

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

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

**WITH INDEPENDENT AUDITORS' REPORT**

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**TABLE OF CONTENTS**  
**JUNE 30, 2017 AND 2016**

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Financial Statements:</b>	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets .....	4
Statements of Cash Flows.....	6
Statements of Functional Expenses .....	7
Notes to Financial Statements.....	9

## 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 nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years 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 audits. We conducted our audits 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 audits 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.

## **Auditors' Responsibility (Continued)**

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years 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 6, 2017, 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 Diehl Evans LLP*

Irvine, California  
November 6, 2017

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

**ASSETS**

	2017	2016
Current Assets:		
Cash	\$ 2,282,555	\$ 1,867,027
Restricted cash	391,999	347,293
Accounts receivable (net of allowance for doubtful accounts of \$5,729 and \$4,991, respectively)	24,599	11,444
Grants receivable	343,310	497,397
Unconditional promises to give	84,004	77,839
Inventory	2,892,007	3,661,138
Prepaid expenses and deposits	110,798	64,226
Total Current Assets	6,129,272	6,526,364
Property and Equipment, at Net Book Value	9,969,451	9,889,597
Other Assets:		
Long-term investments - unrestricted	14,319	-
Long-term investments - restricted	196,281	192,762
Long-term grants receivable	178,000	168,000
Long-term unconditional promises to give, net	96,747	150,999
Total Other Assets	485,347	511,761
Total Assets	\$ 16,584,070	\$ 16,927,722

**LIABILITIES AND NET ASSETS**

Current Liabilities:		
Accounts payable and accrued expenses	\$ 415,997	\$ 352,195
Deferred revenue and deposits	183,381	181,268
Total Current Liabilities	599,378	533,463
Net Assets:		
Unrestricted	11,243,926	11,648,612
Temporarily restricted	4,544,485	4,552,885
Permanently restricted	196,281	192,762
Total Net Assets	15,984,692	16,394,259
Total Liabilities and Net Assets	\$ 16,584,070	\$ 16,927,722

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Unrestricted Support and Revenue:		
Community Support:		
Grants and awards	\$ 2,025,705	\$ 1,438,907
Contributions	2,501,313	1,483,107
Donated food products and merchandise	43,902,688	40,279,816
Events and solicitation revenue	2,471,623	2,635,949
Contributed services	138,390	119,189
Total Community Support	51,039,719	45,956,968
Revenue:		
Contract revenue	1,818,160	1,906,606
Community partner fees	610,683	718,176
Other income	34,075	10,615
Total Revenue	2,462,918	2,635,397
Net Assets Released from Restrictions	400,399	365,166
Total Unrestricted Support and Revenue	53,903,036	48,957,531
Expenses:		
Program Services	50,932,016	45,423,920
Support Services:		
Management and general	1,594,198	1,325,178
Fundraising	1,781,508	1,544,692
Total Support Services	3,375,706	2,869,870
Total Expenses	54,307,722	48,293,790
Increase (Decrease) in Unrestricted Net Assets	(404,686)	663,741

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**STATEMENTS OF ACTIVITIES (CONTINUED)**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Temporarily Restricted Support:		
Funds used for operations	\$ (347,287)	\$ (312,054)
Grants received	391,999	347,293
Depreciation expense	(53,112)	(53,112)
Decrease in Temporarily Restricted Net Assets	(8,400)	(17,873)
Permanently Restricted Support:		
Other income	3,519	(3,519)
Increase (Decrease) in Permanently Restricted Net Assets	3,519	(3,519)
Increase (Decrease) in Total Net Assets	(409,567)	642,349
Total Net Assets at Beginning of Year	16,394,259	15,751,910
Total Net Assets at End of Year	\$ 15,984,692	\$ 16,394,259

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
Cash Flows from Operating Activities:		
Increase (Decrease) in Total Net Assets	\$ (409,567)	\$ 642,349
Noncash Items Included in Increase (Decrease) in Total Net Assets:		
Depreciation	569,929	565,118
Unrealized (gain) loss on investments	(8,161)	2,157
Allowance for uncollectible promises to give	(2,531)	1,733
Allowance for doubtful accounts	738	(8,209)
Changes in:		
Accounts receivable	(13,893)	38,206
Grants receivable	144,087	103,353
Unconditional promises to give	50,618	(37,667)
Inventory	769,131	(1,473,804)
Prepaid expenses and deposits	(46,572)	(708)
Accounts payable and accrued expenses	63,802	(21,573)
Deferred revenue and deposits	2,113	(1,524)
Net Cash Provided by (Used in) Operating Activities	1,119,694	(190,569)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(649,783)	(88,217)
Proceeds from sale of investments	(10,321)	10,608
Investment income, net	644	437
Net Cash Used in Investing Activities	(659,460)	(77,172)
Net Increase (Decrease) in Cash	460,234	(267,741)
Cash and Restricted Cash at Beginning of Year	2,214,320	2,482,061
Cash and Restricted Cash at End of Year	\$ 2,674,554	\$ 2,214,320

