

***SECOND HARVEST FOOD BANK
OF ORANGE COUNTY
AND
COUNCIL OF ORANGE COUNTY
SOCIETY OF ST. VINCENT DE PAUL***

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2012

WITH INDEPENDENT AUDITORS' REPORT

**SECOND HARVEST FOOD BANK
OF ORANGE COUNTY
AND
COUNCIL OF ORANGE COUNTY
SOCIETY OF ST. VINCENT DE PAUL
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JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Second Harvest Food Bank
Of Orange County And
Council of Orange County
Society of St. Vincent de Paul
Irvine, California

We have audited the accompanying consolidated statement of financial position of the Second Harvest Food Bank of Orange County and the Council of Orange County Society of St. Vincent de Paul (non-profit organizations) (collectively, the "Organization") as of June 30, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012, on our consideration of the Organization'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, “*Audits of States, Local Governments, and Non-Profit Organizations*”, and is not a required part of the consolidated financial statements. The accompanying consolidating financial information on pages 24 to 26 is also presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

White Nelson Dick Evans LLP

Irvine, California
December 26, 2012

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012**

ASSETS

| | |
|---|-----------------------------|
| Current Assets: | |
| Cash | \$ 2,239,127 |
| Investments | 14,063 |
| Accounts Receivable | 72,537 |
| Grants Receivable | 136,156 |
| Unconditional Promises To Give, Net | 81,317 |
| Inventory | 1,383,114 |
| Prepaid Expenses And Deposits | 92,212 |
| Current Portion - Note Receivable | <u>4,813</u> |
| Total Current Assets | 4,023,339 |
| Land, Building, Furniture, Fixtures, And Equipment, Net | 11,342,618 |
| Other Assets: | |
| Long-Term Investments | 196,281 |
| Note Receivable | <u>234,299</u> |
| Total Other Assets | <u>430,580</u> |
| Total Assets | <u><u>\$ 15,796,537</u></u> |

LIABILITIES AND NET ASSETS

| | |
|---------------------------------------|-----------------------------|
| Current Liabilities: | |
| Accounts Payable And Accrued Expenses | \$ 195,665 |
| Deferred Revenue And Deposits | 60,000 |
| Long-Term Debt - Current Portion | <u>144,882</u> |
| Total Current Liabilities | 400,547 |
| Long-Term Liabilities: | |
| Long-Term Debt | <u>830,669</u> |
| Total Long-Term Liabilities | <u>830,669</u> |
| Total Liabilities | 1,231,216 |
| Net Assets: | |
| Unrestricted | 9,316,363 |
| Temporarily Restricted | 5,052,677 |
| Permanently Restricted | <u>196,281</u> |
| Total Net Assets | <u>14,565,321</u> |
| Total Liabilities And Net Assets | <u><u>\$ 15,796,537</u></u> |

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

| | |
|--|-------------------|
| Unrestricted Support And Revenue: | |
| Community Support: | |
| Grants And Awards | \$ 2,030,320 |
| Contributions | 1,135,686 |
| Donated Food Products And Merchandise | 28,140,077 |
| Contributed Services | <u>208,964</u> |
| Total Community Support | 31,515,047 |
| Special Events Revenue | 1,916,728 |
| Costs Of Direct Benefits To Donors | <u>(376,803)</u> |
| Net Special Events Revenue | 1,539,925 |
| Revenue: | |
| Contract Revenue | 1,126,964 |
| Participation Fees And Program Fees | 1,113,543 |
| Purchased Item Fees | 411,296 |
| Gain On Disposal Of Property And Equipment | 15,923 |
| Other Income | <u>14,510</u> |
| Total Revenue | 2,682,236 |
| Net Assets Released From Restrictions | <u>404,955</u> |
| Total Unrestricted Support And Revenue | 36,142,163 |
| Expenses: | |
| Program Services: | |
| Second Harvest Food Bank | 32,736,310 |
| Council Program Services | <u>174,059</u> |
| Total Program Services | 32,910,369 |
| Support Services: | |
| Fund-Raising | 260,470 |
| General And Administrative | <u>2,104,646</u> |
| Total Support Services | <u>2,365,116</u> |
| Total Expenses | <u>35,275,485</u> |
| Increase In Unrestricted Net Assets | <u>\$ 866,678</u> |

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

| | | |
|---|----|--------------------------|
| Temporarily Restricted Support: | | |
| Funds Used For Operations | \$ | (171,266) |
| Grants Received | | 158,130 |
| Write-off Of Unconditional Promises To Give | | (312,536) |
| Depreciation Expense | | <u>(79,283)</u> |
| | | <u>(404,955)</u> |
| Decrease In Temporarily Restricted Net Assets | | <u>(404,955)</u> |
| Increase In Total Net Assets | | 461,723 |
| Total Net Assets At Beginning Of Year | | <u>14,103,598</u> |
| Total Net Assets At End Of Year | \$ | <u><u>14,565,321</u></u> |

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012**

| | |
|---|---------------------|
| Cash Flows From Operating Activities: | |
| Increase In Total Net Assets | \$ 461,723 |
| Non-Cash Items Included In Change In Total Assets: | |
| Write-Off Of Unconditional Promises To Give | 312,536 |
| Allowance For Uncollectible Promises To Give | (23,000) |
| Depreciation | 511,588 |
| Gain On Sale Of Property And Equipment | (15,923) |
| Unrealized Loss On Investments | 8,099 |
| Changes In: | |
| Accounts Receivable | 10,572 |
| Grants Receivable | 61,305 |
| Unconditional Promises To Give | 166,647 |
| Inventory | (261,058) |
| Prepaid Expenses And Deposits | 23,464 |
| Accounts Payable And Accrued Expenses | 70,765 |
| Deferred Revenue And Deposits | (42,854) |
| Net Cash Provided By Operating Activities | <u>1,283,864</u> |
| Cash Flows From Investing Activities: | |
| Purchase Of Property And Equipment | (90,108) |
| Proceeds From Sale Of Property And Equipment | 24,476 |
| Realized Gain On Investments | (3,546) |
| Proceeds From Payments On Note Receivable | 4,835 |
| Net Cash Used In Investing Activities | <u>(64,343)</u> |
| Cash Flows From Financing Activities: | |
| Payments On Long-Term Debt | <u>(334,996)</u> |
| Net Cash Used In Financing Activities | <u>(334,996)</u> |
| Net Increase In Cash | 884,525 |
| Cash And Restricted Cash At Beginning Of Year | <u>1,354,602</u> |
| Cash And Restricted Cash At End Of Year | <u>\$ 2,239,127</u> |
| Supplemental Disclosure Of Cash Flow Information: | |
| Cash Paid For Interest | <u>\$ 34,591</u> |
| Supplemental Schedule Of Non-Cash Investing Activities: | |
| Donation Of Property | <u>\$ 2,637</u> |

