667	87,500
Family Harvest Program	50,000	100,000
Holiday Food Drive	25,000	110,000
Produce Mobile	-	10,000
Turkey Trot	-	5,000
Time Restrictions:		
General Support for Future Periods	826,450	1,564,840
Total Temporarily Restricted Net Assets	\$ 4,887,252	\$ 5,009,984

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

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:

	2014
Net Assets Released from Restrictions:	
Capital Campaign	\$ 1,415,928
Time Restrictions	806,891
CalFresh	145,000
Season of Sharing	120,900
Holiday Food Drive	110,000
Family Harvest Program	100,000
Share Your Lunch	46,538
Brown Bag	45,833
Produce Mobile	10,000
Turkey Trot	5,000
Total Net Assets Released from Restrictions	\$ 2,806,090

NOTE 14 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated food, gift certificates, property and equipment, advertisements, supplies and expert services received are recorded as contributions. Donated food for the years ended June 30, 2014 and 2013 was valued at \$1.72 and \$1.69 per pound, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

During the years ended June 30, the following in-kind contributions were received by the Food Bank:

	2014	2013
Government Assistance - In-Kind:		
Food - Government	\$ 7,788,005	\$ 12,054,715
Contributions In-Kind - Non-Government:		
Food and Non-Food Inventory - Non-Government	66,603,295	58,788,634
Supplies and Minor Equipment	302,042	260,446
Media	174,692	74,289
Vehicles and Equipment	39,326	79,434
Gift Certificates	27,530	14,762
Computers	-	382,449
Professional Services	-	950
Total Contributions In-Kind - Non-Government	67,146,885	59,600,964
Total Contributions In-Kind	\$ 74,934,890	\$ 71,655,679

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

NOTE 14 - CONTRIBUTIONS IN-KIND (Continued):

The Food Bank also receives donated services that do not require specific expertise but which are nonetheless central to the Food Bank's operations. For the years ended June 30, 2014 and 2013 the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$6,638,771 and \$6,250,709, respectively. The value of these services are not reflected in the financial statements.

NOTE 15 - PAYMENTS TO AFFILIATES:

In accordance with the affiliation agreement between Feeding America and the Food Bank, the Food Bank pays fees based on total poundage of food received from Feeding America. Affiliation payments for the years ended June 30, 2014 and 2013 were \$18,044 and \$15,980, respectively.

NOTE 16 - CONFLICT OF INTEREST POLICY:

Included among the Food Bank's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Food Bank in the development of policies and programs and in the evaluation of business transactions. The Food Bank 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 17 - RETIREMENT PLAN:

The Food Bank maintains a tax deferred 403(b) retirement plan (the "Plan") to provide retirement benefits for all eligible employees. The plan provides for Food Bank contributions of 5% of eligible employee compensation. Vesting is based on years of service, with 100% vesting of employer matching contributions upon eligibility. Food Bank contributions for the years ended June 30, 2014 and 2013 were \$352,693 and \$323,090, respectively. All of the Plan's administration costs were paid for by the Plan.

NOTE 18 - 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 Food Bank 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 through the year ended June 30, 2014.

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

NOTE 19 - BOARD DESIGNATED ENDOWMENT FUND:

Second Harvest Food Bank of Santa Clara and San Mateo Counties' Board Designated Endowment consists of unrestricted net assets which the Board of Directors has chosen to hold as a general endowment fund (the "Fund") to support the mission of the Food Bank.

Return Objectives and Risk Parameters - The Board Designated Endowment (the "Fund") was created to ensure a reasonable, predictable, and sustainable source of funds. The Food Bank will designate 90% of each unrestricted donor bequest to the endowment. Once the desired corpus target of \$1,000,000 is achieved the Fund will be used to produce a growing level of income in order to support future activities, programs and the capital needs of the Food Bank. The Food Bank's objective is to provide a predictable stream of funding while seeking to maintain the purchasing power of the Fund's assets and preserve capital. The primary goal is to seek a total return (net of fees and expenses) that equals at least 500 basis points over the inflation rate, as measured by the Consumer Price Index on an annualized basis. These objectives and goals are expected to be achieved over 6-10 years.

Strategies Employed for Achieving Objectives - The Board has determined that the assets of the Fund will be professionally managed in a moderately conservative manner. Management of the Fund's portfolio should focus on satisfying these objectives through the optimal allocation of stocks and fixed income securities. Fixed income securities should be used to satisfy current income requirements and control total portfolio volatility. Common stocks should generate income and capital growth to preserve and enhance the purchasing power of the portfolio. The nature of the assets involved and the long-term objectives of the Fund suggest utilizing a "total return approach" to investment management.

The Equity portion of the Fund will consist of publicly traded common and preferred stocks and convertible debt. It is expected that 40% to 70% (with a target of 57%) of the Fund will be invested in equity and/or equity mutual funds. It is expected that 30% to 60% (with a target of 38%) of the Fund will be invested in fixed income securities. It is expected that 0% to 7% (with a target of 5%) of the Fund will be invested in alternative investments.

Spending Policy and How Investment Objectives Relate to Spending Policy - The Board's first objective is to grow the fund to \$1,000,000. Once this goal is achieved the Fund's spending policy will aim to ensure a prudent tradeoff between current program needs and long-term purchasing power. Therefore, the spending rate range will be 4%-5.75%, with a desired optimal target of 5%.