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



**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2017**

	Program Services	Support Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expense:					
Salaries and wages	\$ 1,979,619	\$ 755,192	\$ 535,181	\$ 1,290,373	\$ 3,269,992
Benefits	271,486	102,364	71,209	173,573	445,059
Payroll taxes and workers' compensation	311,864	117,588	81,800	199,388	511,252
Other personnel costs	16,480	6,214	4,323	10,537	27,017
<b>Total Salaries and Related Expense</b>	<b>2,579,449</b>	<b>981,358</b>	<b>692,513</b>	<b>1,673,871</b>	<b>4,253,320</b>
Other Expenses:					
Donated food and supplies, in-kind	44,206,773	7,842	378,064	385,906	44,592,679
Donated professional fees and services, in-kind	-	36,695	101,695	138,390	138,390
Product fees and purchases	1,006,704	-	-	-	1,006,704
Freight and storage	174,271	-	-	-	174,271
Program costs	1,505,840	-	-	-	1,505,840
Vehicle operation	249,619	-	-	-	249,619
Professional fees and services	7,881	151,587	23,776	175,363	183,244
General supplies	14,245	73,719	3,516	77,235	91,480
Postage and printing	-	39,099	-	39,099	39,099
Telephone	29,492	18,316	1,425	19,741	49,233
Occupancy	313,587	23,143	2,613	25,756	339,343
Repairs and maintenance	139,882	-	-	-	139,882
Insurance	131,688	9,719	1,097	10,816	142,504
Direct mailing costs	-	-	262,617	262,617	262,617
Community events	-	-	201,146	201,146	201,146
Bank fees	-	56,721	-	56,721	56,721
Dues and subscriptions	497	59,811	-	59,811	60,308
Mileage	26,545	10,384	813	11,197	37,742
Advertising and promotion	2,192	58,631	105,720	164,351	166,543
Conference and meeting	7,168	28,304	2,124	30,428	37,596
Other	9,512	-	-	-	9,512
<b>Total Other Expenses</b>	<b>47,825,896</b>	<b>573,971</b>	<b>1,084,606</b>	<b>1,658,577</b>	<b>49,484,473</b>
Expenses before Depreciation	50,405,345	1,555,329	1,777,119	3,332,448	53,737,793
Depreciation	526,671	38,869	4,389	43,258	569,929
<b>Total Functional Expenses</b>	<b>\$ 50,932,016</b>	<b>\$ 1,594,198</b>	<b>\$ 1,781,508</b>	<b>\$ 3,375,706</b>	<b>\$ 54,307,722</b>

