

**Second Harvest Food Bank of Santa Clara and
San Mateo Counties**

Financial Statements and Supplementary Information
on Federal Financial Awards

Year Ended June 30, 2015

(With Comparative Totals for the Year
Ended June 30, 2014)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Second Harvest Food Bank of Santa Clara and San Mateo Counties
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, 2015, 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, 2015, 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

Second Harvest Food Bank of Santa Clara and San Mateo Counties' financial statements as of and for the year ended June 30, 2014 were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino^{LLP} as of January 1, 2015, and whose report dated October 2, 2014, expressed an unmodified audit opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 15, 2015, 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.



Armanino^{LLP}
San Jose, California

October 15, 2015

FINANCIAL SECTION

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Statement of Financial Position
June 30, 2015
(With Comparative Totals as of June 30, 2014)

	Operating Fund		Land, Building and Equipment Fund	Total	
	Unrestricted	Temporarily Restricted		2015	2014
Assets					
Cash and cash equivalents	\$ 11,965,598	\$ 3,661,242	\$ -	\$ 15,626,840	\$ 12,521,270
Accounts receivable	14,234	-	-	14,234	8,926
Grants receivable	596,519	-	-	596,519	398,631
Pledges receivable (Note 4)	-	896,352	-	896,352	2,315,728
Inventory (Note 5)	2,193,673	-	-	2,193,673	2,343,516
Prepaid expenses and other assets	688,750	-	-	688,750	714,048
Investments - board designated endowment (Note 6)	4,938,117	-	-	4,938,117	4,494,845
Investments - other (Note 6)	9,634,131	-	8,685,905	18,320,036	17,143,000
Land, building and equipment, net (Note 7)	-	-	23,656,774	23,656,774	23,450,917
Total assets	<u>\$ 30,031,022</u>	<u>\$ 4,557,594</u>	<u>\$ 32,342,679</u>	<u>\$ 66,931,295</u>	<u>\$ 63,390,881</u>
Liabilities and net assets					
Liabilities					
Accounts payable	\$ 1,707,361	\$ -	\$ -	\$ 1,707,361	\$ 1,893,705
Accrued expenses	1,134,843	-	-	1,134,843	1,004,162
Note payable (Note 9)	-	-	-	-	991,256
Total liabilities	<u>2,842,204</u>	<u>-</u>	<u>-</u>	<u>2,842,204</u>	<u>3,889,123</u>
Net assets					
Unrestricted net assets					
Undesignated	500,000	-	-	500,000	500,000
Board designated (Note 11)	26,688,818	-	8,685,905	35,374,723	31,654,845
Land, building and equipment fund	-	-	23,656,774	23,656,774	22,459,661
Total unrestricted net assets	<u>27,188,818</u>	<u>-</u>	<u>32,342,679</u>	<u>59,531,497</u>	<u>54,614,506</u>
Temporarily restricted net assets (Note 12)	<u>-</u>	<u>4,557,594</u>	<u>-</u>	<u>4,557,594</u>	<u>4,887,252</u>
Total net assets	<u>27,188,818</u>	<u>4,557,594</u>	<u>32,342,679</u>	<u>64,089,091</u>	<u>59,501,758</u>
Total liabilities and net assets	<u>\$ 30,031,022</u>	<u>\$ 4,557,594</u>	<u>\$ 32,342,679</u>	<u>\$ 66,931,295</u>	<u>\$ 63,390,881</u>