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
(INCLUDING CORRESPONDING REVENUES)
YEAR ENDED JUNE 30, 2012**

| | <u>Food Bank</u> | <u>Council Program Services</u> | <u>Total</u> |
|--|----------------------|---|----------------------|
| Unrestricted Support And Revenue: | | | |
| Community Support: | | | |
| Grants And Awards | \$ 1,844,620 | \$ 185,700 | \$ 2,030,320 |
| Contributions | 1,065,402 | 70,284 | 1,135,686 |
| Donated Food Products And Merchandise | 28,097,502 | 42,575 | 28,140,077 |
| Contributed Services | <u>208,564</u> | <u>400</u> | <u>208,964</u> |
| Total Community Support | 31,216,088 | 298,959 | 31,515,047 |
| Special Events Revenue | 1,847,259 | 69,469 | 1,916,728 |
| Costs Of Direct Benefits To Donors | <u>(361,764)</u> | <u>(15,039)</u> | <u>(376,803)</u> |
| Net Special Events Revenue | 1,485,495 | 54,430 | 1,539,925 |
| Revenue: | | | |
| Contract Revenue | 1,126,964 | - | 1,126,964 |
| Participation Fees And Program Fees | 1,058,441 | 55,102 | 1,113,543 |
| Purchased Item Fees | 411,296 | - | 411,296 |
| Gain On Disposal Of Property And Equipment | 10,021 | 5,902 | 15,923 |
| Other Income | <u>-</u> | <u>14,510</u> | <u>14,510</u> |
| Total Revenue | 2,606,722 | 75,514 | 2,682,236 |
| Net Assets Released From Restriction | <u>351,863</u> | <u>53,092</u> | <u>404,955</u> |
| Total Unrestricted Support And Revenue | 35,660,168 | 481,995 | 36,142,163 |
| Expenses: | | | |
| Program Services: | | | |
| Cost Of Sales | 1,903,509 | 28,359 | 1,931,868 |
| Distribution Of Donated Food | | | |
| Products And Merchandise | 27,903,961 | - | 27,903,961 |
| Free Distribution Of Commodities | 471,566 | - | 471,566 |
| Program Expenses | 689,091 | 58,331 | 747,422 |
| Personnel | 1,559,619 | 86,969 | 1,646,588 |
| Contributed Services | <u>208,564</u> | <u>400</u> | <u>208,964</u> |
| Total Program Services Expenses | \$ <u>32,736,310</u> | \$ <u>174,059</u> | \$ <u>32,910,369</u> |

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
(INCLUDING CORRESPONDING REVENUES)
YEAR ENDED JUNE 30, 2012**

| | <u>Food Bank</u> | <u>Council Program Services</u> | <u>Total</u> |
|--|----------------------|---|-------------------|
| Support Services: | | | |
| Fund-Raising | \$ 260,470 | \$ - | \$ 260,470 |
| Personnel | 783,686 | 49,770 | 833,456 |
| Occupancy | 350,150 | 23,140 | 373,290 |
| Transportation | 33,926 | 8,778 | 42,704 |
| Depreciation And Amortization | 442,739 | 68,849 | 511,588 |
| Advertising And Promotion | 60,330 | 3,041 | 63,371 |
| Supplies And Printing | 78,612 | 9,638 | 88,250 |
| Other | 174,299 | 17,688 | 191,987 |
| | <u>2,184,212</u> | <u>180,904</u> | <u>2,365,116</u> |
| Total Support Services Expenses | | | |
| | <u>34,920,522</u> | <u>354,963</u> | <u>35,275,485</u> |
| | | | |
| Increase In Unrestricted Net Assets | 739,646 | 127,032 | 866,678 |
| Temporarily Restricted Support: | | | |
| Funds Used For Operations | (171,266) | - | (171,266) |
| Grants Received | 158,130 | - | 158,130 |
| Write-off Of Unconditional Promises To Give | (312,536) | - | (312,536) |
| Depreciation Expense | (26,191) | (53,092) | (79,283) |
| | <u>(351,863)</u> | <u>(53,092)</u> | <u>(404,955)</u> |
| Decrease In Temporarily Restricted Net Assets | | | |
| | <u>\$ 387,783</u> | <u>\$ 73,940</u> | <u>\$ 461,723</u> |

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies

- (1) Nature Of Operations - Second Harvest Food Bank of Orange County (“Second Harvest”) and Council of Orange County Society of St. Vincent de Paul (the “Council”) (collectively, the “Organization”) are non-profit organizations supporting charitable activities at parish conferences as well as special activities throughout the local community. Second Harvest acts as a clearinghouse through which food processors, wholesalers, retailers, and government agencies donate food items for distribution, via qualified charitable agencies, to assist the poor and needy. The Council operates camping programs, food and toy programs, services for ex-offenders and their families, and supports conferences in various parishes of the Diocese of Orange, California.

From July 1, 2011 through December 31, 2011, Second Harvest was considered to be one of the programs operated under the Council. Effective January 1, 2012, Second Harvest started operating as a separate tax exempt entity after it filed its application and received approval from the Internal Revenue Service.