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2016**

	Program Services	Support Services			Total Functional Expenses
		Management and General	Fundraising	Total	
<b>Salaries and Related Expense:</b>					
Salaries and wages	\$ 1,891,748	\$ 647,046	\$ 378,543	\$ 1,025,589	\$ 2,917,337
Benefits	232,638	79,570	46,551	126,121	358,759
Payroll taxes and workers' compensation	291,772	99,797	58,384	158,181	449,953
Other personnel costs	28,843	5,655	32,254	37,909	66,752
<b>Total Salaries and</b>	<b>2,445,001</b>	<b>832,068</b>	<b>515,732</b>	<b>1,347,800</b>	<b>3,792,801</b>
<b>Other Expenses:</b>					
Donated food and supplies, in-kind	38,367,823	-	477,921	477,921	38,845,744
Donated professional fees and services, in-kind	91,210	25,400	2,579	27,979	119,189
Product fees and purchases	1,230,239	-	-	-	1,230,239
Freight and storage	197,029	-	-	-	197,029
Program costs	1,621,420	-	-	-	1,621,420
Vehicle operation	221,413	-	-	-	221,413
Professional fees and services	11,036	112,574	53,159	165,733	176,769
General supplies	10,631	35,390	3,270	38,660	49,291
Postage and printing	11,787	28,590	1,079	29,669	41,456
Telephone	15,851	24,434	1,055	25,489	41,340
Occupancy	248,887	18,368	2,074	20,442	269,329
Repairs and maintenance	181,269	-	-	-	181,269
Insurance	126,425	9,330	1,053	10,383	136,808
Direct mailing costs	-	-	239,128	239,128	239,128
Community events	-	-	188,936	188,936	188,936
Bank fees	-	54,098	-	54,098	54,098
Dues and subscriptions	11,036	30,454	625	31,079	42,115
Mileage	20,473	8,695	836	9,531	30,004
Advertising and promotion	2,192	77,546	53,293	130,839	133,031
Conference and meeting	9,969	29,690	6,076	35,766	45,735
Other	78,003	-	(6,475)	(6,475)	71,528
<b>Total Other Expenses</b>	<b>42,456,693</b>	<b>454,569</b>	<b>1,024,609</b>	<b>1,479,178</b>	<b>43,935,871</b>
<b>Expenses before Depreciation</b>	<b>44,901,694</b>	<b>1,286,637</b>	<b>1,540,341</b>	<b>2,826,978</b>	<b>47,728,672</b>
<b>Depreciation</b>	<b>522,226</b>	<b>38,541</b>	<b>4,351</b>	<b>42,892</b>	<b>565,118</b>
<b>Total Functional Expenses</b>	<b>\$ 45,423,920</b>	<b>\$ 1,325,178</b>	<b>\$ 1,544,692</b>	<b>\$ 2,869,870</b>	<b>\$ 48,293,790</b>

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, 2017 AND 2016**

**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 nonprofit 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 (“U.S. GAAP”).

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* - Unrestricted net assets consist of resources that have not been restricted by the donor and represent contributions raised through various fundraising efforts and donated products and merchandise.
- *Temporarily Restricted Net Assets* - 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* - 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.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**Unconditional 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, 2017 and 2016, unconditional promises to give totaled \$84,004 and \$77,839, respectively. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2017 and 2016, total long-term unconditional promises to give totaled \$106,260 and \$163,043, respectively. Management has provided a reserve for uncollectible promises to give that totaled \$9,513 and \$12,044 at June 30, 2017 and 2016, respectively.

**Support and Revenue**

The majority of the Organization's grants and contracts support are from 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 Receivables**

The Organization's accounts and grants receivables are primarily reimbursements and fees from governmental agencies and community partners. They are based on services performed by the Organization as written under contractual agreements. Uncollectable accounts are written off after all attempts at collections have been pursued. Receivables are periodically evaluated for collectability based on past credit history and current financial condition of the agencies and subrecipients. The allowance for doubtful accounts is determined on the basis of loss experience, economic conditions in the industry, and the financial stability of community partners.

**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 donated food and supplies in the accompanying statements of functional expenses.

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**Inventory (Continued)**

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 years ended June 30, 2017 and 2016. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from the purchasing agencies.

As of June 30, 2017, the donated food inventory is valued at a fair value of \$1.73 per gross pound in the statement of financial position, which totaled \$2,873,712. 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 \$2,574,713 and \$39,289,113, respectively, at June 30, 2017, with a corresponding decrease in community support for the Organization during the period.

As of June 30, 2016, the donated food inventory was valued at a fair value of \$1.67 per gross pound on the statement of financial position, which totaled \$3,564,231. The actual net realizable value of such inventory was 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 \$3,180,062 and \$35,966,491, respectively, at June 30, 2016, with a corresponding decrease in community support for the Organization during the period.

**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. For the years ended June 30, 2017 and 2016, depreciation expense totaled \$569,929 and \$565,118, respectively.

**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 years ended June 30, 2017 and 2016.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**Deferred Revenue and Deposits**

As of June 30, 2017 and 2016, deferred revenue and deposits consist principally of amounts received from participants in advance for fundraising events occurring subsequent to year-end. At June 30, 2017 and 2016, deferred revenue and deposits totaled \$183,381 and \$181,268, respectively.

**Advertising and Promotion Costs**

Advertising and promotion costs are charged to operations when incurred. Advertising and promotion costs charged to operations for the years ended June 30, 2017 and 2016, totaled \$166,543 and \$133,031, respectively.

**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 statements of activities and changes in net assets as revenue and a corresponding expense. The fair value of these services at the time of donation was determined to be \$138,390 and \$119,189 for the years ended June 30, 2017 and 2016, respectively.

