

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

Financial Statements  
and Single Audit Reports and Schedules

June 30, 2018  
(With Comparative Totals for 2017)



## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 23
Single Audit Reports and Schedules	
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 <i>Government Auditing Standards</i>	25 - 26
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	27 - 28
Schedule of Expenditures of Federal and Other Governmental Awards	29
Notes to Schedule of Expenditures of Federal and Other Governmental Awards	30
Schedule of Findings and Questioned Costs	31 - 32



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Second Harvest Food Bank of Santa Clara and San Mateo  
Counties  
San Jose, California

We have audited the accompanying financial statements of Second Harvest Food Bank of Santa Clara and San Mateo Counties (a California nonprofit corporation) (the "Food Bank"), which comprise the statement of financial position as of June 30, 2018, 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 of America. 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 entity'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, 2018, 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.

## **Other Matter**

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 December 6, 2018, on our consideration of the Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Food Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.

## **Report on Summarized Comparative Information**

We have previously audited Second Harvest Food Bank of Santa Clara and San Mateo Counties' 2017 financial statements, and our report dated November 21, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino<sup>LLP</sup>  
San Jose, California

December 6, 2018

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Statement of Financial Position  
June 30, 2018  
(With Comparative Totals for 2017)

ASSETS	Unrestricted	Temporarily Restricted	2018 Total	2017 Total
Current assets				
Cash and cash equivalents	\$ 10,830,096	\$ 1,637,415	\$ 12,467,511	\$ 17,032,338
Accounts receivable	143,928	-	143,928	22,078
Grants receivable	491,283	250,000	741,283	493,705
Pledges receivable, current portion (Note 3)	223,000	3,411,116	3,634,116	3,792,767
Inventory (Note 4)	3,439,622	-	3,439,622	3,098,507
Prepaid expenses and other assets	698,475	-	698,475	759,645
Total current assets	15,826,404	5,298,531	21,124,935	25,199,040
Non current assets				
Land, buildings, and equipment, net	27,624,947	-	27,624,947	24,345,420
Pledges receivable, net of current portion	-	2,657,751	2,657,751	3,387,590
Investments - board-designated endowment	8,825,326	-	8,825,326	7,152,977
Investments - other	22,661,681	-	22,661,681	20,071,660
Total non current assets	59,111,954	2,657,751	61,769,705	54,957,647
Total assets	\$ 74,938,358	\$ 7,956,282	\$ 82,894,640	\$ 80,156,687
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 2,181,939	\$ -	\$ 2,181,939	\$ 2,470,436
Accrued expenses	1,321,507	-	1,321,507	1,241,878
Total current liabilities	3,503,446	-	3,503,446	3,712,314
Net assets				
Unrestricted				
Undesignated	500,000	-	500,000	500,000
Board designated (Note 11)	43,309,965	-	43,309,965	42,651,875
Land, buildings, and equipment fund	27,624,947	-	27,624,947	24,345,420
Total unrestricted	71,434,912	-	71,434,912	67,497,295
Temporarily restricted (Note 13)	-	7,956,282	7,956,282	8,947,078
Total net assets	71,434,912	7,956,282	79,391,194	76,444,373
Total liabilities and net assets	\$ 74,938,358	\$ 7,956,282	\$ 82,894,640	\$ 80,156,687

