

***SECOND HARVEST FOOD BANK
OF ORANGE COUNTY, INC.***

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

WITH INDEPENDENT AUDITORS' REPORT

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Second Harvest Food Bank of Orange County, Inc.
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Orange County, Inc. (a non-profit organization), (the "Organization"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, 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 5, 2014

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

Current Assets:	
Cash	\$ 1,893,178
Restricted cash	279,500
Accounts receivable	90,579
Grants receivable	245,218
Unconditional promises to give	4,639
Inventory	2,096,906
Prepaid expenses and deposits	<u>68,386</u>
Total Current Assets	4,678,406
Property and Equipment, at Net Book Value	10,603,228
Other Assets:	
Long-term investments	218,591
Long-term unconditional promises to give, net	<u>115,525</u>
Total Other Assets	<u>334,116</u>
Total Assets	<u><u>\$ 15,615,750</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Accounts payable and accrued expenses	\$ 177,759
Deferred revenue and deposits	<u>90,195</u>
Total Current Liabilities	267,954
Net Assets:	
Unrestricted	10,560,199
Temporarily restricted	4,591,316
Permanently restricted	<u>196,281</u>
Total Net Assets	<u>15,347,796</u>
Total Liabilities And Net Assets	<u><u>\$ 15,615,750</u></u>

The accompanying notes are an integral part of these financial statements

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

Unrestricted Support and Revenue:	
Community Support:	
Grants and awards	\$ 1,277,783
Contributions	1,406,244
Donated food products and merchandise	35,714,366
Events and solicitation revenue	2,585,307
Contributed services	<u>186,308</u>
Total Community Support	41,170,008
Revenue:	
Contract revenue	1,596,441
Agency fees	953,924
Other income	<u>37,863</u>
Total Revenue	2,588,228
Net Assets Released from Restrictions	<u>279,407</u>
Total Unrestricted Support and Revenue	44,037,643
Expenses:	
Program Services:	<u>41,691,463</u>
Support Services:	
Management and general	1,002,230
Fundraising	<u>1,147,515</u>
Total Support Services	<u>2,149,745</u>
Total Expenses	<u>43,841,208</u>
Increase in Unrestricted Net Assets	<u>196,435</u>

The accompanying notes are an integral part of these financial statements

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2014

Temporarily Restricted Support:	
Funds used for operations	\$ (226,301)
Grants received	279,500
Depreciation expense	<u>(53,106)</u>
Increase in Temporarily Restricted Net Assets	<u>93</u>
Increase in Total Net Assets	196,528
Total Net Assets at Beginning of Year	<u>15,151,268</u>
Total Net Assets at End of Year	<u><u>\$ 15,347,796</u></u>

The accompanying notes are an integral part of these financial statements

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Cash Flows from Operating Activities:	
Increase in Total Net Assets	\$ 196,528
Non-Cash Items Included in Change in Total Assets:	
Depreciation and amortization	534,438
Gain on sale of assets	(2,561)
Unrealized gain on investments	(23,031)
Allowance for uncollectible promises to give	(2,275)
Changes In:	
Accounts receivable	16,344
Grants receivable	(101,905)
Unconditional promises to give	(47,772)
Inventory	284,583
Prepaid expenses and deposits	(2,333)
Accounts payable and accrued expenses	6,380
Deferred revenue and deposits	80,365
Net Cash Provided by Operating Activities	938,761
Cash Flows from Investing Activities:	
Purchase of fixtures and equipment	(89,345)
Proceeds from sale of assets	2,561
Proceeds from sale of investments	10,356
Investment income, net	(2,036)
Net Cash Used in Investing Activities	(78,464)
Cash Flows from Financing Activities:	
Payments on long-term debt	(351,740)
Net Cash Used in Financing Activities	(351,740)
Net Increase In Cash	508,557
Cash and Restricted Cash at Beginning of Year	1,664,121
Cash and Restricted Cash at End of Year	\$ 2,172,678