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, 2017 (unaudited):

Number of Volunteers	Number of Hours	Value
26,123	106,362	\$ 1,116,801

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, 2016 (unaudited):

Number of Volunteers	Number of Hours	Value
24,574	109,336	\$ 1,093,360

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**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 is 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*), 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 2014-2016 tax years are open to review for federal tax purposes and 2013-2016 tax years are open to review for state income tax purposes.

**Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP 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, 2017 and 2016, 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 is recorded in the accompanying statements of activities and changes in net assets 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, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The ASU core principal is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. During 2014-2016, the FASB issued various amendments to this topic and the amendments clarified certain positions and extended the implementation date until annual periods beginning after December 15, 2018. Early adoption is permitted, but no earlier than periods beginning after December 15, 2016. The Organization is currently evaluating the impact of the provisions of ASU 2014-09 on the presentation of its financial statements.

In July 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-11, *Inventory (Topic 330)*, which requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU does not apply to inventory that is measured using the last-in, first-out or retail inventory method. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted prospectively as of the beginning of an interim or annual reporting period. The Organization is currently evaluating the impact of the provisions of ASU 2015-11 on the presentation of its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This is the culmination of Phase 1 of a project that makes significant changes to not-for-profit financial reporting requirements that have been in place since 1993 (FASB Statement of Accounting Standards Nos. 116 and 117). The update aims to improve how a not-for-profit organization classifies its net assets and improves information in its financial statements and notes about its financial performance, cash flow, and liquidity. With limited exceptions for certain disclosures, the new guidance is required to be applied on a retrospective basis for all years reported.



**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

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

**Recent Accounting Pronouncements (Continued)**

The new guidance will be effective for annual financial statements for fiscal years beginning after December 15, 2017, and for interim periods with fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

**Note 2: Concentrations, Risks, and Uncertainties**

The Organization maintains cash balances at a single financial institution. At June 30, 2017 and 2016, accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of June 30, 2017 and 2016, the Organization had approximately \$2,400,000 and \$2,000,000 in uninsured cash at this institution, respectively.

The Second Harvest endowment fund investments maintained by the foundation mentioned in Note 9 are not insured. The uninsured balance was \$210,600 and \$192,762 as of June 30, 2017 and 2016, respectively.

**Note 3: Inventory**

Inventory consists of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donated food	\$ 2,873,712	\$ 3,564,231
Purchased commodities	<u>18,295</u>	<u>96,907</u>
Total Inventory	<u>\$ 2,892,007</u>	<u>\$ 3,661,138</u>

**Note 4: Property and Equipment**

Property and equipment consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 2,400,000	\$ 2,400,000
Building	8,800,903	8,795,554
Vehicles	1,859,796	1,346,610
Furniture and equipment	<u>1,693,247</u>	<u>1,753,295</u>
Total property and equipment, at cost	14,753,946	14,295,459
Less: Accumulated depreciation	<u>(4,784,495)</u>	<u>(4,405,862)</u>
Property and Equipment, at Net Book Value	<u>\$ 9,969,451</u>	<u>\$ 9,889,597</u>

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 5: Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2017 and 2016, consist of the following:

	2017	2016
Restricted cash	\$ 391,999	\$ 347,293
Land, building, and equipment, net	4,152,486	4,205,592
Total Temporarily Restricted Net Assets	\$ 4,544,485	\$ 4,552,885

**Note 6: Permanently Restricted Net Assets**

Permanently restricted net assets consist of an investment in an endowment fund that invests in pooled accounts. Any earnings from the endowment fund are expendable as support for Second Harvest. During the year ended June 30, 2017, the investment's activity consisted of funds granted to Second Harvest of \$3,998, dividends and interest income of \$1,399, unrealized gains of \$22,480, and investment fees of \$2,043 for a net increase in the investment of \$17,838. At the end of the year, the fair value of the investment was \$210,600, of which \$196,281 was permanently restricted. During the year ended June 30, 2016, the investment's activity consisted of funds granted to Second Harvest of \$10,608, dividends and interest income of \$1,771, unrealized losses of \$2,157, and investment fees of \$2,208 for a net decrease in the investment of \$13,202. At the end of the year, the fair value of the investment was \$192,762, of which the entire balance was permanently restricted.