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  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Support and revenue				
Support				
Contributions	\$ 34,372,133	\$ 5,583,086	\$ 39,955,219	\$ 41,868,342
Contributions - capital campaign	-	495,000	495,000	-
Contributions in-kind - non-government (Note 14)	76,607,886	-	76,607,886	78,900,975
United Way support	<u>66,168</u>	-	<u>66,168</u>	<u>117,195</u>
Total support	<u>111,046,187</u>	<u>6,078,086</u>	<u>117,124,273</u>	<u>120,886,512</u>
Revenue				
Government assistance - cash	2,436,009	-	2,436,009	1,912,913
Government assistance - in-kind (Note 14)	6,162,226	-	6,162,226	6,676,459
Net investment income (Note 5)	1,438,203	-	1,438,203	2,208,003
Other gains (losses), net	<u>(588,108)</u>	-	<u>(588,108)</u>	<u>(46,262)</u>
Total revenue	<u>9,448,330</u>	<u>-</u>	<u>9,448,330</u>	<u>10,751,113</u>
Total support and revenue	120,494,517	6,078,086	126,572,603	131,637,625
Net assets released from restriction (Note 13)	<u>7,068,882</u>	<u>(7,068,882)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>127,563,399</u>	<u>(990,796)</u>	<u>126,572,603</u>	<u>131,637,625</u>
Functional expenses				
Program services	<u>117,060,884</u>	<u>-</u>	<u>117,060,884</u>	<u>118,332,491</u>
Support services				
Management and general	2,482,361	-	2,482,361	2,694,649
Fundraising	<u>4,082,537</u>	-	<u>4,082,537</u>	<u>3,938,339</u>
Total support services	<u>6,564,898</u>	<u>-</u>	<u>6,564,898</u>	<u>6,632,988</u>
Total functional expenses	<u>123,625,782</u>	<u>-</u>	<u>123,625,782</u>	<u>124,965,479</u>
Change in net assets	3,937,617	(990,796)	2,946,821	6,672,146
Net assets, beginning of year	<u>67,497,295</u>	<u>8,947,078</u>	<u>76,444,373</u>	<u>69,772,227</u>
Net assets, end of year	<u>\$ 71,434,912</u>	<u>\$ 7,956,282</u>	<u>\$ 79,391,194</u>	<u>\$ 76,444,373</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  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	Program Services	Support Services		Total Support Services	2018 Total	2017 Total
		Management and General	Fundraising			
Personnel expenses						
Salaries and wages	\$ 9,147,818	\$ 1,192,693	\$ 1,350,985	\$ 2,543,678	\$ 11,691,496	\$ 11,021,330
Employee benefits	1,848,822	241,049	273,041	514,090	2,362,912	2,310,920
Payroll taxes	664,472	86,634	98,133	184,767	849,239	868,562
Worker's compensation insurance	165,331	21,556	24,417	45,973	211,304	263,834
Total personnel expenses	<u>11,826,443</u>	<u>1,541,932</u>	<u>1,746,576</u>	<u>3,288,508</u>	<u>15,114,951</u>	<u>14,464,646</u>
Donated food and supplies distributed	82,189,710	-	-	-	82,189,710	86,170,016
Purchased food and supplies distributed	14,191,193	-	-	-	14,191,193	13,976,542
Depreciation	1,650,064	138,773	156,370	295,143	1,945,207	1,671,495
Occupancy	1,340,299	98,457	110,899	209,356	1,549,655	1,226,595
Outside services	1,120,987	30,715	91,320	122,035	1,243,022	959,933
Freight and storage	1,165,514	-	-	-	1,165,514	997,893
Professional services	278,136	169,692	487,278	656,970	935,106	802,673
Supplies, including in-kind	705,465	12,056	91,865	103,921	809,386	638,605
Direct mailing costs	-	-	739,218	739,218	739,218	698,011
Vehicle operating costs	639,249	-	-	-	639,249	494,136
Equipment rental and maintenance	382,585	34,942	39,099	74,041	456,626	400,875
Advertising and media, including in-kind	97,756	-	350,676	350,676	448,432	405,189
Equipment for agency infrastructure	398,952	-	-	-	398,952	218,508
Building demolition - Curtner remodeling	320,042	-	-	-	320,042	319,382
Postage and printing	143,677	1,837	169,507	171,344	315,021	365,030
Bank and payroll charges	707	268,271	927	269,198	269,905	261,580
Insurance	189,906	35,396	3,714	39,110	229,016	224,602
Telephone	164,979	21,510	24,364	45,874	210,853	203,267
Conferences, conventions, and meetings	102,109	26,257	39,161	65,418	167,527	174,583
Recruitment expenses	30,021	71,442	5,402	76,844	106,865	116,288
Travel	40,506	2,721	12,517	15,238	55,744	48,032
Dues and subscriptions	29,666	11,403	13,597	25,000	54,666	59,533
Volunteer expenses	34,522	209	47	256	34,778	37,426
Affiliation fees (Note 15)	18,396	-	-	-	18,396	18,527
Bad debt expense	-	16,748	-	16,748	16,748	12,112
	<u>\$ 117,060,884</u>	<u>\$ 2,482,361</u>	<u>\$ 4,082,537</u>	<u>\$ 6,564,898</u>	<u>\$ 123,625,782</u>	<u>\$ 124,965,479</u>
Percentage of total	<u>94.7 %</u>	<u>2.0 %</u>	<u>3.3 %</u>	<u>5.3 %</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  
For the Year Ended June 30, 2018  
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Changes in net assets	\$ 2,946,821	\$ 6,672,146
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	1,945,207	1,671,495
Loss on sale and disposal of equipment	665,890	159,618
Donated vehicles and equipment	(7,821)	(27,707)
Net present value amortization adjustment	8,540	(49,976)
Contributions restricted for long- term purposes	(495,000)	-
In-kind contributions of food and non-food (including USDA)	(82,473,868)	(85,563,156)
Distribution of food and non-food received in-kind	82,189,710	86,170,016
Net realized and unrealized gains on investments	(920,886)	(1,763,128)
Changes in operating assets and liabilities		
Accounts receivable	(121,850)	(7,130)
Grants receivable	2,422	117,275
Pledges receivable	629,950	(1,789,450)
Purchased inventory (food)	(56,957)	(147,608)
Prepaid expenses and other assets	61,170	(27,321)
Accounts payable	(288,500)	927,864
Accrued expenses	79,629	206,205
Deferred revenue	-	(3,000)
Net cash provided by operating activities	<u>4,164,457</u>	<u>6,546,143</u>
Cash flows from investing activities		
Purchase of land, buildings, and equipment	(6,060,504)	(2,391,835)
Proceeds from sales of equipment	177,704	20,764
Purchases of investments	(9,471,421)	(3,290,729)
Proceeds from sale of investments	<u>6,129,937</u>	<u>1,701,315</u>
Net cash used in investing activities	<u>(9,224,284)</u>	<u>(3,960,485)</u>
Cash flows from financing activities		
Contributions restricted for long-term purposes	<u>495,000</u>	-
Net cash provided by financing activities	<u>495,000</u>	-
Net increase (decrease) in cash and cash equivalents	(4,564,827)	2,585,658
Cash and cash equivalents, beginning of year	<u>17,032,338</u>	<u>14,446,680</u>
Cash and cash equivalents, end of year	<u>\$ 12,467,511</u>	<u>\$ 17,032,338</u>

