

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

WITH INDEPENDENT AUDITORS' REPORT

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
JUNE 30, 2015 AND 2014

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	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 non-profit organization), (the "Organization"), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows 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 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.

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, 2015 and 2014, 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 30, 2015, 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 30, 2015

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS

	2015	2014
Current Assets:		
Cash	\$ 2,170,007	\$ 1,893,178
Restricted cash	312,054	279,500
Accounts receivable (net of allowance for doubtful accounts of \$13,200 and \$0)	41,441	90,579
Grants receivable	434,750	245,218
Unconditional promises to give	49,230	4,639
Inventory	2,187,334	2,096,906
Prepaid expenses and deposits	63,518	68,386
Total Current Assets	5,258,334	4,678,406
Property and Equipment, at Net Book Value	10,366,498	10,603,228
Other Assets:		
Long-term investments	205,964	218,591
Long-term grants receivable	334,000	-
Long-term unconditional promises to give, net	143,674	115,525
Total Other Assets	683,638	334,116
Total Assets	\$ 16,308,470	\$ 15,615,750

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	\$ 373,768	\$ 177,759
Deferred revenue and deposits	182,792	90,195
Total Current Liabilities	556,560	267,954
Net Assets:		
Unrestricted	10,984,871	10,560,199
Temporarily restricted	4,570,758	4,591,316
Permanently restricted	196,281	196,281
Total Net Assets	15,751,910	15,347,796
Total Liabilities and Net Assets	\$ 16,308,470	\$ 15,615,750

The accompanying notes are an integral part of these financial statements

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014

Unrestricted Support and Revenue:	<u>2015</u>	<u>2014</u>
Community Support:		
Grants and awards	\$ 2,070,844	\$ 1,277,783
Contributions	1,607,497	1,406,244
Donated food products and merchandise	39,892,000	35,714,366
Events and solicitation revenue	2,301,486	2,585,307
Contributed services	<u>122,230</u>	<u>186,308</u>
Total Community Support	45,994,057	41,170,008
Revenue:		
Contract revenue	1,586,713	1,596,441
Agency fees	826,063	953,924
Other income	<u>10,193</u>	<u>37,863</u>
Total Revenue	2,422,969	2,588,228
Net Assets Released from Restrictions	<u>332,612</u>	<u>279,407</u>
Total Unrestricted Support and Revenue	48,749,638	44,037,643
Expenses:		
Program Services	<u>45,910,465</u>	<u>41,691,463</u>
Support Services:		
Management and general	1,121,940	1,002,230
Fundraising	<u>1,292,561</u>	<u>1,147,515</u>
Total Support Services	<u>2,414,501</u>	<u>2,149,745</u>
Total Expenses	<u>48,324,966</u>	<u>43,841,208</u>
Increase in Unrestricted Net Assets	<u>\$ 424,672</u>	<u>\$ 196,435</u>

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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Temporarily Restricted Support:		
Funds used for operations	\$ (279,500)	\$ (226,301)
Grants received	312,054	279,500
Depreciation expense	<u>(53,112)</u>	<u>(53,106)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>(20,558)</u>	<u>93</u>
Increase in Total Net Assets	404,114	196,528
Total Net Assets at Beginning of Year	<u>15,347,796</u>	<u>15,151,268</u>
Total Net Assets at End of Year	<u><u>\$ 15,751,910</u></u>	<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.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities:		
Increase in Total Net Assets	\$ 404,114	\$ 196,528
Non-Cash Items Included in Change in Total Assets:		
Depreciation	552,630	534,438
Gain on sale of assets	-	(2,561)
Unrealized loss (gain) on investments	3,711	(23,031)
Allowance for uncollectible promises to give	2,586	(2,275)
Allowance for doubtful accounts	13,200	-
Changes In:		
Accounts receivable	35,938	16,344
Grants receivable	(523,532)	(101,905)
Unconditional promises to give	(75,326)	(47,772)
Inventory	(90,428)	284,583
Prepaid expenses and deposits	4,868	(2,333)
Accounts payable and accrued expenses	196,009	6,380
Deferred revenue and deposits	92,597	80,365
Net Cash Provided by Operating Activities	616,367	938,761
Cash Flows from Investing Activities:		
Purchase of fixtures and equipment	(315,900)	(89,345)
Proceeds from sale of assets	-	2,561
Proceeds from sale of investments	10,653	10,356
Investment income, net	(1,737)	(2,036)
Net Cash Used in Investing Activities	(306,984)	(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	309,383	508,557
Cash and Restricted Cash at Beginning of Year	2,172,678	1,664,121
Cash and Restricted Cash at End of Year	\$ 2,482,061	\$ 2,172,678