**Note 7: Commitments and Contingencies**

**Line of Credit**

The Organization has a line of credit with a financial institution for borrowings of up to \$250,000, bearing interest at the bank's reference rate (4.25 percent as of June 30, 2017) on the unpaid principal balance maturing in June 2018. The line of credit is secured by substantially all of the assets of the Organization. At June 30, 2017 and 2016, 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, 2017 and 2016, the Organization was in compliance with respect to all terms of the line of credit agreements.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 7: Commitments and Contingencies (Continued)**

**Operating Lease**

The Organization has entered into a lease for the use of copy machines expiring June 2019. Rent expense related to this operating lease for the year ended June 30, 2017, totaled \$10,356.

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

2018	\$ 10,356
2019	<u>10,356</u>
Total Minimum Lease Payments	<u>\$ 20,712</u>

**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 years ended June 30, 2017 and 2016, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$463,762 and \$428,063, respectively. These activities include direct mail costs of \$262,617 and fundraising campaigns and special event costs totaling \$201,146 for the year ended June 30, 2017. For the year ended June 30, 2016, these activities included direct mail costs of \$239,128 and fundraising campaigns and special event costs totaling \$188,936.

**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 U.S. GAAP, 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.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 9: Endowment Fund (Continued)**

In 2008, the State of California enacted the Uniform Prudent Management of Institutional Funds Act (“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 and 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, which shall administer the investment portfolio in compliance with all written policies approved by the OCCF Board of Directors. 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 of Directors.

Second Harvest’s investment objectives, determined by the OCCF, are 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, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 9: Endowment Fund (Continued)**

The following is the endowment net asset composition as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ 14,319	\$ -	\$ 196,281	\$ 210,600

The following are the changes in the endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 192,762	\$ 192,762
Investment return:				
Investment income	1,399	-	-	1,399
Net appreciation	<u>18,961</u>	<u>-</u>	<u>3,519</u>	<u>22,480</u>
Total investment return	20,360	-	3,519	23,879
Grants	(3,998)	-	-	(3,998)
Amount appropriated for expenditure	<u>(2,043)</u>	<u>-</u>	<u>-</u>	<u>(2,043)</u>
Endowment Net Assets, End of Year	<u>\$ 14,319</u>	<u>\$ -</u>	<u>\$ 196,281</u>	<u>\$ 210,600</u>

The following is the endowment net asset composition as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,762</u>	<u>\$ 192,762</u>

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 9: Endowment Fund (Continued)**

The following are the changes in the endowment net assets for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 9,683	\$ -	\$ 196,281	\$ 205,964
Investment return:				
Investment income	1,771	-	-	1,771
Net depreciation	<u>(2,157)</u>	<u>-</u>	<u>-</u>	<u>(2,157)</u>
Total investment return	(386)	-	-	(386)
Grants	(10,608)	-	-	(10,608)
Amount appropriated for expenditure	(2,208)	-	-	(2,208)
Reduction of permanently restricted net assets	<u>3,519</u>	<u>-</u>	<u>(3,519)</u>	<u>-</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,762</u>	<u>\$ 192,762</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.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 10: Fair Value Measurements (Continued)**

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 measurement considered from the perspective of a market participant rather than an entity-specific measurement. 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 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the years ended June 30, 2017 and 2016.

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, 2017 and 2016, assets measured at fair value on a recurring basis included alternative investments composed of hedge funds, private equities, interests in closely held entities, and real estate funds totaling \$210,600 and \$192,762, respectively.

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.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 10: Fair Value Measurements (Continued)**

The following is a reconciliation of activity at June 30, 2017, for assets measured at fair value based on significant unobservable (nonmarket) information:

Balance, beginning of year	\$ 192,762
Interest income	1,399
Unrealized gains included in earnings	22,480
Purchases, issuances, and settlements	<u>(6,041)</u>
Balance, End of Year	<u>\$ 210,600</u>

The following is a reconciliation of activity at June 30, 2016, for assets measured at fair value based on significant unobservable (nonmarket) information:

Balance, beginning of year	\$ 205,964
Interest income	1,771
Unrealized losses included in earnings	(2,157)
Purchases, issuances, and settlements	<u>(12,816)</u>
Balance, End of Year	<u>\$ 192,762</u>

Realized and unrealized gains included in earnings are reported in the statements of activities and changes in net assets as a component of other income.

**Note 11: Subsequent Events**

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of November 6, 2017, which is the date the financial statements were available to be issued.