- (2) Principles Of Consolidation - The accompanying consolidated financial statements include the accounts of both Second Harvest and the Council. Any inter-entity transactions have been eliminated upon consolidation.

The Council is the sole member (“Member”) of Second Harvest. The Member shall be entitled to one vote upon each matter submitted to a vote. Membership in Second Harvest is not transferable or assignable. The Member has the exclusive power when it comes to any of the following: 1) dissolving the entity of Second Harvest, winding up or abandonment of its business enterprises or liquidation of its assets or the filing of any action in bankruptcy, receivership or similar action; 2) the sale or transfer of all or substantially all of the assets of Second Harvest, merger or consolidation of the entity; 3) any change to the structure or operation of Second Harvest that would affect its status as a non-profit public benefit corporation exempt from taxation under section 501 (c)(3) of the Internal Revenue Code; or 4) material amendment, restatement or other modification of the articles of incorporation or bylaws.

- (3) Basis Of Presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -
(Continued)**

(3) Basis Of Presentation - (Continued)

Contributions, including unconditional promises to give, are recognized as revenues in the period received (see Note A(5)). Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as prescribed for not-for-profit organizations by the Financial Accounting Standards Board (FASB). Accordingly, the net assets of the Organization are classified and reported as follows:

- Unrestricted net assets - consist of resources that have not been restricted by the donor and represent contributions raised through various fund-raising efforts and donated products and merchandise.
- Temporarily restricted net assets - consist of resources that were received with donor stipulations that limit use and represent contributions given specifically by the donor.
- Permanently restricted net assets - consist of resources received from donors to provide a permanent source of income and represent contributions given specifically by the donor for an endowment fund.

(4) Cash - The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(5) Promises To Give - Unconditional promises to give are recognized when the donor makes a promise to give. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2012, there were no long-term unconditional promises to give. Management has provided a reserve for uncollectible promises which totaled \$10,000 at June 30, 2012.

(6) Support And Revenue - The majority of the Organization's grants and contracts support are federal pass-through funds from the State of California. Support received from these grants is recognized on an accrual basis, based on funding provided through the term of the individual contracts, as specified by the grantor. Other support is from client fees and contributions from community individuals and businesses.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -
(Continued)**

- (7) Accounts And Grants Receivable - The Organization's accounts and grants receivables are primarily reimbursements and fees from governmental agencies and sub-recipients shared maintenance fees. They are based on services performed by the Organization as written under contractual agreements. Management believes the receivables are collectible, and thus they do not use the allowance method to record doubtful amounts. The use of the allowance method does not differ materially from the direct write-off method.
- (8) Inventory - Donations of food products to Second Harvest are recorded at the fair value at the date of donation. The fair value of donated food and commodities has been based on management's estimates with the use of the "Feeding America National Study", a third-party network for food banks (formerly America's Second Harvest). The costs associated with distributing food to the community are recorded as cost of sales and distribution of donated food products and merchandise in the accompanying consolidated statement of functional expenses.

Donated property is recorded at fair value at the date of the gift when there is an objective basis available to measure its value.

The net realizable value of inventory for food is based on the maximum shared maintenance rate, which ranges from \$0.00 to \$0.14 per pound for the year ended June 30, 2012. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from the purchasing agencies.

As of June 30, 2012, the donated food inventory is valued at a fair value of \$1.66 per pound on the consolidated statement of financial position which totaled \$1,198,666. The actual net realizable value of such inventory is a fraction of that amount. Had the donated food been valued at its net realizable value using the maximum shared maintenance rate of \$0.14, inventory and distribution of donated food products and merchandise would have been reduced by \$1,097,574 and \$25,550,615, respectively at June 30, 2012, with a corresponding decrease in community support for Second Harvest during the period.

- (9) Land, Building, Furniture, Fixtures, And Equipment - Land, building, furniture, fixtures, and equipment are stated at cost, less accumulated depreciation if purchased or estimated fair value if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, ranging from 3 to 39 years. Leasehold improvements are capitalized at cost and are amortized over the shorter of the lease term or the estimated useful life of the related asset. For the year ended June 30, 2012, depreciation and amortization expense totaled \$511,588.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -
(Continued)**

- (10) Long-Lived Assets And Asset Impairment - The Organization accounts for impairment and disposition of long-lived assets in accordance with FASB Accounting Standards Codification (“ASC”) 360-10, “*Property, Plant, and Equipment*”. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets’ carrying amount. There was no impairment of the value of such assets for the year ended June 30, 2012.
- (11) Deferred Revenue And Deposits - As of June 30, 2012, deferred revenue and deposits consist principally of amounts received from participants in advance for camping activities and other fundraising events occurring subsequent to year-end.
- (12) Advertising And Promotion Costs - Advertising and promotion costs are charged to operations when incurred. Advertising and promotion costs charged to operations for the year ended June 30, 2012 totaled \$63,371.
- (13) Contributed Services - A substantial number of volunteers have donated significant amounts of time in the operation of the Organization’s program services and Food Bank. Legal, accounting, engineering, counseling and medical services meet the criteria of FASB ASC 958-605, “*Accounting for Contributions Received*”, and have been recognized in the accompanying consolidated statement of activities as revenue and a corresponding expense. The fair value of these services at the time of donation was determined to be \$208,964 for the year ended June 30, 2012.

Substantial amounts of other volunteer time do not meet the criteria of FASB ASC 958-605 and, accordingly, have not been reflected in the accompanying consolidated financial statements. The value of such volunteer time was estimated using the minimum wage rates and determined to be the following for the year ended June 30, 2012 (unaudited):

| | <u>Number Of Volunteers</u> | <u>Number Of Hours</u> | <u>Value</u> |
|--------------------------|---------------------------------|----------------------------|---------------------|
| Areas Of Service: | | | |
| Second Harvest Food Bank | 11,175 | 105,100 | \$ 840,800 |
| Council Program Services | <u>871</u> | <u>96,707</u> | <u>773,656</u> |
| Totals | <u>12,046</u> | <u>201,807</u> | <u>\$ 1,614,456</u> |

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -
(Continued)**

- (14) Income Taxes - Both Second Harvest and the Council are recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code and are classified as organizations other than private foundations. Accordingly, there is no provision for income taxes in the accompanying consolidated financial statements.