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Statement of Activities
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Support				
Contributions	\$ 31,168,531	\$ 4,205,768	\$ 35,374,299	\$ 31,337,505
Contributions - capital campaign	-	35,000	35,000	35,000
Contributions in-kind - non-government (Note 14)	77,233,947	-	77,233,947	69,489,187
Special events (less direct donor benefits)	68,390	-	68,390	-
United Way support	178,175	-	178,175	161,410
Total support	<u>108,649,043</u>	<u>4,240,768</u>	<u>112,889,811</u>	<u>101,023,102</u>
Revenue				
Governmental assistance - cash	2,112,830	-	2,112,830	2,109,072
Governmental assistance - in-kind (Note 14)	8,219,838	-	8,219,838	7,788,005
Net investment income (Note 6)	126,646	-	126,646	2,358,580
Other Gain (losses)	57,298	-	57,298	(6,470)
Total revenue	<u>10,516,612</u>	<u>-</u>	<u>10,516,612</u>	<u>12,249,187</u>
Total support and revenue	119,165,655	4,240,768	123,406,423	113,272,289
Net assets released from restrictions (Note 13)	<u>4,570,426</u>	<u>(4,570,426)</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restrictions	<u>123,736,081</u>	<u>(329,658)</u>	<u>123,406,423</u>	<u>113,272,289</u>
Expenses				
Program services				
Food distribution (Note 2)	<u>113,666,712</u>	<u>-</u>	<u>113,666,712</u>	<u>102,634,076</u>
Supporting services				
Management and general	2,034,816	-	2,034,816	2,103,188
Fundraising	3,117,562	-	3,117,562	2,548,617
Total supporting services expenses	<u>5,152,378</u>	<u>-</u>	<u>5,152,378</u>	<u>4,651,805</u>
Total expenses	<u>118,819,090</u>	<u>-</u>	<u>118,819,090</u>	<u>107,285,881</u>
Change in net assets	4,916,991	(329,658)	4,587,333	5,986,408
Net assets, beginning of year	<u>54,614,506</u>	<u>4,887,252</u>	<u>59,501,758</u>	<u>53,515,350</u>
Net assets, end of year	<u>\$ 59,531,497</u>	<u>\$ 4,557,594</u>	<u>\$ 64,089,091</u>	<u>\$ 59,501,758</u>

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Statement of Functional Expenses
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

Program	Supporting Services				Total Expenses	
	Food Distribution	Management and General	Fundraising	Total	2015	2014
Salaries	\$ 6,331,776	\$ 1,156,188	\$ 1,311,288	\$ 2,467,476	\$ 8,799,252	\$ 7,918,459
Employee benefits	1,498,776	159,531	230,959	390,490	1,889,266	1,808,667
Payroll taxes	545,021	53,086	85,693	138,779	683,800	625,550
Worker's compensation insurance	<u>139,667</u>	<u>14,866</u>	<u>21,523</u>	<u>36,389</u>	<u>176,056</u>	<u>328,127</u>
Total salaries and related expenses	8,515,240	1,383,671	1,649,463	3,033,134	11,548,374	10,680,803
Donated food and supplies distributed	85,423,742	-	-	-	85,423,742	78,323,742
Procured food and supplies distributed	12,080,653	-	-	-	12,080,653	9,439,652
Depreciation	1,454,696	98,669	142,291	240,960	1,695,656	1,677,758
Freight and storage	1,065,793	-	-	-	1,065,793	908,985
Occupancy	727,437	51,100	73,215	124,315	851,752	902,885
Equipment for agency infrastructure	801,982	-	-	-	801,982	301,000
Supplies, including in-kind	640,915	13,705	54,609	68,314	709,229	779,511
Outside services	593,764	22,917	68,307	91,224	684,988	540,904
Advertising and media, including in-kind	472,899	-	184,290	184,290	657,189	684,536
Direct mailing costs	-	-	637,705	637,705	637,705	650,961
Professional services	343,355	141,135	56,653	197,788	541,143	358,840
Vehicle operating costs	502,790	150	-	150	502,940	568,814
Postage and printing	293,313	5,883	119,238	125,121	418,434	363,798
Equipment rental and maintenance	255,194	20,950	30,042	50,992	306,186	216,046
Bank and payroll charges	-	223,134	-	223,134	223,134	243,424
Insurance	177,003	24,106	6,170	30,276	207,279	174,788
Telephone	141,446	15,056	21,796	36,852	178,298	229,714
Conferences, conventions and meetings	58,121	16,536	11,695	28,231	86,352	66,433
Recruitment expenses	6,938	1,340	46,781	48,121	55,059	6,262
Dues and subscriptions	25,010	14,626	10,813	25,439	50,449	51,370
Travel	33,682	1,838	4,494	6,332	40,014	38,108
Volunteer expenses	25,571	-	-	-	25,571	33,423
Affiliation fees (Note 15)	18,424	-	-	-	18,424	18,044
Interest	<u>8,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,744</u>	<u>26,080</u>
Total functional expenses	<u>\$ 113,666,712</u>	<u>\$ 2,034,816</u>	<u>\$ 3,117,562</u>	<u>\$ 5,152,378</u>	<u>\$ 118,819,090</u>	<u>\$ 107,285,881</u>
Percentage of total	<u>95.7 %</u>	<u>1.7 %</u>	<u>2.6 %</u>	<u>4.3 %</u>	<u>100.0 %</u>	