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

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program Services	Support Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expense					
Salaries and wages	\$ 1,582,154	\$ 475,256	\$ 326,101	\$ 801,357	\$ 2,383,511
Benefits	143,003	42,956	29,475	72,431	215,434
Payroll taxes and workers' compensation	256,451	77,034	52,858	129,892	386,343
Other personnel costs	13,377	4,018	2,757	6,775	20,152
Total Salaries and Related Expense	1,994,985	599,264	411,191	1,010,455	3,005,440
Other Expenses:					
Donated food and supplies, in-kind	35,791,934	-	182,829	182,829	35,974,763
Donated professional fees and services, in-kind	-	66,574	119,734	186,308	186,308
Product fees and purchases	1,197,956	-	-	-	1,197,956
Freight and storage	199,192	-	-	-	199,192
Program costs	1,175,548	-	-	-	1,175,548
Vehicle operation	247,402	-	-	-	247,402
Professional fees and services	14,506	55,627	7,095	62,722	77,228
General supplies	44,233	3,264	369	3,633	47,866
Postage and printing	62,579	4,618	521	5,139	67,718
Telephone	5,352	24,442	1,527	25,969	31,321
Occupancy	208,038	15,354	1,733	17,087	225,125
Repairs and maintenance	88,780	-	-	-	88,780
Insurance	87,527	6,460	729	7,189	94,716
Direct mailing costs	-	-	233,233	233,233	233,233
Community events	-	-	171,774	171,774	171,774
Bank fees	-	49,336	-	49,336	49,336
Dues and subscriptions	39,806	1,959	-	1,959	41,765
Mileage	24,099	45,795	1,298	47,093	71,192
Advertising and promotion	-	41,980	2,902	44,882	44,882
Conference and meeting	15,652	26,477	8,465	34,942	50,594
Other	-	24,631	-	24,631	24,631
Total Other Expenses	39,202,604	366,517	732,209	1,098,726	40,301,330
Expenses before depreciation	41,197,589	965,781	1,143,400	2,109,181	43,306,770
Depreciation	493,874	36,449	4,115	40,564	534,438
Total Functional Expenses	\$ 41,691,463	\$ 1,002,230	\$ 1,147,515	\$ 2,149,745	\$ 43,841,208

The accompanying notes are an integral part of these financial statements

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Second Harvest Food Bank of Orange County Inc. (the “Organization” or “Second Harvest”) is a non-profit organization that provides hunger relief services throughout the local community. The Organization acts as a clearinghouse through which food processors, wholesalers, retailers, and government agencies donate food items that are distributed via qualified charitable agencies to assist those in need.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance 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. 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.

Cash

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

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. At June 30, 2014, current promises to give totaled \$4,639. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2014, total long-term unconditional promises to give totaled \$123,250. Management has provided a reserve for uncollectible promises which totaled \$7,725 at June 30, 2014.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

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 agency fees and contributions from community individuals and businesses.

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.

Inventory

Donations of food products to the Organization are recorded at fair value. The fair value of donated food and commodities is based on management's estimates with the use of the "Product Valuation Survey" prepared by Feeding America, 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 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 \$0.18 per pound for the year ended June 30, 2014. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from the purchasing agencies.

As of June 30, 2014, the donated food inventory is valued at a fair value of \$1.72 per gross pound on the statement of financial position which totaled \$2,035,546. 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 \$1,669,148 and \$32,075,893, respectively at June 30, 2014, with a corresponding decrease in community support for the Organization during the period.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Property 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, 2014, depreciation and amortization expense totaled \$534,438.

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, 2014.

Deferred Revenue and Deposits

As of June 30, 2014, deferred revenue and deposits consist principally of amounts received from participants in advance for fundraising events occurring subsequent to year-end. At June 30, 2014, deferred revenue and deposits totaled \$90,195.

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, 2014 totaled \$44,882.

Contributed Services

A substantial number of volunteers have donated significant amounts of time in the operation of the Organization. Consulting, professional fundraising, and information technology services meet the criteria of FASB ASC 958-605, “*Accounting for Contributions Received*”, and have been recognized in the accompanying statement of activities as revenue and a corresponding expense. The fair value of these services at the time of donation was determined to be \$186,308 for the year ended June 30, 2014.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Contributed Services (Continued)

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 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, 2014 (unaudited):

	Number of Volunteers	Number of Hours	Value
Area of Service:			
Second Harvest Food Bank	18,707	99,214	\$ 793,712

Income Taxes

The Organization is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code and are classified as an organization other than private foundations. Accordingly, there is no provision for income taxes in the accompanying 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 2011 to 2013 tax years are open to review for federal tax purposes and 2010 to 2013 tax years are open to review for state income tax purposes.

Use of Estimates

The preparation of financial statements in accordance 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 financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Organization’s investments are stated at fair value at June 30, 2014 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Investment Valuation and Income Recognition (Continued)

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 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 2: Concentrations, Risks and Uncertainties

The Organization maintains cash balances at a single financial institution. At June 30, 2014, accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2014, the Organization had approximately \$1,970,000 in uninsured cash at this institution.

The Second Harvest endowment fund investments maintained by the foundation mentioned in Note 9 are not insured. The uninsured balance was \$218,591 as of June 30, 2014.