The Organization adopted the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48")) on January 1, 2009. Under FIN 48, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on the Organization's consolidated financial statements. The Organization does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties. The Council's 2009 to 2011 tax years are open to review for federal tax purposes and 2008 to 2011 tax years are open to review for state income tax purposes.

- (15) Use Of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.
- (16) Investment Valuation And Income Recognition - The Organization's investments are stated at fair value at June 30, 2012 and quoted market prices are used when applicable. Shares of mutual funds are valued at the net asset value of shares held by the Organization at year-end.

Purchases and sales of investments are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Capital gains and/or losses are reported the day after the trade date.

Net realized and unrealized activity appreciation (depreciation) is recorded in the accompanying consolidated statement of activities in other income. Brokerage fees are added to the acquisition costs of assets purchased and subtracted from the proceeds of assets sold.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

**NOTE A: Nature Of Operations And Summary Of Significant Accounting Policies -
(Continued)**

- (17) Recent Accounting Pronouncements - In May 2011, the FASB issued ASU 2011-04, "*Fair Value Measurement (Topic 820)*". ASU 2011-04 clarifies the FASB's intent about the application of existing fair value measurement and disclosure requirements and changes some principles or requirements for measuring fair value or disclosing information about fair value measurements to coincide with International Financial Reporting Standards (IFRS). ASU 2011-04 is effective for annual periods beginning after December 15, 2011. The Organization is currently evaluating the impact of the provisions of ASU 2011-04 on the presentation of its consolidated financial statements.

NOTE B: Concentrations, Risks And Uncertainties - The Organization maintains cash balances at a single financial institution. At June 30, 2012, accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest bearing accounts and unlimited insurance for non-interest bearing accounts. There were not any cash balances in excess of federally insured limits at June 30, 2012.

The Second Harvest endowment fund investments maintained by the foundation mentioned in Note J are not insured. The uninsured balance was \$210,344 as of June 30, 2012.

NOTE C: Inventory - Inventory consists of the following at June 30, 2012:

| | |
|-----------------------|---------------------|
| Donated Food | \$ 1,198,666 |
| Purchased Commodities | 138,273 |
| Other Donated Items | <u>46,175</u> |
| Total Inventory | <u>\$ 1,383,114</u> |

NOTE D: Land, Building, Furniture, Fixtures, And Equipment - Land, building, furniture, fixtures, and equipment consist of the following at June 30, 2012:

| | |
|---|----------------------|
| Land | \$ 2,400,000 |
| Building | 8,901,766 |
| Vehicles | 1,372,775 |
| Furniture And Equipment | <u>1,228,562</u> |
| | 13,903,103 |
| Less: Accumulated Depreciation And Amortization | <u>(2,560,485)</u> |
| Total Land, Building, Furniture, Fixtures, And Equipment | <u>\$ 11,342,618</u> |

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE E: Note Receivable - The Council is the holder of a note receivable due from a corporation in the original amount of \$250,000 which bears interest at 6 percent per annum. The loan is secured by the personal property upon which it originated, in addition to the corporation's other business assets and matures February 2015. The balance outstanding as of June 30, 2012 was \$239,112.

The following are maturities of the note receivable for each of the subsequent years ending June 30:

| | | |
|------|----|----------------|
| 2013 | \$ | 4,813 |
| 2014 | | 5,425 |
| 2015 | | <u>228,874</u> |
| | \$ | <u>239,112</u> |

NOTE F: Temporarily Restricted Net Assets - Temporarily restricted net assets as of June 30, 2012 consist of the following:

| | | |
|---|----|------------------|
| Restricted Cash | \$ | 201,616 |
| Unconditional Promises To Give, Net | | 81,317 |
| Land, Building, And Equipment, Net | | <u>4,769,744</u> |
| Total Temporarily Restricted Net Assets | \$ | <u>5,052,677</u> |

NOTE G: Permanently Restricted Net Assets - Permanently restricted net assets consist of an investment in an endowment fund which invests in pooled accounts. Any earnings from the endowment fund are expendable as support for Second Harvest. During the year ended June 30, 2012, the investment's return consisted of dividends and interest of \$5,807, unrealized losses of \$8,099, and investment fees of \$2,261, for a net loss of \$4,553. At the end of the year, the fair value of the investment was \$210,344, of which \$196,281 was permanently restricted.

NOTE H: Commitments And Contingencies

- (1) Line Of Credit - The Council has an unsecured line of credit with a financial institution for borrowings of up to \$250,000, bearing interest at 3.25 percent per annum on the unpaid principal balance maturing April 2014. At June 30, 2012, there was no principal balance outstanding on this line of credit.
- (2) Long-Term Debt - In 2011, the Council entered into a note agreement with a bank totaling \$950,000, bearing interest at the institution's reference rate plus one-half percent (3.75 percent during the year ended June 30, 2012). In March 2012, Second Harvest became a guarantor of the loan.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE H: Commitments And Contingencies - (Continued)

(2) Long-Term Debt - (Continued)

Principal payments of \$7,917 are due monthly. The note is secured by the Organization's assets and matures April 2016. At June 30, 2012, the outstanding principal balance on this note was \$607,167. The loan with the bank contains various financial covenants pertaining to tangible net worth and debt service coverage ratios. At June 30, 2012, Second Harvest was in compliance with respect to all terms of the note agreement.