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Statement of Cash Flows
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 4,587,333	\$ 5,986,408
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,695,656	1,677,758
(Gain) loss on sale of equipment	(10,729)	41,535
Donated vehicles and equipment	(28,348)	(39,326)
Net present value amortization adjustment	(43,753)	36,896
Contributions restricted for long-term purposes	(1,486,413)	(1,461,413)
In-kind contributions of food and non-food (including USDA)	(85,220,016)	(76,972,465)
Distribution of food and non-food received in-kind	85,423,742	78,323,742
Net realized and unrealized (gains) losses on investments	316,106	(1,983,692)
Change in operating assets and liabilities		
Accounts receivable	(5,309)	21,060
Grants receivable	(197,888)	103,697
Pledges receivable	1,471,873	2,198,390
Purchased inventory (food)	(53,882)	(100,352)
Prepaid expenses and other assets	25,298	(20,685)
Accounts payable	(586,088)	946,344
Accrued expenses	130,681	(3,917)
Net cash provided by operating activities	6,018,263	8,753,980
Cash flows from investing activities		
Purchase of land, building and equipment	(1,479,251)	(1,510,092)
Proceeds from sale of equipment	16,557	33,624
Purchase of investments	(11,347,085)	(10,227,644)
Proceeds from sale of investments	9,410,673	6,757,434
Net cash used in investing activities	(3,399,106)	(4,946,678)
Cash flows from financing activities		
Contributions restricted for long-term purposes	1,486,413	1,461,413
Payment on note payable	(1,000,000)	(1,000,000)
Net cash provided by financing activities	486,413	461,413
Net increase in cash and cash equivalents	3,105,570	4,268,715
Cash and cash equivalents, beginning of year	12,521,270	8,252,555
Cash and cash equivalents, end of year	\$ 15,626,840	\$ 12,521,270
<u>Supplemental disclosure of cash flows information</u>		
Land, building and equipment acquired with short-term debt	\$ 399,744	\$ 240,556

The accompanying notes are an integral part of these financial statements.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES

Notes to Financial Statements

June 30, 2015

1. Organization

40 years leading the fight

Fiscal year 2014-2015 was the 40th anniversary of Second Harvest Food Bank of Santa Clara and San Mateo Counties (“Food Bank” or “Second Harvest”), a nonprofit 501(c)(3) organization incorporated in 1979. This anniversary marked 40 years of extraordinary passion, commitment and dedication to helping local families and individuals at risk of hunger in our community. Since its inception in 1974, Second Harvest has led the fight against local hunger. It has also become one of the largest food banks in the nation, providing food to nearly one quarter of a million people each month.

For 40 years, Second Harvest has been fundraising and engaging neighboring corporations, schools, community organizations, government and individuals to ensure that anyone who needs a meal can get one. Forty years of raising awareness about local hunger through education, advocacy and collaboration. Forty years of partnering with a wide variety of local leaders and their organizations to grow our community of advocates working together to combat hunger neighborhood by neighborhood and block by block. Forty years of leveraging local support so every child in our community can have access to the nutritious food they need to grow up healthy, strong, and able to pursue their dreams.

Forty years ago, dented cans and miscellaneous donated items filled the shelves of the Food Bank's humble 1,200-square-foot facility in East San Jose. Second Harvest now has three facilities, including a 75,000-square-foot dedicated produce distribution center. Today, providing access to healthy food is central to what the Food Bank does. More than half the food distributed is fresh produce. Notwithstanding a crippling California drought this past year, Second Harvest proudly distributed more fresh fruits and vegetables than any other food bank in the United States. This is part of the Food Bank's tradition, to promote healthy meals and federal nutrition programs, to connect our neighbors in need to nutritious food, and to educate families on how to make healthier food choices.