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

**SINGLE AUDIT REPORTS**

**YEAR ENDED JUNE 30, 2017**

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**TABLE OF CONTENTS**  
**YEAR ENDED JUNE 30, 2017**

	<u>Page</u>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	1
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance and on the Schedule of Expenditures of Federal Awards .....	3
Schedule of Expenditures of Federal Awards.....	6
Notes to Schedule of Expenditures of Federal Awards .....	7
Schedule of Findings and Questioned Costs.....	8
Summary Schedule of Prior Audit Findings.....	10

**INDEPENDENT AUDITORS' 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 Directors of  
Second Harvest Food Bank of Orange County, Inc.  
Irvine, California

We have audited, 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, the financial statements of Second Harvest Food Bank of Orange County, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Dick Evans LLP*

Irvine, California  
November 6, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

**Report on Compliance for Each Major Federal Program**

We have audited Second Harvest Food Bank of Orange County, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *Office of Management and Budget 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, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

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

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the Organization as of and for the year ended June 30, 2017, and have issued our report thereon dated November 6, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*White Nelson Dick Evans LLP*

Irvine, California  
November 6, 2017

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

<b>Federal Grantor / Pass-Through Grantor / Program Title</b>	<b>Catalog of Federal Domestic Assistance Number (CFDA No.)</b>	<b>Grantor Contract Number</b>	<b>Federal Expenditures</b>	<b>Subrecipient Expenditures</b>
United States Department of Agriculture:				
Food Distribution Cluster:				
Passed through the California Department of Social Services				
Emergency Food Assistance Program:				
Emergency Food Assistance Program (Administrative Costs)	10.568	15-MOU-00131	\$ 206,099	\$ -
Emergency Food Assistance Program (Food Commodities)	10.569	-	<u>5,265,522</u>	<u>5,265,522</u>
Total Food Distribution Cluster			5,471,621	5,265,522
Passed through the California Department of Education				
Child Nutrition Fiscal Services:				
Summer Food Service Program for Children	10.559	05660-SFSP-30	262,236	-
Child and Adult Care Food Program	10.558	05660-CACFP-30-NP	<u>990,210</u>	<u>-</u>
Total Child Nutrition Fiscal Services			<u>1,252,446</u>	<u>-</u>
California Association of Food Banks:				
Supplemental Nutrition Assistance Program	10.561	16-SUB-00965/14-3055	<u>51,520</u>	<u>-</u>
United States Department of Homeland Security:				
Passed through the Emergency Food and Shelter National Board:				
Emergency Food and Shelter Program	97.024	33-078600-058	<u>211,509</u>	<u>-</u>
Total United States Department of Homeland Security			<u>211,509</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 6,987,096</u>	<u>\$ 5,265,522</u>

See accompanying notes to schedule of expenditures of federal awards.



**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

**Note 1: General**

The accompanying schedule of expenditures of federal awards (the “Schedule”) presents the activity of the federal financial assistance programs of Second Harvest Food Bank of Orange County, Inc. (the “Organization”). The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Organization’s reporting entity is defined in Note 1 of the notes to the Organization’s financial statements. All financial assistance received directly from federal agencies and federal financial assistance passed through other government agencies to the Organization is included in the accompanying Schedule.

**Note 2: Basis of Accounting**

The accompanying Schedule is presented using the accrual basis of accounting, which is described in the notes to the financial statements. Expenditures are determined using cost accounting principles and procedures set forth in *Subpart E - Cost Principles of the Uniform Guidance*.

**Note 3: Relationship to Federal Financial Reports**

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

**Note 4: Amounts Provided to Subrecipients**

For the year ended June 30, 2017, the Organization passed through \$5,265,522 to other not-for-profit agencies under the United States Department of Agriculture/California Department of Social Services - Emergency Food Assistance Program (CFDA #10.569).

**Note 5: Indirect Cost Rate**

The Organization had the option to use a 10 percent de minimis indirect cost rate. There were no indirect cost expenditures for the year ended June 30, 2017.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**1. Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes   X   none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings that are required to be reported in accordance with the 2 CFR Section 200.516(a)? \_\_\_\_\_ 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	Food Distribution Cluster: United States Department of Agriculture: Passed through the California Department of Social Services - Emergency Food Assistance Program (Cash and Food Distribution Programs)

Dollar threshold used for distinguishing between Type A and B programs: \$750,000

Auditee qualified as low-risk auditee?   X   yes \_\_\_\_\_ no

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2017**

**2. Findings Relating to Financial Statements**

None noted.

**3. Findings and Questioned Costs Relating to Major Federal Awards**

None noted.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2017**

**Financial Statement Findings**

There were no findings or questioned costs for the year ended June 30, 2016.

**Major Federal Awards Findings**

There were no findings or questioned costs for the year ended June 30, 2016.