On December 1, 2011, the Council converted the entire outstanding principal and interest balance on its unsecured line of credit with a not-for-profit institution into a note payable agreement in the amount of \$311,629. Interest accrues at 2.17 percent per annum with principal and interest payments of \$3,000 due monthly. The note payable matures December 2016 at which point the entire remaining principal and accrued interest balance is due. The balance outstanding at June 30, 2012 totaled \$288,481.

During November 2011, the Council entered into a note payable agreement with the Department of Housing and Urban Development ("HUD") in the amount of \$99,879 as repayment for excess money received relating to program activity back in 2008. There is no stated interest rate and the balance is due in annual payments of \$19,976, maturing November 2016. The balance outstanding at June 30, 2012 is \$79,903.

The following are maturities of long-term debt for each of the subsequent years ending June 30:

| | |
|------|-------------------|
| 2013 | \$ 144,882 |
| 2014 | 145,538 |
| 2015 | 146,208 |
| 2016 | 374,058 |
| 2017 | <u>164,865</u> |
| | <u>\$ 975,551</u> |

- (3) Operating Leases - The Organization has entered into several leases for office and warehouse space expiring through January 2017. Total rent expense related to such operating leases amounted to \$29,166 for the year ended June 30, 2012.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE H: Commitments And Contingencies - (Continued)

(3) Operating Leases - (Continued)

Future aggregate minimum annual rent payments under these non-cancelable leases for subsequent years ending June 30 are as follows:

| | | |
|------------------------------|----|--------|
| 2013 | \$ | 10,563 |
| 2014 | | 10,563 |
| 2015 | | 7,043 |
| 2016 | | 1 |
| 2017 | | 1 |
| Total Minimum Lease Payments | \$ | 28,171 |

- (4) Litigation - The Organization experiences litigation during the normal course of its operations. Management does not believe that any pending or threatened litigation will have a material adverse effect on its consolidated financial statements.

NOTE I: Allocation Of Joint Costs - For the year ended June 30, 2012, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$376,803. These activities included costs from direct mail campaigns totaling \$247,995 and special event costs totaling \$128,808 for the year ended June 30, 2012.

NOTE J: Endowment Fund – Second Harvest’s endowment fund is made up of one fund established to fund the Kids Café program. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including unrestricted investment funds designated by the Board of Directors to be included in the endowment funds, are classified and reported based on existence or absence of donor-imposed restrictions. Through December 31, 2007, Second Harvest’s management and investment of donor-restricted endowment funds were subject to the provision of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which serves as a guideline to state the use in enacting legislation. Among UPMIFA’s most significant changes is the elimination of UMIFA’s important concept of historic dollar value threshold, the amount below which an organization could not spend from the donor-restricted endowment fund in favor of a more robust set of guidelines about what constitutes prudent spending.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE J: Endowment Fund - (Continued)

In 2008, the State of California enacted UPMIFA, the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, Second Harvest is required to act prudently when making decisions to spend or accumulate donor-restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor-restricted endowment funds. As a result of this interpretation, Second Harvest classifies as permanently restricted net assets the original value of gifts with donor-imposed restrictions that such funds be retained as a permanent endowment. 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 Second Harvest in a manner consistent with the standard of prudence prescribed by UPMIFA.

Second Harvest has outsourced the management of the Second Harvest Food Bank Endowment Fund to the Orange County Community Foundation (OCCF). The oversight of the investment portfolio is the responsibility of the OCCF Investment Committee whose members are appointed by and serve the OCCF Board of Directors, and which shall administer the investment portfolio in compliance with all written policies approved by the OCCF Board. Annual distributions are subject to the policies of the OCCF, which limit them to a maximum of 5 percent of the rolling average of the total account balance over the prior 12 months.

The OCCF Investment Committee has contracted with an independent trust foundation for the purpose of managing the investment and reinvestment of fund assets in a manner consistent with the overall investment policy as approved by the OCCF Board.

Second Harvest's investment objectives are determined by the OCCF to:

- Preserve the investment portfolio's corpus over the long-term.
- Ensure the investment portfolio's long-term ability to distribute income.
- Ensure that restricted donations are protected so that they are available for the target use.

In achieving the objectives, Second Harvest's primary investment mission is to preserve principal and to provide income to help sustain the Kid's Café program in future years.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE J: Endowment Fund - (Continued)

The following is the endowment net asset composition as of June 30, 2012:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Donor-Restricted | | | | |
| Endowment Funds | \$ 14,063 | \$ - | \$ 196,281 | \$ 210,344 |

The following are the changes in the endowment net assets for the year ended June 30, 2012:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-----------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Endowment Net Assets, | | | | |
| Beginning Of Year | \$ 18,616 | \$ - | \$ 196,281 | \$ 214,897 |
| Investment Return: | | | | |
| Investment Income | 5,807 | - | - | 5,807 |
| Net Depreciation | (8,099) | - | - | (8,099) |
| Total Investment | | | | |
| Return | (2,292) | - | - | (2,292) |
| Amount Appropriated | | | | |
| For Expenditure | (2,261) | - | - | (2,261) |
| Endowment Net Assets, | | | | |
| End Of Year | \$ 14,063 | \$ - | \$ 196,281 | \$ 210,344 |

NOTE K: Fair Value Measurements - On January 1, 2008, Second Harvest adopted FASB ASC 820, "*Fair Value Measurements and Disclosures*". FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurement.

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs in the valuation of an asset as of the measurement date. The three levels are defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE K: Fair Value Measurements - (Continued)

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, Second Harvest's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for assets measured at fair value is disclosed in Note A(16). There have been no changes in the methodologies used during the year ended June 30, 2012.

The methods described in Note A(16) may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Second Harvest believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2012, assets measured at fair value on a recurring basis included alternative investments comprised of hedge funds, private equities, interests in closely-held entities, and real estate funds totaling \$210,344. Fair value was determined using an estimated net asset value (NAV) per share (Level 3).