The amount of funds allocated for expenditure ("Spending Allocation") will be calculated in April of each year and based on the rolling prior 12-quarter average. If less than 12 quarters are available then the available quarters will be used. The Spending Allocation will be transferred to the operations account between July and October in the fiscal year following the calculation.

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

NOTE 19 - BOARD DESIGNATED ENDOWMENT FUND (Continued):

Changes in endowment net assets for the years ended June 30, consisted of the following:

	<u>2014</u>	<u>2013</u>
Board Designated Endowment Net Assets, Beginning of Year	\$ 851,098	\$ -
Transfers to Board Designated Endowment Fund	2,332,738	851,098
Amounts Designated to the Endowment Fund	1,000,000	-
Investment Income	327,258	-
Investment Fees	<u>(16,249)</u>	<u>-</u>
Board Designated Endowment Net Assets, End of Year	<u>\$ 4,494,845</u>	<u>\$ 851,098</u>

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, 2014

Government Grantor Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number/ Grant Number	Governmental Expenditures
<u>Federal Awards:</u>			
<u>U.S. Department of Agriculture</u>			
Passed Through:			
California Department of Social Services:			
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	\$ 7,788,005
Emergency Food Assistance Program (Administrative Costs)	10.568	MOU#10-6060	255,791
California Association of Food Banks:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (for Food Stamp Program)	10.561	12-0121	270,228
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (for Nutrition Education)	10.561	10-10042	37,320
Santa Clara County - Innovation:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	151,290
Santa Clara County - Get Fresh:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	FFY13-FFY14	<u>111,000</u>
Total U.S. Department of Agriculture			<u>8,613,634</u>
<u>U.S. Department of Homeland Security</u>			
Emergency Food and Shelter National Board Program	97.024	N/A	<u>101,208</u>
Total Federal Awards			<u>8,714,842</u>
<u>Other Governmental Awards:</u>			
Santa Clara County - Department of Social Services	N/A	N/A	722,703
San Mateo County - PRIDE	N/A	N/A	10,416
San Mateo County - First 5	N/A	N/A	155,730
San Mateo County - Food Assistance	N/A	N/A	51,145
San Mateo County - Brown Bag	N/A	N/A	13,038
San Mateo County - Food Stamp Outreach	N/A	N/A	30,591
San Mateo County Property Taxes:			
Passed Through the Sequoia Healthcare District	N/A	N/A	100,000
State of California Department of Social Services:			
Passed Through the Emergency Food Assistance Program - Tax Check Off	N/A	N/A	13,537
State of California Solar Rebate Awards:			
Passed Through the Pacific Gas & Electric Company	N/A	N/A	<u>85,075</u>
Total Other Governmental Awards			<u>1,182,235</u>
TOTAL FEDERAL AND OTHER GOVERNMENTAL AWARDS			<u>\$ 9,897,077</u>

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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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 (the "Schedule") includes the federal and other governmental grant activity of Second Harvest Food Bank of Santa Clara and San Mateo Counties under programs of the federal, state and local governments for the year ended June 30, 2014. 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*. Because the Schedule presents only a selected portion of the operations of Second Harvest Food Bank of Santa Clara and San Mateo Counties, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Second Harvest Food Bank of Santa Clara and San Mateo Counties.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- (a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (b) Pass-through entity identifying numbers are presented where available.

NOTE 3 - SUBRECIPIENTS:

Of the federal expenditures presented in the Schedule, Second Harvest Food Bank of Santa Clara and San Mateo Counties provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
10.569	Emergency Food Assistance Program (Food Commodities)	\$8,015,795
97.024	Emergency Food and Shelter National Board Program	\$101,208

NOTE 4 - FOOD DISTRIBUTION:

Nonmonetary assistance for commodities received are reported in the Schedule based on a cost study conducted for Feeding America. At June 30, 2014, the Food Bank had food commodities totaling \$603,648 in inventory.

SECTION III
OTHER REPORTS

FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties ("Food Bank") (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control.

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

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

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Berger Lewis Accountancy Corporation". The signature is written in a cursive, flowing style.

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 2, 2014

FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Santa Clara and San Mateo Counties' ("Food Bank") (a California nonprofit public benefit corporation) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank of Santa Clara and San Mateo Counties' major federal programs for the year ended June 30, 2014. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Second Harvest Food Bank of Santa Clara and San Mateo Counties' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Second Harvest Food Bank of Santa Clara and San Mateo Counties' compliance.

Opinion on Each Major Federal Program

In our opinion, Second Harvest Food Bank of Santa Clara and San Mateo Counties complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Second Harvest Food Bank of Santa Clara and San Mateo Counties' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 2, 2014

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, 2014

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified 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 Independent Auditor's 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 Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Second Harvest Food Bank of Santa Clara and San Mateo Counties expresses an unmodified 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 programs tested as a major program were:
 - CFDA 10.568 - Emergency Food Assistance Program (Administrative Costs)
 - CFDA 10.569 - Emergency Food Assistance Program (Food Commodities)
8. The threshold used for distinguishing between 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.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Year Ended June 30, 2014

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 (Administrative Costs)

CFDA No. - 10.568

Grant period - 7/1/13 to 6/30/14

None

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

CFDA No. - 10.569

Grant period - 7/1/13 to 6/30/14

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, 2014

NONE