

***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, 2013**

**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, 2013**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements 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"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2013, 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 Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules on pages 23-25 is 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 information is fairly stated, in all material respects, in relation to the consolidated 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 November 13, 2013, 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* in considering the Organization's internal control over financial reporting and compliance.

*White Nelson Dick Evans LLP*

Irvine, California  
November 13, 2013

**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, 2013**

**ASSETS**

Current Assets:	
Cash	\$ 1,933,170
Investments	7,599
Accounts Receivable	107,796
Grants Receivable	143,313
Unconditional Promises To Give, Net	70,117
Inventory	2,424,064
Prepaid Expenses And Deposits	96,861
Current Portion - Note Receivable	<u>4,813</u>
Total Current Assets	4,787,733
Land, Building, Furniture, Fixtures, And Equipment, Net	11,069,138
Other Assets:	
Long-Term Investments	196,281
Note Receivable	<u>229,257</u>
Total Other Assets	<u>425,538</u>
Total Assets	<u><u>\$ 16,282,409</u></u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts Payable And Accrued Expenses	\$ 174,558
Deferred Revenue And Deposits	19,830
Long-Term Debt - Current Portion	<u>150,976</u>
Total Current Liabilities	345,364
Long-Term Liabilities:	
Long-Term Debt	<u>519,267</u>
Total Long-Term Liabilities	<u>519,267</u>
Total Liabilities	864,631
Net Assets:	
Unrestricted	10,630,274
Temporarily Restricted	4,591,223
Permanently Restricted	<u>196,281</u>
Total Net Assets	<u>15,417,778</u>
Total Liabilities And Net Assets	<u><u>\$ 16,282,409</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, 2013**

Unrestricted Support And Revenue:	
Community Support:	
Grants And Awards	\$ 1,247,299
Contributions	1,070,152
Donated Food Products And Merchandise	33,601,598
Events And Solicitation Revenue	2,477,969
Contributed Services	<u>181,591</u>
Total Community Support	38,578,609
Revenue:	
Contract Revenue	862,813
Participation Fees And Program Fees	1,104,423
Purchased Item Fees	479,820
Other Income	<u>42,646</u>
Total Revenue	2,489,702
Net Assets Released From Restrictions	<u>566,002</u>
Total Unrestricted Support And Revenue	41,634,313
Expenses:	
Program Services:	
Second Harvest Food Bank	36,994,213
Council Program Services	<u>175,474</u>
Total Program Services	37,169,687
Support Services:	
Fund-Raising Expenses	767,311
General And Administrative	<u>2,383,404</u>
Total Support Services	<u>3,150,715</u>
Total Expenses	<u>40,320,402</u>
Increase In Unrestricted Net Assets	<u>1,313,911</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, 2013**

Temporarily Restricted Support:	
Funds Used For Operations	\$ (161,180)
Grants Received	104,548
Fixed Assets Released From Restriction	(351,702)
Depreciation Expense	<u>(53,120)</u>
Decrease In Temporarily Restricted Net Assets	<u>(461,454)</u>
Increase In Total Net Assets	852,457
Total Net Assets At Beginning Of Year	<u>14,565,321</u>
Total Net Assets At End Of Year	<u><u>\$ 15,417,778</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, 2013**