The fair value of the hedge funds, private equities and real estate funds is based on the net asset value of the fund and Second Harvest's shares/ownership interest in the respective fund. Net asset values are evaluated by OCCF to determine if the values of these investments should be adjusted. Factors considered may include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment and changes in market outlook and the financing environment. The fair value of interests in closely-held entities is based on appraisals and OCCF's review and assessment of current financial statements. Valuations of alternative investments are reviewed at least twice a year using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. The estimated fair values may differ from the values that would have been used had a ready market for these securities existed.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE K: Fair Value Measurements - (Continued)

The following is a reconciliation of activity for the year ending June 30, 2012 for assets measured at fair value based on significant unobservable (non-market) information:

| | | |
|---------------------------------------|--------|--------------------|
| Balance, Beginning of Year | \$ | 214,897 |
| Interest Income | | 5,807 |
| Realized and Unrealized Losses | | |
| Included in Earnings | | (8,099) |
| Purchases, Issuances, and Settlements | | <u>(2,261)</u> |
| Balance, End of Year | \$ | <u>210,344</u> |

Realized and unrealized losses of \$8,099 included in earnings are reported in the consolidated statement of activities as a component of other income.

NOTE L: Net Asset Value (NAV) Per Share - The following table for June 30, 2012 sets forth a summary of Second Harvest's investments whose fair value is estimated using NAV (or its equivalent):

| | <u>Unfunded Commitment</u> | <u>Redemption Frequency</u> | <u>Other Redemption Restrictions</u> | <u>Redemption Notice Period</u> |
|---------------------------|--------------------------------|---------------------------------|--|---|
| Alternative Investments: | | | | |
| Hedge Funds (a) | None | Quarterly | None | 35-65 Days |
| Private Equities (b) | None | N/A | None | N/A |
| Closely-held Entities (c) | None | N/A | None | N/A |
| Real Estate Funds (d) | None | N/A | None | N/A |

- (a) Hedge Funds - This class includes investments in hedge funds. Approximately 45 and 42 percent of the class is invested in two separate funds that can invest in U.S. and non U.S. equities, fixed income securities, currencies, commodities, or other investment strategies OCCF deems appropriate under prevailing economic and market conditions. The balance of the class includes direct investments or investments in funds comprised primarily of U.S. equities. Management of these funds is able to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position as deemed appropriate.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE L: Net Asset Value (NAV) Per Share - (Continued)

(a) Hedge Funds - (Continued)

The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Forty-five percent of the class is redeemable on the last business day of each calendar quarter after a twelve month lock-up which ends December 31, 2012 with 65 days' notice at the current net asset value. Forty-two percent of the class is redeemable on the last business day of each calendar quarter with 65 days' notice at the current net asset value. Seven percent of the value of this class is redeemable quarterly with at least 35 days' notice at the current net asset value. Six percent of the value of this class is redeemable at the general partner's discretion.

(b) Private Equities - This class includes investments in private equity funds that invest primarily in the following industry sectors: Buyout, Venture Capital, Special Situation, International and Real Estate. Investments are made through private equity limited partnerships. The fair values of the investments in this class have been estimated using the net asset value of OCCF's ownership interest in partners' capital. Assets are purchased and sold within the limited partnership as deemed beneficial to the partnership. Current distributions are utilized to offset capital calls, if any, and the balance is distributed to the limited partners. There are no early withdrawals. It is estimated that the underlying assets of the funds will be liquidated over the next 4 to 8 years.

(c) Closely-held Entities - This class includes minority interests in closely-held entities in the real estate segment. It also includes a 50 percent interest in real property. Approximately 76 percent of this class represents an investment in the preferred stock of a closely-held company that is a private hospital provider. The estimated timeframe for liquidation of the asset is 1 to 2 years. Approximately 19 percent of this class represents an investment in Section 8 property (low cost housing). This investment will be liquidated upon refinance or sale of the property. The estimated timeframe for liquidation of the asset is 2 to 5 years. Approximately 4 percent of this class represents stock in a company invested in real estate, which is illiquid and will be liquidated as deemed appropriate based on market conditions. The balance of this class, approximately 1 percent, is invested in real property in Kentucky.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE L: Net Asset Value (NAV) Per Share - (Continued)

- (d) Real Estate Funds - This class includes investments in three real estate funds that invest primarily in U.S. real estate. The fair values of the investments in this class have been estimated by management of the real estate funds based on cash flow analysis using appropriate risk-adjusted capitalization rates or appraisals subject to management's discretion. These investments receive regular distributions from earnings on the investments and will be liquidated upon the sale or refinance of the properties. The investment managers will liquidate the properties as deemed appropriate based on market conditions. Twenty-eight percent of the investments may be redeemed at a discounted value through April 2013 to the extent the fund has cash available for redemption. Subsequent to April 2013, the investments may be redeemed at the full purchase price to the extent the fund has cash available for redemption. Seventy-two percent of the investments are illiquid.

NOTE M: Related Party Transactions - In January 2012, Second Harvest entered into an operating lease agreement with the Council, as lessor, for rental of warehouse and office space at the Irvine facility. The term of the lease expires January 2017. Rental payments for the year ended June 30, 2012 totaled \$1. The amounts and terms of the lease agreement have been included in Note H(3).

NOTE N: Change In Estimate - During 2012, Second Harvest changed their valuation method for government commodities in accordance with a food distribution national policy memorandum established by the United States Department of Agriculture ("USDA"), which clarifies the options available to foodbanks in assigning value to USDA donated products for audit purposes. Management decided to utilize the "Feeding America National Study" valuation as described in Note A(8) and assigned a value to the government commodities based on a fair value of \$1.66 per pound. Management believes this estimate is more representative of the actual costs of the USDA products received and will promote consistency going forward. As a result of this change in estimate, inventory was increased by \$236,324 as of June 30, 2012, with a corresponding increase in net assets.