Scaling up to meet needs

Driving the local need are low wages, underemployment and exploding housing costs in one of the wealthiest regions in the nation. Despite the booming economy in Silicon Valley, many hardworking families can't keep pace with the escalating cost of living. Nearly 1 in 10 of the Food Bank's neighbors relies on Second Harvest for food each month, and most of the Food Bank's clients earn less than \$20,000 per year. Second Harvest has continued to step up its efforts to meet increasing needs, providing the equivalent of nearly one million meals every week of the year. The Food Bank has scaled its operations, re-engineered its supply chain, piloted new programs, and strategized with local partners – both new and old – to fight local hunger in creative ways.

To address gaps or redundancies in service, and to get more food into the community, the Food Bank made \$800,000 in targeted “infrastructure investments” to build the capacity of its nonprofit distribution partners to provide more food. Across both Santa Clara and San Mateo counties, Second Harvest invested in trucks, cold storage, and other equipment so its partners can safely get more food the “last mile” to hungry people. These investments not only connected more people to healthy food, but also helped to strengthen the local nutritional safety-net. Through these and other initiatives, Second Harvest Food Bank of Santa Clara and San Mateo Counties was able to distribute an astounding 62.4 million pounds of food in fiscal year 2014-2015, a 13% increase year over year.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

1. Organization (continued)

Building brighter futures for kids

National studies show that reliable access to food has a tremendous impact on children. For kids, food is fuel and lays the foundation for lifelong success. It powers them through class work, sports, homework, and play. It paves the way for brighter futures. We know that kids who have access to food assistance graduate from high school 18% more often than children in similar economic circumstances who did not have access to such benefits. Unfortunately, 1 in 3 local kids is at risk for hunger. To connect more kids to nutritious food, Second Harvest launched its second "Stand Up for Kids" Campaign. Through the success of this targeted campaign, Second Harvest was able to provide higher quality food to 85,000 children every month. In addition to fresh fruits and vegetables, kids now have access to more of the dairy and protein items they need to develop healthy minds and bodies.

Communitywide mobilization

Second Harvest has a 40 year track record of mobilizing people in the fight to end local hunger. Nearly 700,000 people from 1,900 local businesses and organizations hosted food and fund drives last year. The Food Bank is today a \$123.4 million revenue-generating organization (including value of donated food) with \$33.3 million of cash operating expenses. As a member of Feeding America – a national network of 199 regional food banks – Second Harvest is one of only a few food banks in the nation that does not charge its partner agencies for the food it provides, enabling local shelters, soup kitchens and pantries to focus their financial resources on their missions. Second Harvest also galvanizes an army of volunteers who play a key role in the fight against local hunger. Throughout the 2014-2015 fiscal year, volunteers contributed more than 314,000 hours of service (an equivalent of \$6.4 million in personnel costs, or 151 full-time staff).

Creative food sourcing

Second Harvest “rescues” food from local growers and retail grocery stores and also procures food donations from local manufacturers; 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 \$14.08 million procuring, packaging, and transporting food to supplement donated items, and provided nutritious meals to an average of 243,562 people each month. Of the 62.4 million pounds of food distributed, 54% was fresh fruits and vegetables. In addition to supplying food at 706 different food distribution sites in Santa Clara and San Mateo counties, Second Harvest’s successful effort to sign up eligible local households for CalFresh (food stamps) provided approximately 5 million additional pounds of food for the community. The incremental food provided via Second Harvest efforts – both through direct distribution and CalFresh outreach – totaled nearly 67.4 million pounds.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

1. Organization (continued)

A 40 year legacy of trust

Second Harvest believes that with strategic partnerships, coordinated teamwork and dedicated resources, the Food Bank can make a real impact on the lives of children and families across our two-county region. This was one of the Food Bank's most challenging and inspiring years, but it only reaffirms its commitment to its mission. Second Harvest is honored to have earned 40 years of trust and respect by its local community and within the Feeding America network. For the eighth year in a row, Second Harvest received Charity Navigator's four-star rating, placing it in the top 1% of nonprofit's nationwide for fiscal stability, accountability and transparency. The Food Bank was selected as a "Top Rated Nonprofit" by GreatNonprofits and Second Harvest's CEO was named "Network Leader of the Year" by Feeding America.