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, 2018  
(With Comparative Totals for 2017)

1. ORGANIZATION

Hunger is Pervasive in Silicon Valley

Second Harvest Food Bank of Santa Clara and San Mateo Counties, a nonprofit 501(c)(3) organization founded in 1979, achieved significant progress in addressing the unprecedented need for food in Silicon Valley during its 2017-18 fiscal year. Also known as the "Food Bank" or "Second Harvest," the Organization continued to enhance its operations, while exploring more effective ways to serve anyone in our community who needs help putting food on the table, from families with kids to seniors.

The number of people the Food Bank serves increased by nearly 2,000 people every month. This steady increase occurred despite trends that might have been expected to drive a reduction in the need for food, including low unemployment, increased minimum wage in several cities, raising fears in the immigrant community about accessing charitable services, and an exodus of low-income families looking for cheaper housing elsewhere. Yet, for many people relocating isn't a viable option, and for them rising housing costs further threatened their ability to make ends meet.

Against this backdrop, Second Harvest provided food to a record number of people this fiscal year – an average of 260,000 every month. It's what the Food Bank calls the Silicon Valley hunger paradox – as the economy grows, so does the number of people who need food. That's because the booming Silicon Valley economy has caused housing prices to soar while wages have remained relatively flat outside the tech industry. Nowadays, even those who make our community run like healthcare workers, teachers and mechanics often can't afford to pay rent and put healthy food on the table. Today people experiencing hunger are our friends and neighbors. The face of hunger includes people of all ages, ethnicities and backgrounds.

Connecting More People to Food

To serve more people now and in the future, Second Harvest expanded its operations, enhanced its infrastructure and collaborated with more partners. The Food Bank also intensified its efforts to learn more about its clients and tailor its services to meet their needs – a more client-centric approach to food-banking. Second Harvest engaged in client surveys, community feedback and other research.