Cash Flows From Operating Activities:	
Increase In Total Net Assets	\$ 852,457
Non-Cash Items Included In Change In Total Assets:	
Depreciation	517,493
Unrealized Gain On Investments	(18,711)
Changes In:	
Accounts Receivable	(35,259)
Grants Receivable	(7,157)
Unconditional Promises To Give	11,200
Inventory	(1,040,950)
Prepaid Expenses And Deposits	(4,649)
Accounts Payable And Accrued Expenses	(21,107)
Deferred Revenue And Deposits	<u>(40,170)</u>
Net Cash Provided By Operating Activities	213,147
Cash Flows From Investing Activities:	
Purchase Of Fixtures And Equipment	(244,013)
Proceeds From Sale Of Investments	26,450
Realized Gain On Investments	(1,275)
Proceeds From Payments On Note Receivable	<u>5,042</u>
Net Cash Used In Investing Activities	(213,796)
Cash Flows From Financing Activities:	
Payments On Long-Term Debt	<u>(305,308)</u>
Net Cash Used In Financing Activities	<u>(305,308)</u>
Net Decrease In Cash	(305,957)
Cash And Restricted Cash At Beginning Of Year	<u>2,239,127</u>
Cash And Restricted Cash At End Of Year	<u>\$ 1,933,170</u>
Supplemental Disclosure Of Cash Flow Information:	
Cash Paid For Interest	<u>\$ 24,374</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, 2013**

	<b>Food Bank</b>	<b>Council Program Services</b>	<b>Total</b>
Unrestricted Support And Revenue:			
Community Support:			
Grants And Awards	\$ 1,086,957	\$ 160,342	\$ 1,247,299
Contributions	991,449	78,703	1,070,152
Donated Food Products And Merchandise	33,601,598	-	33,601,598
Events And Solicitation Revenue	2,437,322	40,647	2,477,969
Contributed Services	180,591	1,000	181,591
Total Community Support	38,297,917	280,692	38,578,609
Revenue:			
Contract Revenue	862,813	-	862,813
Participation Fees And Program Fees	1,054,679	49,744	1,104,423
Purchased Item Fees	479,820	-	479,820
Other Income	28,433	14,213	42,646
Total Revenue	2,425,745	63,957	2,489,702
Net Assets Released From Restriction	501,501	64,501	566,002
Total Unrestricted Support And Revenue	41,225,163	409,150	41,634,313
Expenses:			
Program Services:			
Cost Of Sales	1,528,885	20,383	1,549,268
Distribution Of Donated Food			
Products And Merchandise	32,504,321	-	32,504,321
Free Distribution Of Commodities	476,582	-	476,582
Program Expenses	727,098	93,426	820,524
Personnel	1,576,736	60,665	1,637,401
Contributed Services	180,591	1,000	181,591
Total Program Services Expenses	36,994,213	175,474	37,169,687

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, 2013**

	<u>Food Bank</u>	<u>Council Program Services</u>	<u>Total</u>
Support Services:			
Fund-Raising Expenses	\$ 761,405	\$ 5,906	\$ 767,311
Personnel	1,006,601	27,952	1,034,553
Occupancy	378,827	17,159	395,986
Transportation	45,844	4,919	50,763
Depreciation And Amortization	455,900	61,593	517,493
Advertising And Promotion	108,557	2,259	110,816
Supplies And Printing	99,969	4,595	104,564
Other	142,469	26,760	169,229
	<u>2,999,572</u>	<u>151,143</u>	<u>3,150,715</u>
Total Support Services Expenses			
	<u>2,999,572</u>	<u>151,143</u>	<u>3,150,715</u>
Total Expenses	<u>39,993,785</u>	<u>326,617</u>	<u>40,320,402</u>
Increase In Unrestricted Net Assets	1,231,378	82,533	1,313,911
Temporarily Restricted Support:			
Funds Used For Operations	(149,799)	(11,381)	(161,180)
Grants Received	87,500	17,048	104,548
Fixed Assets Released From Restriction	(351,702)	-	(351,702)
Depreciation Expense	-	(53,120)	(53,120)
	<u>(414,001)</u>	<u>(47,453)</u>	<u>(461,454)</u>
Decrease In Temporarily Restricted Net Assets			
	<u>(414,001)</u>	<u>(47,453)</u>	<u>(461,454)</u>
Increase In Net Assets	<u>\$ 817,377</u>	<u>\$ 35,080</u>	<u>\$ 852,457</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, 2013**

**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.
- (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 shareholder (“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.

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.