NOTE O: Subsequent Events - Events occurring after June 30, 2012 have been evaluated for possible adjustment to the consolidated financial statements or disclosure as of December 26, 2012, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012**

| | Food Bank | Council Program Services | Total |
|---|----------------------|---|---------------|
| <u>ASSETS</u> | | | |
| Current Assets: | | | |
| Cash | \$ 1,991,032 | \$ 248,095 | \$ 2,239,127 |
| Investments | 14,063 | - | 14,063 |
| Accounts Receivable | 71,664 | 873 | 72,537 |
| Grants Receivable | 136,156 | - | 136,156 |
| Unconditional Promises To Give, Net | 81,317 | - | 81,317 |
| Inventory | 1,336,939 | 46,175 | 1,383,114 |
| Prepaid Expenses And Deposits | 55,821 | 36,391 | 92,212 |
| Current Portion - Note Receivable | - | 4,813 | 4,813 |
| Total Current Assets | 3,686,992 | 336,347 | 4,023,339 |
| Land, Building, Furniture, Fixtures, And Equipment, Net | 6,898,966 | 4,443,652 | 11,342,618 |
| Other Assets: | | | |
| Long-Term Investments | 196,281 | - | 196,281 |
| Note Receivable | - | 234,299 | 234,299 |
| Total Other Assets | 196,281 | 234,299 | 430,580 |
| Total Assets | \$ 10,782,239 | \$ 5,014,298 | \$ 15,796,537 |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| Current Liabilities: | | | |
| Accounts Payable And Accrued Expenses | \$ 191,103 | \$ 4,562 | \$ 195,665 |
| Deferred Revenue And Deposits | 15,000 | 45,000 | 60,000 |
| Long-Term Debt - Current Portion | 95,000 | 49,882 | 144,882 |
| Total Current Liabilities | 301,103 | 99,444 | 400,547 |
| Long-Term Liabilities: | | | |
| Long-Term Debt | 512,167 | 318,502 | 830,669 |
| Total Long-Term Liabilities | 512,167 | 318,502 | 830,669 |
| Total Liabilities | 813,270 | 417,946 | 1,231,216 |
| Net Assets: | | | |
| Unrestricted | 9,208,109 | 108,254 | 9,316,363 |
| Temporarily Restricted | 564,579 | 4,488,098 | 5,052,677 |
| Permanently Restricted | 196,281 | - | 196,281 |
| Total Net Assets | 9,968,969 | 4,596,352 | 14,565,321 |
| Total Liabilities And Net Assets | \$ 10,782,239 | \$ 5,014,298 | \$ 15,796,537 |

See accompanying independent auditors' report

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

| | <u>Food Bank</u> | <u>Council Program Services</u> | <u>Total</u> |
|--|----------------------|---|-------------------|
| Unrestricted Support And Revenue: | | | |
| Community Support: | | | |
| Grants And Awards | \$ 1,844,620 | \$ 185,700 | \$ 2,030,320 |
| Contributions | 1,065,402 | 70,284 | 1,135,686 |
| Donated Food Products And Merchandise | 28,097,502 | 42,575 | 28,140,077 |
| Contributed Services | <u>208,564</u> | <u>400</u> | <u>208,964</u> |
| Total Community Support | 31,216,088 | 298,959 | 31,515,047 |
| Special Events Revenue | 1,847,259 | 69,469 | 1,916,728 |
| Costs Of Direct Benefits To Donors | <u>(361,764)</u> | <u>(15,039)</u> | <u>(376,803)</u> |
| Net Special Events Revenue | 1,485,495 | 54,430 | 1,539,925 |
| Revenue: | | | |
| Contract Revenue | 1,126,964 | - | 1,126,964 |
| Participation Fees And Program Fees | 1,058,441 | 55,102 | 1,113,543 |
| Purchased Item Fees | 411,296 | - | 411,296 |
| Gain On Disposal Of Property And Equipment | 10,021 | 5,902 | 15,923 |
| Other Income | <u>-</u> | <u>14,510</u> | <u>14,510</u> |
| Total Revenue | 2,606,722 | 75,514 | 2,682,236 |
| Net Assets Released From Restrictions | <u>351,863</u> | <u>53,092</u> | <u>404,955</u> |
| Total Unrestricted Support And Revenue | 35,660,168 | 481,995 | 36,142,163 |
| Expenses: | | | |
| Program Services | 32,736,310 | 174,059 | 32,910,369 |
| Support Services: | | | |
| Fund-Raising | 260,470 | - | 260,470 |
| General And Administrative | <u>1,923,742</u> | <u>180,904</u> | <u>2,104,646</u> |
| Total Support Services | <u>2,184,212</u> | <u>180,904</u> | <u>2,365,116</u> |
| Total Expenses | <u>34,920,522</u> | <u>354,963</u> | <u>35,275,485</u> |
| Increase In Unrestricted Net Assets | <u>\$ 739,646</u> | <u>\$ 127,032</u> | <u>\$ 866,678</u> |

See accompanying independent auditors' report

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

| | <u>Food Bank</u> | <u>Council Program Services</u> | <u>Total</u> |
|---|-----------------------------|--|-----------------------------|
| Temporarily Restricted Support: | | | |
| Funds Used For Operations | \$ (171,266) | \$ - | \$ (171,266) |
| Grants Received | 158,130 | - | 158,130 |
| Write-off Of Unconditional Promises To Give | (312,536) | - | (312,536) |
| Depreciation Expense | <u>(26,191)</u> | <u>(53,092)</u> | <u>(79,283)</u> |
| Decrease In Temporarily Restricted Net Assets | <u>(351,863)</u> | <u>(53,092)</u> | <u>(404,955)</u> |
| Increase In Total Net Assets | 387,783 | 73,940 | 461,723 |
| Total Net Assets At Beginning Of Year | <u>9,581,186</u> | <u>4,522,412</u> | <u>14,103,598</u> |
| Total Net Assets At End Of Year | <u><u>\$ 9,968,969</u></u> | <u><u>\$ 4,596,352</u></u> | <u><u>\$ 14,565,321</u></u> |

See accompanying independent auditors' report

***SECOND HARVEST FOOD BANK
OF ORANGE COUNTY
AND
COUNCIL OF ORANGE COUNTY
SOCIETY OF ST. VINCENT DE PAUL***

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2012

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
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YEAR ENDED JUNE 30, 2012**

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**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**

The Board of Trustees
Second Harvest Food Bank
Of Orange County And
Council of Orange County
Society of St. Vincent de Paul
Irvine, California

We have audited the consolidated financial statements of Second Harvest Food Bank of Orange County (“Second Harvest”) and Council of Orange County Society of St. Vincent de Paul (the “Council”) (non-profit organizations) (collectively, the “Organization”) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

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 Organization’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Organization in a separate letter dated December 26, 2012.