Second Harvest also evaluated new ways to reach kids and families this fiscal year, including launching a pilot Food Sharing Lab at a local elementary school in March, where a farmers' market concept was tested, as well as a standing pantry at a high school, where teens and parents can pick up free groceries every Monday afternoon.

Second Harvest added 19 schools to its network this fiscal year, bringing the total to 133 K-12 schools served by pantries, and opened another college pantry. The Food Bank also partnered with The Health Trust to add four more complexes to the list of affordable and supportive housing complexes it serves. Second Harvest distributes food at 57 of these housing complexes, part of its effort to reach people where they live.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

1. ORGANIZATION (continued)

Connecting More People to Food (continued)

The first phase of the Curtner Center expansion project to increase storage, staging and loading areas was completed below budget this fiscal year. When done, the expansion will support the expected 30-percent increase in shelf-stable, cold and frozen foods over the next five years, and provide room for more office space. It takes a huge operation to accommodate the amount of food Second Harvest provides to the community. The Food Bank distributed the equivalent of nearly 55 million meals through its network of 309 nonprofit partners at 985 sites this fiscal year. Second Harvest is one of only a few food banks in the Feeding America network that doesn't charge its distribution partners for the food.

Second Harvest continued to advocate for and leverage government programs. Working with school districts, the Food Bank increased access to free and reduced-price breakfast, lunch and supper. Summers can be challenging for low-income families as they lose access to school meals. This fiscal year Second Harvest connected schools, libraries and summer camps to federal dollars and provided infrastructure that enabled the delivery of over 650,000 meals to children.

The Food Bank's multilingual team of specially trained staff, who answer its Food Connection hotline and work out in the community connecting people to food, provided nearly 21,000 referrals to local resources. These included food distributions, meal sites and public programs like CalFresh. Second Harvest advocated for systems change through programs like Double-Up Food Bucks, which increase access to fresh produce under CalFresh. Second Harvest's work with the Child Nutrition Coalition, and involvement in efforts like the Children's Health Assessment in Santa Clara and End Hunger in San Mateo, provided thought leadership.

Second Harvest was able to raise significant dollars to support these efforts, and effectively manage the funds to make the most impact. The Food Bank earned a near perfect score from Charity Navigator, the nation's largest and most-used evaluator of charities, based on accountability, transparency and financial health, ranking it among the top nonprofits in the nation. Second Harvest's expansive donor base – more than 43,000 donors – made more than 91,000 gifts totaling \$40.5 million this fiscal year. The Food Bank was also able to leverage significant volunteer hours to help accomplish its mission. Volunteer hours totaled 314,160. Valued at \$7.24 million, that is equivalent to 151 full-time employees.

Nutritious Food Improves Lives

Second Harvest continued its work to improve lives by focusing on nutrition and health. Healthy eating is important for good health, but it's not always easy to do. Fresh produce and other healthy foods are expensive and sometimes hard to get. The Food Bank helped its clients eat better by distributing nutritious foods and providing the tools they need to prepare healthier meals. Due to its leadership on the nutrition front, Second Harvest was invited to join the Partnership for a Healthier America, started by Michelle Obama to improve nutrition across the country.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

1. ORGANIZATION (continued)

Nutritious Food Improves Lives (continued)

The Food Bank's Healthy Food and Beverage Policy guided efforts to provide the highest quality food possible. More than half of what Second Harvest distributed this fiscal year was fresh produce and nearly a quarter was protein and dairy. The Food Bank is committed to increasing the amount of healthy foods it provides such as produce, protein and whole grains.

Second Harvest opened three new wellness pantries during the fiscal year to address the high rates of diet-related health conditions like diabetes and hypertension among its clients. Low-income patients with these conditions gained access to special foods and nutrition education classes to help them eat healthier and better manage their condition.

The nutrition team reached more than 37,000 clients this fiscal year, providing nutrition education, food tastings, and cooking demonstrations so people could learn how to prepare nutritious meals with the food they receive. Over 90 percent of those who engaged in the Food Bank's nutrition programming said they found it useful or very useful.

Building a Hunger-Free Community

Even with the tremendous amount of food Second Harvest distributed, there is still a huge gap between the number of people at risk for hunger and those who currently get food. As housing costs continue to rise, there will likely be even more people who need food. The good news is the Food Bank is well-positioned to overcome this challenge, particularly with the progress it made this fiscal year.