**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, 2013**

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

(3) Basis Of Presentation - (Continued)

- 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, 2013, there were no long-term unconditional promises to give. Management has provided a reserve for uncollectible promises which totaled \$10,000 at June 30, 2013.

(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.

(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 year end. 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.

**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, 2013**

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

(8) Inventory - (Continued)

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 \$0.18 per pound for the year ended June 30, 2013. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from the purchasing agencies.

As of June 30, 2013, the donated food inventory is valued at a fair value of \$1.69 per pound on the consolidated statement of financial position which totaled \$2,295,943. 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 \$0.18, inventory and distribution of donated food products and merchandise would have been reduced by \$2,051,404 and \$29,277,065, respectively at June 30, 2013, 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, 2013, depreciation and amortization expense totaled \$517,493.

(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, 2013.

(11) Deferred Revenue And Deposits - As of June 30, 2013, 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.

**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, 2013**

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

- (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, 2013 totaled \$110,816.
- (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 \$181,591 for the year ended June 30, 2013.

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, 2013 (unaudited):

	<u>Number Of Volunteers</u>	<u>Number Of Hours</u>	<u>Value</u>
Areas Of Service:			
Second Harvest Food Bank	15,367	91,964	\$ 735,712
Council Program Services	<u>813</u>	<u>96,040</u>	<u>768,320</u>
Totals	<u>16,180</u>	<u>188,004</u>	<u>\$ 1,504,032</u>

- (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 accounts for the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48")), whereby 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 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 Organization's 2010 to 2012 tax years are open to review for federal tax purposes and 2009 to 2012 tax years are open to review for state income tax purposes.

**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, 2013**

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

(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, 2013 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.

**NOTE B: Concentrations, Risks And Uncertainties** - The Organization maintains cash balances at a single financial institution. At June 30, 2013, accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2013, the Organization had \$1,509,344 in uninsured cash.

The Second Harvest endowment fund investments maintained by the foundation mentioned in Note J are not insured. The uninsured balance was \$203,880 as of June 30, 2013.

**NOTE C: Inventory** - Inventory consists of the following at June 30, 2013:

Donated Food	\$ 2,295,943
Purchased Commodities	85,546
Other Donated Items	42,575
Total Inventory	\$ 2,424,064

**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, 2013**

**NOTE D:** **Land, Building, Furniture, Fixtures, And Equipment** - Land, building, furniture, fixtures, and equipment consist of the following at June 30, 2013:

Land	\$ 2,400,000
Building	8,901,766
Vehicles	1,501,322
Furniture And Equipment	<u>1,344,028</u>
	14,147,116
Less: Accumulated Depreciation And Amortization	<u>(3,077,978)</u>
 Total Land, Building, Furniture, Fixtures, And Equipment	 <u><u>\$ 11,069,138</u></u>

**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, 2013 was \$234,070.

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

2014	\$ 4,813
2015	<u>229,257</u>
	<u><u>\$ 234,070</u></u>

**NOTE F:** **Temporarily Restricted Net Assets** - Temporarily restricted net assets as of June 30, 2013 consist of the following:

Restricted Cash	\$ 156,184
Unconditional Promises To Give, Net	70,117
Land, Building, And Equipment, Net	<u>4,364,922</u>
 Total Temporarily Restricted Net Assets	 <u><u>\$ 4,591,223</u></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, 2013, the investment's activity consisted of funds granted to Second Harvest of \$26,450, dividends and interest income of \$3,477, unrealized gains of \$18,711, and investment fees of \$2,202, for a net loss of \$6,464. At the end of the year, the fair value of the investment was \$203,880, of which \$196,281 was permanently restricted.



**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, 2013**

**NOTE H: Commitments And Contingencies**

- (1) Line Of Credit - Second Harvest 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, 2013, there was no principal balance outstanding on this line of credit.

The Council also 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, 2013, there was no principal balance outstanding on this line of credit.