Building on the unwavering dedication of Second Harvest's people, community partners, volunteers, and generous funders, Second Harvest is both proud of the accomplishments of the past 40 years and determined to pursue its mission until everyone in our community has access to the nutritious food they need to thrive.

2. Program Services

Second Harvest Food Bank - new initiatives

The relentless escalation in the cost of living in Santa Clara and San Mateo Counties continues to challenge many low and middle income households in trying to meet their basic needs. In fiscal year 2014-2015 Second Harvest pushed on several fronts to increase our community's access to nutritious food.

Community partner strategy - An effort implemented last year to increase agency capacity and feed more people is producing desired results as the Food Bank's top two tiers of strategic partners (transformers and builders) have increased the amount of food they distribute by more than 16%. In addition to the aforementioned "infrastructure investments" in 34 of Second Harvest's partners to build safety net food distribution capacity (discussed in Note 1), the Food Bank also worked with these partners on an organizational effectiveness project to identify how it can best support them in the future. "Deep dive" collaborations with nonprofit partners in southern Santa Clara and San Mateo counties led to a number of new school pantry openings to benefit underserved families in Gilroy, Morgan Hill, Redwood City, East Menlo Park and East Palo Alto.

Summer feeding - Summer can be a particularly challenging time for many low-income households with children. Children lose access to the free and reduced-price school meals that they receive during the school year, resulting in a major gap for families struggling with food insecurity. To address the summer spike in hunger, Second Harvest developed an innovative approach to provide nutritious meals to children and their families during the summer months. Second Harvest partnered with a number of organizations to provide food at local libraries to complement enrichment activities such as summer reading programs. This program enabled more local low-income children and their families to receive healthy, nutritious meals during a time when they needed them most.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

2. Program Services (continued)

Parent choice pantry - In collaboration with Sacred Heart Nativity School and Martha's Kitchen in San Jose, Second Harvest piloted a new form of food pantry with the following characteristics:

- Parents order desired food items from a list of pre-selected items supplied by Second Harvest;
- Parents have a virtual budget calculated based on the size of household;
- Food is sourced on a wholesale purchase basis by Second Harvest; and
- Parents are responsible for a significant portion of the pantry operation.

This new type of food pantry was implemented after an in-depth survey of the Nativity families to understand their food needs and how Second Harvest could best serve them. Nativity School and Second Harvest have begun to track the impact of this additional food on student behavior and academic results, an effort that will continue in the new school year.

Diabetes collaboration - In the spring, Second Harvest began partnering with El Camino Hospital and three large local food pantries on **Challenge Diabetes**, a pilot program. Clients at the pantries were screened for diabetes or pre-diabetic conditions; those with diabetes or at risk were enrolled in the program. Participants receive monthly boxes of special food, health/nutrition education, blood sugar monitoring and information on how to prevent or manage diabetes. Second Harvest provides all of the food, including fresh produce, whole grain pasta and cereal, 1% milk, whole chicken, brown rice, tuna, eggs, beans, and low-fat cheese. Initial results are promising, indicating that those enrolled lost weight and decreased their blood sugar levels.

Food as medicine - Putting a spotlight on some of these health collaborations, in January 2015 Second Harvest, the Leavey School of Business and the Food and Agribusiness Institute at Santa Clara University hosted a Hunger Action Summit - *Food as Medicine: The Intersection of Hunger and Health*. This year, Second Harvest broke new ground by explicitly drawing the connection between food insecurity, child physical and cognitive development, health outcomes, and diet related diseases. The Food Bank also highlighted the opportunity for health and food assistance providers to collaborate to address the high incidence of obesity, hypertension and diabetes in low income populations.

Second Harvest - Programs

Second Harvest collaborates with community based organizations to provide food at 706 unique distribution sites for low-income members of our community. This is done through distribution partnerships with other nonprofits and by offering 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
Notes to Financial Statements
June 30, 2015

2. Program Services (continued)

Second Harvest programs with agency partners

- **Food assistance program** is Second Harvest's primary food distribution program. Food is provided without charge to 227 local nonprofits that feed hungry people, including pantries, shelters, soup kitchens, children's afterschool programs, children's summer feeding sites and senior meal programs. By providing food at no charge, Second Harvest's goal is to assure access to healthy food and leverage its partners' efforts to fulfill their own missions focused on enrichment and education programs for children, housing, veterans support services, job training, health care, and senior adult care.