The accompanying notes are an integral part of these financial statements

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2015 AND 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Support Services			Total Functional Expenses	
		Management and General	Fundraising	Total	2015	2014
Salaries and Related Expense						
Salaries and wages	\$ 1,715,777	\$ 588,346	\$ 360,878	\$ 949,224	\$ 2,665,001	\$ 2,383,511
Benefits	193,339	66,309	40,662	106,971	300,310	215,434
Payroll taxes and workers' compensation	277,728	95,251	58,410	153,661	431,389	386,343
Other personnel costs	19,377	6,645	4,075	10,720	30,097	20,152
Total Salaries and Related Expense	2,206,220	756,551	464,025	1,220,576	3,426,796	3,005,440
Other Expenses:						
Donated food and supplies, in-kind	39,581,493	-	179,554	179,554	39,761,047	35,974,763
Donated professional fees and services, in-kind	-	35,586	86,645	122,231	122,231	186,308
Product fees and purchases	1,006,875	-	-	-	1,006,875	1,197,956
Freight and storage	193,731	-	-	-	193,731	199,192
Program costs	1,406,383	-	-	-	1,406,383	1,175,548
Vehicle operation	261,128	-	-	-	261,128	247,402
Professional fees and services	-	94,539	49,013	143,552	143,552	77,228
General supplies	52,706	3,890	439	4,329	57,035	47,866
Postage and printing	52,434	3,870	437	4,307	56,741	67,718
Telephone	8,703	27,823	1,655	29,478	38,181	31,321
Occupancy	214,531	15,833	1,788	17,621	232,152	225,125
Repairs and maintenance	176,927	-	-	-	176,927	88,780
Insurance	90,482	6,678	754	7,432	97,914	94,716
Direct mailing costs	-	-	250,936	250,936	250,936	233,233
Community events	-	-	182,105	182,105	182,105	171,774
Bank fees	-	44,785	-	44,785	44,785	49,336
Dues and subscriptions	47,523	2,798	325	3,123	50,646	41,765
Mileage	28,480	8,473	1,605	10,078	38,558	71,192
Advertising and promotion	-	60,350	43,502	103,852	103,852	44,882
Conference and meeting	12,891	23,074	9,738	32,812	45,703	50,594
Other	59,273	-	15,785	15,785	75,058	24,631
Total Other Expenses	\$ 43,193,560	\$ 327,699	\$ 824,281	\$ 1,151,980	\$ 44,345,540	\$ 40,301,330

The accompanying notes are an integral part of these financial statements

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014

	Program Services	Support Services		Total Functional Expenses		
		Management and General	Fundraising	Total	2015	2014
Expenses before depreciation	\$ 45,399,780	\$ 1,084,250	\$ 1,288,306	\$ 2,372,556	\$ 47,772,336	\$ 43,306,770
Depreciation	<u>510,685</u>	<u>37,690</u>	<u>4,255</u>	<u>41,945</u>	<u>552,630</u>	<u>534,438</u>
Total Functional Expenses	<u>\$ 45,910,465</u>	<u>\$ 1,121,940</u>	<u>\$ 1,292,561</u>	<u>\$ 2,414,501</u>	<u>\$ 48,324,966</u>	<u>\$ 43,841,208</u>