The line of credit agreements with the bank contain various covenants pertaining to the maintenance of tangible net worth. At June 30, 2013, the Organization was in compliance or had obtained a waiver with respect to all terms of the line of credit agreements.

- (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, 2013). In March 2012, Second Harvest became a guarantor of the loan. Principal payments of \$7,917 are due monthly. The note is secured by the Organization's assets and matures April 2016. At June 30, 2013, the outstanding principal balance on this note was \$351,740. The loan with the bank contains various financial covenants pertaining to tangible net worth and debt service coverage ratios. At June 30, 2013, Second Harvest was in compliance with respect to all terms of the note agreement.

The Council has a note payable agreement with a not-for-profit institution in the original 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, 2013 totaled \$258,575.

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, 2013 is \$59,928.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND  
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**NOTE H: Commitments And Contingencies - (Continued)**

(2) Long-Term Debt - (Continued)

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

2014		\$ 150,976
2015		146,208
2016		213,631
2017		<u>159,428</u>
		<u>\$ 670,243</u>

(3) Operating Lease - The Council has entered into a lease for office space expiring through March 2015. Total rent expense related to this operating lease amounted to \$10,577 for the year ended June 30, 2013.

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

2014		\$ 10,562
2015		<u>7,042</u>
Total Minimum Lease Payments		<u>\$ 17,604</u>

(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, 2013, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$444,745. These activities included costs from direct mail campaigns totaling \$274,985 and special event costs totaling \$169,760 for the year ended June 30, 2013.**

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND  
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**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.

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 FOOD BANK OF ORANGE COUNTY AND  
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**NOTE J: Endowment Fund - (Continued)**

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.

The following is the endowment net asset composition as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted				
Endowment Funds	\$ 7,599	\$ -	\$ 196,281	\$ 203,880

The following are the changes in the endowment net assets for the year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning Of Year	\$ 14,063	\$ -	\$ 196,281	\$ 210,344
Investment Return:				
Investment Income	3,477	-	-	3,477
Net Appreciation	18,711	-	-	18,711
Total Investment Return	22,188	-	-	22,188
Grants	(26,450)	-	-	(26,450)
Amount Appropriated For Expenditure	(2,202)	-	-	(2,202)
Endowment Net Assets, End Of Year	\$ 7,599	\$ -	\$ 196,281	\$ 203,880

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND  
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**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.

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, 2013.

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, 2013, 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 \$203,880. Fair value was determined using an estimated net asset value (NAV) per share (Level 3).

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE K: Fair Value Measurements - (Continued)**

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.

The following is a reconciliation of activity for the year ended June 30, 2013 for assets measured at fair value based on significant unobservable (non-market) information:

Balance, Beginning of Year	\$ 210,344
Interest Income	3,477
Realized and Unrealized Gains	
Included in Earnings	18,711
Purchases, Issuances, and Settlements	<u>(28,652)</u>
Balance, End of Year	<u>\$ 203,880</u>

Realized and unrealized gains of \$18,711 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, 2013 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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE L: Net Asset Value (NAV) Per Share - (Continued)**

- (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.

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  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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 Transaction** - 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 was to expire January 2017. However in June 2013, the Council deeded the property to Second Harvest. As such, there is no future rental agreement between the two entities after this time. Rental payments for the year ended June 30, 2013 totaled \$1.