Second Harvest direct-service programs

- **Brown bag** provides food on a weekly basis to low-income seniors.
- **Family harvest** provides monthly food 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.

Second Harvest - 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 and related health issues. Second Harvest works with a range of local, state and national organizations to address client barriers and help increase the effectiveness of food and nutrition programs.
- **Food connection** is a multi-lingual food referral hotline (1-800-984-3663) that connects people seeking food with local food assistance resources. Callers are also able to be screened and provided with application assistance for CalFresh. In the past year, Food Connection made over 40,000 food referrals.
- **Community nutrition education** provides nutrition, food safety and food handling training and support materials for clients and partner agencies. Bi-lingual nutritionists use innovative teaching tools to educate clients to make the healthiest food choices. This year, 60 Health Ambassadors were trained to serve as volunteer nutrition educators at food distribution sites, dramatically increasing the number of Second Harvest clients receiving nutrition information and support.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
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June 30, 2015

2. Program Services (continued)

- **CalFresh outreach** helps families and individuals in need apply for this locally underutilized federal government food-assistance program (also known as SNAP or 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. New, innovative outreach efforts this year included **Text4CalFresh**, a texting program in 3 languages; a **CalFresh-in-a-Day** collaboration with Santa Clara County and partner agencies; and a **Promotores** "train the trainer" volunteer outreach model. As a result of that work, close to \$9.5 million in incremental benefits were distributed to 3,204 needy households over the course of the fiscal year that ended June 30, 2015. This also provided an economic boost of nearly \$17 million for the local economy in the form of incremental purchasing, employment, etc. This public-private partnership further leverages the Food Bank's limited resources and is essential to ending local hunger.

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.

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.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
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3. Summary of Significant Accounting Policies (continued)

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, 2014, 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.

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 \$1.70 and \$1.72 per pound for the years ended June 30, 2015 and 2014, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

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 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.

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
Notes to Financial Statements
June 30, 2015

3. Summary of Significant Accounting Policies (continued)

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, 2015 and 2014. 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, 2015 and 2014 was \$679,731 and \$625,009, 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
Notes to Financial Statements
June 30, 2015

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, 2014, 2013 and 2012 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, 2014, 2013, 2012 and 2011 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, 2015 and 2014 totaled \$657,189 and \$684,536, respectively. Of these costs, \$103,389 and \$174,692, respectively were in-kind contributions.

Subsequent events

Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2015 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, 2015. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 15, 2015.

Reclassifications

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

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

4. Pledges Receivable

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

	2015	2014
Receivable in less than one year	\$ 528,032	\$ 1,567,522
Receivable in one to five years	400,000	832,383
Total pledges receivable	928,032	2,399,905
Less discounts to net present value	(31,680)	(84,177)
Total net present value of pledges receivable	896,352	2,315,728
Current portion of pledges receivable	(528,032)	(1,567,522)
Long-term portion of pledges receivable	\$ 368,320	\$ 748,206

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).

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 \$1.70 and \$1.72 per pound for the years ended June 30, 2015 and 2014, 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:

	2015	2014
Inventory:		
Donated non-Government food and non-food	\$ 1,333,578	\$ 1,284,295
USDA food commodities	350,640	603,648
Purchased food	509,455	455,573
Total inventory	\$ 2,193,673	\$ 2,343,516

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).