This report is intended solely for the information and use of the Board of Trustees, the Organization's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
December 26, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Second Harvest Food Bank
Of Orange County And
Council of Orange County
Society of St. Vincent de Paul
Irvine, California

Compliance

We have audited Second Harvest Food Bank of Orange County's ("Second Harvest") and Council of Orange County Society of St. Vincent de Paul's (the "Council") (collectively, the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying consolidated schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the Organization'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, the Organization's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
December 26, 2012

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Section I - Summary Of Auditors' Results

Consolidated Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered material weakness(es)? _____ yes X none reported

Noncompliance material to consolidated financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for Major programs: Unqualified

Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule? _____ yes X no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 10.568 and 10.569 | United States Department of Agriculture: Passed-through the California Department of Social Services - Emergency Food Assistance Program (Cash and Food Distribution Programs) |

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

Section I - Summary Of Auditors' Results - (Continued)

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|--|---|
| 10.559 | United States Department of Agriculture: Passed-through the California Department of Education Child Nutrition Fiscal Services - Summer Food Service Program |
| Dollar threshold used for distinguishing between Type A and B programs: | \$ 300,000 |
| Auditee qualified as low-risk auditee? | _____ yes <u> X </u> no |

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2012**

Department Of Housing And Urban Development (“HUD”)

CFDA 14.235

Finding 2008-01 Grant Number CA16B402003

Condition: In the fiscal year ended September 30, 2008, there was a significant deficiency finding stating that HUD had challenged the Council’s disbursements made pursuant to the grant in relation to three areas: (1) improper calculation of local area housing costs in comparison to national housing cost average, (2) selected residences did not comply with HUD environmental protocols, and (3) improper calculation of initial matching funds.

Recommendation: The auditor recommended for the fiscal year ended September 30, 2008 that the Organization accrue the amount of funds which it believes will be paid out to the Department of Housing and Urban Development in the years moving forward.

Current Status: During the year ended June 30, 2012, the Council entered into an agreement with the Department of Housing and Urban Development totaling \$99,879 to repay unmet cash match funds relating to activity in 2008. There is no stated interest rate and the balance is due in annual payments of \$19,976, maturing December 2016.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

| Federal Grantor / Pass-through Grantor / Program Title | Catalog Of Federal Domestic Assistance Number (CFDA No.) | Grantor Contract Number | Federal Expenditures |
|--|---|--|---------------------------------|
| United States Department of Agriculture: | | | |
| Passed through the California Department of Social Services | | | |
| Emergency Food Assistance Program (EFAP) | | | |
| Cash Program | 10.568 | MOU 07-6049 | \$ 174,978 |
| Food Distribution (non-cash) | 10.569 | - | <u>4,606,419</u> |
| | | | 4,781,397 |
| Passed through the California Department of Education | | | |
| Child Nutrition Fiscal Services | | | |
| Summer Food Service Program | 10.559 | 30-93012W | <u>453,994</u> |
| Total United States Department of Agriculture | | | 5,235,391 |
| United States Department of Housing and Urban Development: | | | |
| California Association of Food Banks | | | |
| Nutrition Education Program | 10.561 | 10-10042 | 3,591 |
| Supplemental Nutrition Assistance Program | 10.561 | 10-10031 | <u>19,334</u> |
| Total United States Department of Housing and Urban Development | | | 22,925 |
| United States Department of Homeland Security: | | | |
| Passed through the Orange County Emergency Food and Shelter Program | | | |
| Emergency Food and Shelter Program | 97.024 | 29-07860-049 | <u>481,068</u> |
| Total United States Department of Homeland Security | | | <u>481,068</u> |
| Total Federal Expenditures | | | <u><u>\$ 5,739,384</u></u> |

See accompanying Notes to Consolidated Schedule of Expenditures of Federal Awards and Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND
COUNCIL OF ORANGE COUNTY SOCIETY OF ST. VINCENT DE PAUL
NOTES TO CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

NOTE A: General

The accompanying Consolidated Schedule of Expenditures of Federal Awards summarizes the expenditures of all federal award programs of Second Harvest Food Bank of Orange County (“Second Harvest”) and Council of Orange County Society of St. Vincent de Paul (the “Council”) (non-profit organizations) (collectively, the “Organization”) for the year ended June 30, 2012. The Consolidated Schedule of Expenditures of Federal Awards includes amounts passed through the State of California, as well as other governments, and private agencies.

For purposes of the schedule, federal awards include all grants and contracts entered into directly between the Organization and agencies and departments of the federal government. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, “*Audits of States, Local Governments, and Non-Profit Organizations*”.

NOTE B: Basis Of Accounting

The accompanying Consolidated Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in the notes to the Organization’s consolidated financial statements. Expenditures are determined using the cost accounting principles and procedures set forth in OMB Circular A-122, “*Cost Principles for Nonprofit Organizations*”.

NOTE C: Relationship To Federal Financial Reports

Amounts reported in the accompanying Consolidated Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports for the Organization’s major federal programs.

NOTE D: Amounts Provided To Subrecipients

For the year ended June 30, 2012, the Organization passed through \$4,606,419 to other not-for-profit agencies under the U.S. Department of Agriculture/California Department of Social Services - Emergency Food Assistance Program (CFDA #10.569).