Second Harvest was able to move the needle when it comes to transforming the way people access food. The Organization's painstaking effort to better understand why some people who are food insecure do not access its services informed the development of pilot projects that hold enormous promise in their ability to connect more people to food. The Food Bank will build on what it learns and use the information to redesign its services, and make food more accessible to the kids, families and seniors who need it.

Second Harvest will continue to pull every lever to ensure that anyone who needs a healthy meal can get one. That means collaborating with new partners, leveraging every available food resource, and making sure its services are easy to access. Second Harvest is committed to doing what it takes to build a hunger-free community.

2. 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.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement 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, buildings, 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 nonexpiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

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, 2017, from which the summarized information was derived.

Cash and cash equivalents

Cash equivalents include highly liquid investments and investments with an original 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.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 products were valued at \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. Donated government food was valued at \$1.57 and \$1.52 per pound for the years ended June 30, 2018 and 2017, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued utilizing first in, first out (FIFO) method.

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.

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.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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, buildings and equipment

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

Accrued flexible time off (FTO)

Accrued FTO represents vacation and sick time earned, but not taken as of June 30, 2018 and 2017. 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, 2018 and 2017 was \$814,323 and \$753,633, respectively, and is included in accrued expenses.

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 restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Functional expense allocations

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 tax status

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.

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, 2017, 2016, and 2015 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, 2017, 2016, 2015, and 2014 could be subject to examination by state taxing authorities, generally for 4 years after they are filed.

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2018 and 2017 totaled \$448,432 and \$405,189, respectively. Of these costs, \$64,665 and \$26,934, respectively were in-kind contributions.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2018 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, 2018. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 6, 2018.

Reclassifications

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

3. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2018	2017
Pledges receivable in less than one year	\$ 3,808,000	\$ 3,952,950
Pledges receivable in one to five years	2,725,000	3,460,000
	6,533,000	7,412,950
Less discounts to net present value	(241,133)	(232,593)
	\$ 6,291,867	\$ 7,180,357

4. 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 products were valued at \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. Donated government food was valued at \$1.57 and \$1.52 per pound for the years ended June 30, 2018 and 2017, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued utilizing first in, first out (FIFO) method. 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 2).



Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

4. INVENTORY (continued)

Inventory consists of the following:

	2018	2017
Donated non-government food and non-food	\$ 2,337,188	\$ 1,623,899
USDA food commodities	566,503	644,126
Purchased food	535,931	825,024
FEMA food	-	5,458
	\$ 3,439,622	\$ 3,098,507

5. INVESTMENTS

Investments consist of the following:

	2018	2017
Investments - board designated endowment (Note 11)	\$ 8,825,326	\$ 7,152,977
Investments - other	22,661,681	20,071,660
	\$ 31,487,007	\$ 27,224,637

Investment earnings consist of the following:

	2018	2017
Interest and dividends	\$ 740,712	\$ 635,546
Net realized and unrealized gains	920,886	1,763,128
	1,661,598	2,398,674
Investment fees	(223,395)	(190,671)
	\$ 1,438,203	\$ 2,208,003

6. FAIR VALUE MEASUREMENTS

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.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

6. FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Food Bank's assets at fair value as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity investments	\$ 16,761,214	\$ -	\$ -	\$ 16,761,214
Corporate bonds and notes	-	12,102,791	-	12,102,791
Money market investments	1,418,446	-	-	1,418,446
Real estate investment trusts	-	840,788	-	840,788
Master limited partnerships	-	363,768	-	363,768
	<u>\$ 18,179,660</u>	<u>\$ 13,307,347</u>	<u>\$ -</u>	<u>\$ 31,487,007</u>

The following table sets forth by level, within the fair value hierarchy, the Food Bank's assets at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity investments	\$ 13,366,192	\$ -	\$ -	\$ 13,366,192
Corporate bonds and notes	-	7,930,233	-	7,930,233
U.S. government securities and agency obligations	2,766,301	-	-	2,766,301
Money market investments	1,212,893	-	-	1,212,893
Mutual funds	887,777	-	-	887,777
Real estate investment trusts	-	714,009	-	714,009
Master limited partnerships	-	347,232	-	347,232
	<u>\$ 18,233,163</u>	<u>\$ 8,991,474</u>	<u>\$ -</u>	<u>\$ 27,224,637</u>

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	2018	2017
Land	\$ 3,865,858	\$ 3,865,858
Buildings and improvements	27,097,527	23,730,570
Equipment	11,357,844	11,269,975
Construction-in-progress	704,455	1,080,317
	43,025,684	39,946,720
Accumulated depreciation	(15,400,737)	(15,601,300)
	\$ 27,624,947	\$ 24,345,420

Depreciation expense for the years ended June 30, 2018 and 2017 totaled \$1,945,207 and \$1,671,495, respectively.