**NOTE N: Subsequent Events** - Events occurring after June 30, 2013 have been evaluated for possible adjustment to the consolidated financial statements or disclosure as of November 13, 2013, 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, 2013**

	<b>Second Harvest</b>	<b>Council</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash	\$ 1,664,121	\$ 269,049	\$ 1,933,170
Investments	7,599	-	7,599
Accounts Receivable	106,923	873	107,796
Grants Receivable	143,313	-	143,313
Unconditional Promises To Give, Net	70,117	-	70,117
Inventory	2,381,489	42,575	2,424,064
Prepaid Expenses And Deposits	66,053	30,808	96,861
Current Portion - Note Receivable	-	4,813	4,813
	4,439,615	348,118	4,787,733
Land, Building, Furniture, Fixtures, And Equipment, Net	11,048,321	20,817	11,069,138
Other Assets:			
Long-Term Investments	196,281	-	196,281
Note Receivable	-	229,257	229,257
	196,281	229,257	425,538
Total Assets	\$ 15,684,217	\$ 598,192	\$ 16,282,409
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current Liabilities:			
Accounts Payable And Accrued Expenses	\$ 171,379	\$ 3,179	\$ 174,558
Deferred Revenue And Deposits	9,830	10,000	19,830
Long-Term Debt - Current Portion	95,000	55,976	150,976
	276,209	69,155	345,364
Long-Term Liabilities:			
Long-Term Debt	256,740	262,527	519,267
	256,740	262,527	519,267
Total Liabilities	532,949	331,682	864,631
Net Assets:			
Unrestricted	10,432,248	198,026	10,630,274
Temporarily Restricted	4,522,739	68,484	4,591,223
Permanently Restricted	196,281	-	196,281
	15,151,268	266,510	15,417,778
Total Liabilities And Net Assets	\$ 15,684,217	\$ 598,192	\$ 16,282,409

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, 2013**

	<u>Second Harvest</u>	<u>Council</u>	<u>Total</u>
Unrestricted Support And Revenue:			
Community Support:			
Grants And Awards	\$ 1,086,957	\$ 160,342	\$ 1,247,299
Contributions	991,449	78,703	1,070,152
Donated Food Products And Merchandise	33,601,598	-	33,601,598
Events And Solicitation Revenue	2,437,322	40,647	2,477,969
Contributed Services	180,591	1,000	181,591
Total Community Support	38,297,917	280,692	38,578,609
Revenue:			
Contract Revenue	862,813	-	862,813
Participation Fees And Program Fees	1,054,679	49,744	1,104,423
Purchased Item Fees	479,820	-	479,820
Other Income	28,433	14,213	42,646
Total Revenue	2,425,745	63,957	2,489,702
Net Assets Released From Restrictions	501,501	64,501	566,002
Total Unrestricted Support And Revenue	41,225,163	409,150	41,634,313
Expenses:			
Program Services	36,994,213	175,474	37,169,687
Support Services:			
Fund-Raising Expenses	761,405	5,906	767,311
General And Administrative	2,238,167	145,237	2,383,404
Total Support Services	2,999,572	151,143	3,150,715
Total Expenses	39,993,785	326,617	40,320,402
Increase In Unrestricted Net Assets	\$ 1,231,378	\$ 82,533	\$ 1,313,911

See accompanying independent auditors' report

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY AND  
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CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)  
YEAR ENDED JUNE 30, 2013**

	<u>Second Harvest</u>	<u>Council</u>	<u>Total</u>
Temporarily Restricted Support:			
Funds Used For Operations	\$ (149,799)	\$ (11,381)	\$ (161,180)
Grants Received	87,500	17,048	104,548
Fixed Assets Released From Restriction	(351,702)	-	(351,702)
Depreciation Expense	<u>-</u>	<u>(53,120)</u>	<u>(53,120)</u>
Decrease In Temporarily Restricted Net Assets	<u>(414,001)</u>	<u>(47,453)</u>	<u>(461,454)</u>
Increase In Total Net Assets	817,377	35,080	852,457
Total Net Assets At Beginning Of Year	9,968,969	4,596,352	14,565,321
Transfer Of Land And Building	<u>4,364,922</u>	<u>(4,364,922)</u>	<u>-</u>
Total Net Assets At End Of Year	<u>\$ 15,151,268</u>	<u>\$ 266,510</u>	<u>\$ 15,417,778</u>

See accompanying independent auditors' report