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

6. Investments (continued)

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

	2015	2014
Investments at fair value:		
Equity investments	\$ 9,048,974	\$ 8,567,285
U.S. government securities and agency obligations	4,785,915	5,844,362
Corporate bonds and notes	4,707,307	2,533,542
Mutual funds	2,888,725	3,111,418
Money market investments	1,009,574	1,209,905
Real estate investment trusts	542,715	371,333
Commodities	274,943	-
Total investments at fair value	\$ 23,258,153	\$ 21,637,845

Investments as presented on the Statement of Financial Position:

	2015	2014
Investments - board designated endowment (Note 11)	\$ 4,938,117	\$ 4,494,845
Investments - other	18,320,036	17,143,000
Total investments	\$ 23,258,153	\$ 21,637,845

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

	2015	2014
Interest and dividends, net of investment expenses of \$136,921 and \$133,914	\$ 442,752	\$ 374,888
Net realized and unrealized gains (losses)	(316,106)	1,983,692
Total net investment income	\$ 126,646	\$ 2,358,580

7. Land, Building and Equipment

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

	2015	2014
Land	\$ 3,865,858	\$ 3,865,858
Building and improvements	22,876,564	22,383,939
Equipment	9,805,312	8,983,245
Assets in progress	346,976	64,603
	36,894,710	35,297,645
Less: accumulated depreciation	(13,237,936)	(11,846,728)
Land, building and equipment, net	\$ 23,656,774	\$ 23,450,917

Depreciation expense for the years ended June 30, 2015 and 2014 totaled \$1,695,656 and \$1,677,758, respectively.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

8. Line 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, 2015 and 2014 were limited to a maximum of \$4,000,000. Interest on outstanding funds is payable monthly at the bank's prime rate and has a floor rate of 3.25%. The maturity date is April 10, 2016. The credit line is secured by certain assets owned by the Food Bank and contains a covenant clause that requires \$8,000,000 of liquidity in cash and investments. There was no balance outstanding or related interest expense on this line of credit for either of the years ended June 30, 2015 and 2014.

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 bore 0% interest and is payable in four equal annual payments of \$1,000,000 beginning on December 31, 2011. During the year ended June 30, 2015 the final payment of \$1,000,000 was made. Second Harvest owed \$0 and \$991,256 (net of imputed interest) on this note as of June 30, 2015 and 2014, respectively.

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.

11. Board Designated Net Assets

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

	2015	2014
Unrestricted operating fund:		
Designated for operating reserves	\$ 18,056,128	\$ 16,094,940
Urgent food, infrastructure and drought relief fund	1,500,000	1,500,000
Inventory	2,193,673	2,343,516
Board designated endowment fund (pledges)	900	56,770
Board designated endowment fund (investment)	4,938,117	4,494,845
Total unrestricted operating fund	26,688,818	24,490,071
Land, building and equipment fund:		
Designated for capital replacement fund	8,685,905	7,164,774
Total board designated net assets	\$ 35,374,723	\$ 31,654,845

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

11. Board Designated Net Assets (continued)

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 designation for capital replacement fund is calculated as the present-value of a ten year current asset replacement plan.

12. Temporary Restricted Net Assets

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

	2015	2014
Temporarily restricted net assets		
Purpose restrictions		
Stand Up for Kids	\$ 1,597,021	\$ 2,231,157
School pantry	991,666	-
Capital campaign	619,627	1,439,278
CalFresh	170,000	100,000
Food assistance	89,278	-
Season of sharing	84,000	128,700
Produce mobile	50,000	-
Fuel	25,000	-
Brown bag	50,000	86,667
Family harvest program	50,000	50,000
Holiday food drive	26,090	25,000
Time restrictions		
General support for future periods	804,912	826,450
Total temporarily restricted net assets	\$ 4,557,594	\$ 4,887,252

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

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:

	2015
Net assets released from restrictions	
Stand Up for Kids	\$ 2,231,157
Time restrictions	857,197
Capital campaign	854,651
CalFresh	220,000
Season of sharing	128,700
Brown bag	86,667
School pantry	83,332
Family harvest program	50,000
Food assistance	33,722
Holiday food drive	25,000
Total net assets released from restrictions	\$ 4,570,426

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, 2015 and 2014 was valued at \$1.70 and \$1.72 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:

	2015	2014
Government assistance - in-kind		
Food - government	\$ 8,219,838	\$ 7,788,005
Contributions in-kind - non-government:		
Food and non-food inventory - non-government	76,643,753	68,945,597
Supplies and minor equipment	429,597	302,042
Media	103,389	174,692
Gift certificates	28,860	27,530
Vehicles and equipment	28,348	39,326
Total contributions in-kind - non-government	77,233,947	69,489,187
Total contributions in-kind	\$ 85,453,785	\$ 77,277,192

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

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, 2015 and 2014 the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$6,425,218 and \$6,638,711, respectively. The value of these services are not reflected in the financial statements.