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, 2018 and 2017 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 4.75%. The maturity date was May 10, 2018 and has been extended to May 10, 2019. 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, 2018 and 2017.

9. COMMITMENTS AND CONTINGENCIES

Operating leases

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  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

9. COMMITMENTS AND CONTINGENCIES (continued)

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, 2018.

10. 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, 2018 and 2017 were \$506,184 and \$437,947, respectively. All of the Plan's administration costs were paid for by the Plan.

11. BOARD DESIGNATED NET ASSETS

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 asset replacement plan.

Board designated net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Operating fund		
Designated for operating reserves	\$ 21,804,788	\$ 20,660,359
Urgent food and infrastructure fund	1,500,000	1,500,000
Inventory	3,439,622	3,098,507
Board-designated endowment fund (investment)	<u>8,825,326</u>	<u>7,152,977</u>
	35,569,736	32,411,843
Land, building and equipment fund		
Designated for capital replacement	<u>7,740,229</u>	<u>10,240,032</u>
	<u>\$ 43,309,965</u>	<u>\$ 42,651,875</u>

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

12. 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.

Interpretation of relevant law

The Food Bank's Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Food Bank classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Food Bank in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Food Bank considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Food Bank and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Food Bank
- (7) The investment policies 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.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

12. BOARD DESIGNATED ENDOWMENT FUND (continued)

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.

Endowment composition

Changes in board-designated endowment net assets are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 7,152,977	\$ 5,405,885
Transfers to board designated endowment fund	1,569,303	1,669,160
Investment income	170,174	128,935
Investment fees	<u>(67,128)</u>	<u>(51,003)</u>
Balance, end of year	<u>\$ 8,825,326</u>	<u>\$ 7,152,977</u>

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2018	2017
Purpose restrictions		
Capacity building	\$ 500,000	\$ 1,000,000
Stand Up for Kids	248,744	1,552,250
Food purchase	183,180	-
Food stamp program	112,007	-
Holiday food drive	93,333	30,000
School pantry	83,478	250,000
Community nutrition	60,000	-
Brown bag program	-	50,000
Family harvest program	-	24,671
Capital campaign	-	2,500
	1,280,742	2,909,421
Time restrictions		
General support for future periods	6,330,699	5,887,657
Government - Sequoia (program)	250,000	150,000
Government - Health Trust	94,841	-
	6,675,540	6,037,657
	\$ 7,956,282	\$ 8,947,078

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

13. TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets released from restriction during the year were as follows:

	<u>2018</u>	<u>2017</u>
Time restrictions	\$ 3,684,953	\$ 3,156,540
Stand Up for Kids	1,315,758	1,183,942
Capacity building	500,000	454,592
Capital campaign	497,500	506,258
School pantry	333,478	275,000
Starbucks program	308,000	-
Food assistance	-	125,000
Community nutrition	105,000	50,000
Food stamp program	85,993	-
Term endowment	66,862	-
Brown bag program	50,000	-
CEO search	50,000	-
Holiday food drive	36,667	310,000
Family harvest program	24,671	16,260
Volunteer program	10,000	-
Season of sharing	-	146,250
Food purchase	-	40,400
Produce mobile	-	17,500
Volunteer program	-	10,000
Photo	-	5,000
	<u>\$ 7,068,882</u>	<u>\$ 6,296,742</u>

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 non-government products were valued at \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. Donated government food was valued at \$1.57 and \$1.52 per pound for the years ended June 30, 2018 and 2017, respectively. This valuation is based on a cost study conducted for Feeding America.



Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Financial Statements  
June 30, 2018  
(With Comparative Totals for 2017)

14. CONTRIBUTIONS IN-KIND (continued)

In-kind contributions received during the year were as follows:

	2018	2017
Contributions in-kind - non-government		
Food and non-food inventory	\$ 75,521,142	\$ 78,374,071
Supplies and minor equipment	987,586	450,463
Media	64,665	26,934
Gift certificates	26,300	20,425
Vehicles and equipment	7,821	27,707
Services	372	1,375
	76,607,886	78,900,975
 Government assistance - in-kind		
Food - government	6,162,226	6,676,459
	\$ 82,770,112	\$ 85,577,434

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, 2018 and 2017 the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$7,240,918 and \$7,075,916, 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, 2018 and 2017 were \$18,396 and \$18,527, 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.

SINGLE AUDIT REPORTS AND SCHEDULES



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*

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 (a California nonprofit corporation)(the "Food Bank"), which comprise the statement of financial position as of June 30, 2018, 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 December 6, 2018.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Food Bank's 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 the Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's 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 the Food Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 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<sup>LLP</sup>  
San Jose, California

December 6, 2018



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

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' (a California nonprofit corporation)(the "Food Bank") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Food Bank's major federal programs for the year ended June 30, 2018. The Food Bank's 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Food Bank's 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 of America; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 the Food Bank's 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 the Food Bank's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Food Bank 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, 2018.

## Report on Internal Control Over Compliance

Management of the Food Bank 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 the Food Bank's 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 the Uniform Guidance, 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 the Food Bank's 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 weakness 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Armanino<sup>LLP</sup>  
San Jose, California

December 6, 2018

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Schedule of Expenditures of Federal and Other Governmental Awards  
For the Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Agriculture			
Passed through			
California Department of Social Services			
Food Distribution Cluster			
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	\$ 6,162,226
Emergency Food Assistance Program (Administrative Costs)	10.568	MOU#10-6060	262,684
Emergency Food Assistance Program (Supplemental Costs)	10.568	MOU#10-6060	19,703
State Emergency Food Assistance Program (SEFAP)	10.568	MOU#10-6060	314,976
Emergency Food Assistance Program (Tax Check Off)	10.568	MOU#10-6060	<u>11,122</u>
Total Food Distribution Cluster			6,770,711
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	<u>247,464</u>
Total U.S. Department of Agriculture			<u>7,018,175</u>
U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA)			
Direct awards			
Emergency Food and Shelter National Board Program	97.024	N/A	<u>140,000</u>
Total U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA)			<u>140,000</u>
Total Expenditures of Federal Awards			<u>7,158,175</u>
<u>Expenditures of Other Governmental Awards</u>			
Santa Clara County - Department of Social Services	N/A	N/A	791,633
Santa Clara County - The Health Trust	N/A	N/A	100,000
Santa Clara County - Adult Meals	N/A	N/A	20,000
San Mateo County - Sequoia Healthcare District	N/A	N/A	280,000
San Mateo County - Measure A	N/A	N/A	150,000
San Mateo County - Food Assistance	N/A	N/A	68,427
San Mateo County - Peninsula Healthcare District	N/A	N/A	30,000
Total Expenditures of Other Governmental Awards			<u>1,440,060</u>
Total Expenditures of Federal and Other Governmental Awards			<u>\$ 8,598,235</u>

The accompanying notes to the Schedule of Expenditures of Federal and Other Governmental Awards are an integral part of this schedule.

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Notes to Schedule of Expenditures of Federal and Other Governmental Awards  
June 30, 2018

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and other governmental awards (the "Schedule") includes the federal and other governmental award activity of Second Harvest Food Bank of Santa Clara and San Mateo Counties (the "Food Bank") under programs of the federal, state and local governments for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Food Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This Schedule is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.

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:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.569	Emergency Food Assistance Program (Food Commodities)	\$6,162,226

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, 2018, the Food Bank had food commodities totaling \$566,503 in inventory.

5. INDIRECT COST RATE

Second Harvest Food Bank of Santa Clara and San Mateo Counties has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.



Second Harvest Food Bank of Santa Clara and San Mateo Counties  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Food Distribution Cluster	
Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	10.569
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Second Harvest Food Bank of Santa Clara and San Mateo Counties  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

SECTION IV - STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.

SECTION V - CORRECTIVE ACTION PLAN

There is no corrective action plan required.