Note 3: Inventory

Inventory consists of the following at June 30, 2014:

Donated food	\$ 2,035,546
Purchased commodities	<u>61,360</u>
Total Inventory	<u>\$ 2,096,906</u>

Note 4: Property and Equipment

Property and equipment consists of the following at June 30, 2014:

Land	\$ 2,400,000
Building	8,795,554
Vehicles	1,139,173
Furniture and equipment	<u>1,592,700</u>
Total property and equipment, at cost	13,927,427
Less: Accumulated depreciation and amortization	<u>(3,324,199)</u>
Property and Equipment, at Net Book Value	<u>\$ 10,603,228</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2014 consist of the following:

Restricted cash	\$ 279,500
Land, building, and equipment, Net	<u>4,311,816</u>
 Total Temporarily Restricted Net Assets	 <u><u>\$ 4,591,316</u></u>

Note 6: 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, 2014, the investment's activity consisted of funds granted to Second Harvest of \$10,356, dividends and interest income of \$4,319, unrealized gains of \$23,031, and investment fees of \$2,283, for a net increase in the investment of \$14,711. At the end of the year, the fair value of the investment was \$218,591, of which \$196,281 was permanently restricted.

Note 7: Commitments and Contingencies

Line of Credit

The Organization 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 in April 2016. At June 30, 2014, 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, 2014, the Organization was in compliance or had obtained a waiver with respect to all terms of the line of credit agreements.

Operating Lease

The Organization has entered into a lease for the use of copy machines expiring June 2019. There was no rent expense related to this operating lease for the year ended June 30, 2014.

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

2015	\$ 10,356
2016	10,356
2017	10,356
2018	10,356
2019	<u>10,356</u>
 Total Minimum Lease Payments	 <u><u>\$ 51,780</u></u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 7: Commitments and Contingencies (Continued)

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 financial statements.

Note 8: Allocation of Joint Costs

For the year ended June 30, 2014, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$405,007. These activities include direct mail costs of \$233,233, and fundraising campaigns and special event costs totaling \$171,774 for the year ended June 30, 2014.

Note 9: Endowment Fund

The Organization'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 FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 9: Endowment Fund (Continued)

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.

The following is the endowment net asset composition as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ 22,310	\$ -	\$ 196,281	\$ 218,591

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 9: Endowment Fund (Continued)

The following are the changes in the endowment net assets for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 7,599	\$ -	\$ 196,281	\$ 203,880
Investment Return:				
Investment income	4,319	-	-	4,319
Net appreciation	<u>23,031</u>	<u>-</u>	<u>-</u>	<u>23,031</u>
Total Investment Return	27,350	-	-	27,350
Grants	(10,356)	-	-	(10,356)
Amount Appropriated for Expenditure	<u>(2,283)</u>	<u>-</u>	<u>-</u>	<u>(2,283)</u>
Endowment Net Assets, End of Year	<u>\$ 22,310</u>	<u>\$ -</u>	<u>\$ 196,281</u>	<u>\$ 218,591</u>

Note 10: Fair Value Measurements

Second Harvest has 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 10: Fair Value Measurements (Continued)

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 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the year ended June 30, 2014.

The methods described in Note 1 (Investment Valuation and Income Recognition) 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, 2014, 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 \$218,591.

The fair value of the hedge funds and private equities 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 and real estate funds 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, 2014 for assets measured at fair value based on significant unobservable (non-market) information:

Balance, Beginning of Year	\$ 203,880
Interest Income	4,319
Unrealized Gains	
Included in Earnings	23,031
Purchases, Issuances, and Settlements	<u>(12,639)</u>
Balance, End of Year	<u>\$ 218,591</u>

Realized and unrealized gains included in earnings are reported in the statement of activities as a component of other income.

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JUNE 30, 2014

Note 11: Net Asset Value (NAV) Per Share

The following table for June 30, 2014 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	None	Quarterly	None	35-65 Days
Private Equities	None	N/A	None	N/A

Hedge Funds

This class represents investments in hedge funds. Approximately 93 percent of the class is invested in two funds that can invest in U.S. and non U.S. equities, fixed income securities, currencies, commodities, or other investment strategies the manager deems appropriate under prevailing economic conditions. The majority of the assets are allocated to private investment funds or pooled investment vehicles. The balance of the class includes direct investments or investments in funds comprised primarily of U.S. equities. Management of the funds in this class 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 deemed appropriate. The fair values of the investments in this class have been estimated using the net asset value per share of the investments. Sixty 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. Thirty-three percent of the class is redeemable on the last business day of each calendar quarter with 95 days' notice at the current net asset value. Four percent of the value of this class is not redeemable but from time to time the fund may offer to repurchase the investment. Three percent of the value of this class is redeemable at the general partner's discretion. The Community Foundation receives regular distributions on the portion of the investment that is redeemable at the general partner's discretion.

Private Equities

This class includes investments in private equity funds that invest primarily in the following industry sectors: Leverage, Buyout, Venture Capital, Special Situation, Real Estate and Secondary Private Equity. 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 the Community Foundation'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 over ninety-five percent of the funds will be liquidated over the next 3 to 7 years and the balance within the next 10 years.

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Note 12: Subsequent Events

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of November 5, 2014, which is the date the financial statements were available to be issued.