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, 2015 and 2014 were \$18,424 and \$18,044, respectively.

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.

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, 2015 and 2014 were \$377,938 and \$352,693, respectively. All of the Plan's administration costs were paid for by the Plan.

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, 2015.

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Notes to Financial Statements
June 30, 2015

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. 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 was to grow the fund to \$1,000,000 which was achieved as of June 30, 2014. Starting July 1, 2014 the Fund's spending policy aims to ensure a prudent tradeoff between current program needs and long-term purchasing power. Therefore, the spending range of 4% to 5.75%, with a desired optimal target of 5%, is considered prudent.

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
Notes to Financial Statements
June 30, 2015

19. Board Designated Endowment Fund (continued)

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

	2015	2014
Board designated endowment net assets, beginning of year	\$ 4,551,615	\$ 851,098
Transfers to board designated endowment fund	406,748	2,389,508
Amounts designated to the endowment fund	-	1,000,000
Investment income	15,829	327,258
Investment fees	(35,175)	(16,249)
Board designated endowment net assets, end of year	\$ 4,939,017	\$ 4,551,615

SUPPLEMENTARY INFORMATION

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Schedule of Expenditures of Federal and Other Governmental Awards
Year Ended June 30, 2015

Government Grantor Pass-through Grantor Program Title	Pass-through		Governmental Expenditures
	Federal CFDA Number	Grantor's Number/ Grant Number	
<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	\$ 8,219,838
Emergency Food Assistance Program (Administrative Costs)	10.568	MOU#10-6060	278,478
California Association of Food Banks			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	14-3035	309,663
Santa Clara County - Get Fresh			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	FFY14-FFY15	<u>238,234</u>
Total U.S. Department of Agriculture			<u>9,046,213</u>
<u>U.S. Department of Homeland Security</u>			
Emergency Food and Shelter National Board Program	97.024	N/A	<u>114,050</u>
Total federal awards			<u>9,160,263</u>
<u>Other Governmental Awards</u>			
Santa Clara County - Department of Social Services	N/A	N/A	722,702
San Mateo County - First 5	N/A	N/A	149,224
San Mateo County - Food Assistance	N/A	N/A	52,093
San Mateo County - Brown Bag	N/A	N/A	13,038
San Mateo County - Food Stamp Outreach	N/A	N/A	32,000
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	20,660
State of California Solar Rebate Awards			
Passed through the Pacific Gas & Electric Company	N/A	N/A	<u>82,688</u>
Total other governmental awards			<u>1,172,405</u>
Total federal and other governmental awards			<u>\$ 10,332,668</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
Notes to Schedule of Expenditures of Federal and Other Governmental Awards
June 30, 2015

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, 2015. 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.

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.

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)	\$8,280,289
97.024	Emergency Food and Shelter National Board Program	\$51,079

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, 2015, the Food Bank had food commodities totaling \$350,640 in inventory.

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
(Continued)

5. Uniform Guidance for Federal Awards

The OMB Uniform Guidance became effective on December 26, 2014. Non-Federal entities are required to implement the reforms to administrative requirements and cost principles if the federal award is received on or after December 26, 2014 and has terms and conditions as per the Uniform Guidance. Second Harvest Food Bank of Santa Clara and San Mateo Counties did not have any federal awards subject to the Uniform Guidance during the year ended June 30, 2015.

OTHER REPORTS

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
San Jose, California

We have audited, in accordance with the 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, 2015, 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 15, 2015.

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.



Armanino^{LLP}
San Jose, California

October 15, 2015



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
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, 2015. 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, 2015.

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.



Armanino^{LLP}
San Jose, California

October 15, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

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
Schedule of Findings and Questioned Costs
(Continued)
Year Ended June 30, 2015

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 - 7/1/14 to 6/30/15

None

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

CFDA No. - 10.569

Grant period - 7/1/14 to 6/30/15

None

SECOND HARVEST FOOD BANK OF SANTA CLARA AND SAN MATEO COUNTIES
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

None