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, 2015 AND 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, 2015 and 2014, current promises to give totaled \$49,230 and \$4,639, respectively. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2015 and 2014, total long-term unconditional promises to give totaled \$153,985 and \$123,250, respectively. Management has provided a reserve for uncollectible promises which totaled \$10,311 and \$7,725 at June 30, 2015 and 2014, respectively.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 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. 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 sub-recipients. The allowance for doubtful accounts is determined on the basis of loss experience, economic conditions in the industry, and financial stability of the agencies and sub-recipients. 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 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 years ended June 30, 2015 and 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, 2015, the donated food inventory is valued at a fair value of \$1.70 per gross pound on the statement of financial position which totaled \$2,128,599. 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 \$1,891,968 and \$35,772,546, respectively at June 30, 2015, 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, 2015 AND 2014

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

Inventory (Continued)

As of June 30, 2014, the donated food inventory was 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 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 \$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.

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, 2015 and 2014, depreciation and amortization expense totaled \$552,630 and \$534,438, 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, 2015 and 2014.

Deferred Revenue and Deposits

As of June 30, 2015 and 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, 2015 and 2014, deferred revenue and deposits totaled \$182,792 and \$90,195, 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, 2015 and 2014 totaled \$103,852 and \$44,882, respectively.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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 \$122,230 and \$186,308 for the years ended June 30, 2015 and 2014, 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, 2015 (unaudited):

	<u>Number of Volunteers</u>	<u>Number of Hours</u>	<u>Value</u>
Area of Service:			
Second Harvest Food Bank	<u>22,583</u>	<u>110,073</u>	<u>\$ 990,657</u>

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):

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

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 2012 to 2014 tax years are open to review for federal tax purposes and 2011 to 2014 tax years are open to review for state income tax purposes.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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

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, 2015 and 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.

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, 2015 and 2014, accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2015 and 2014, the Organization had approximately \$2,300,000 and \$1,970,000 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 \$205,964 and \$218,591 as of June 30, 2015 and 2014, respectively.

Note 3: Inventory

Inventory consists of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Donated food	\$ 2,128,599	\$ 2,035,546
Purchased commodities	<u>58,735</u>	<u>61,360</u>
Total Inventories	<u>\$ 2,187,334</u>	<u>\$ 2,096,906</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 4: Property and Equipment

Property and equipment consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 2,400,000	\$ 2,400,000
Building	8,795,554	8,795,554
Vehicles	1,310,636	1,139,173
Furniture and equipment	<u>1,701,051</u>	<u>1,592,700</u>
Total property and equipment, at cost	14,207,241	13,927,427
Less: Accumulated depreciation	<u>(3,840,743)</u>	<u>(3,324,199)</u>
Property and Equipment, at Net Book Value	<u>\$ 10,366,498</u>	<u>\$ 10,603,228</u>

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Restricted cash	\$ 312,054	\$ 279,500
Land, building, and equipment, Net	<u>4,258,704</u>	<u>4,311,816</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,570,758</u>	<u>\$ 4,591,316</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, 2015, the investment's activity consisted of funds granted to Second Harvest of \$10,653, dividends and interest income of \$4,037, unrealized losses of \$3,711, and investment fees of \$2,300, for a net decrease in the investment of \$12,628. At the end of the year, the fair value of the investment was \$205,964, of which \$196,281 was permanently restricted. 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 (3.25 percent as of June 30, 2015) on the unpaid principal balance maturing in April 2016. The line of credit is secured by substantially all of the assets of the Organization. At June 30, 2015 and 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, 2015 and 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. Rent expense related to this operating lease for the year ended June 30, 2015 totaled \$10,356.

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

2016	\$	10,356
2017		10,356
2018		10,356
2019		<u>10,356</u>
Total Minimum Lease Payments	\$	<u>41,424</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 year ended June 30, 2015 and 2014, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$433,041 and \$405,007, respectively. These activities include direct mail costs of \$250,936, and fundraising campaigns and special event costs totaling \$182,105 for the year ended June 30, 2015. For the year ended June 30, 2014, these activities included direct mail costs of \$233,233, and fundraising campaigns and special event costs totaling \$171,774.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 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 has outsourced the management of the Second Harvest Food Bank Endowment Fund to the Orange County Community Foundation ("OCCF"). The oversight of the investment portfolio is the responsibility of the OCCF Investment Committee whose members are appointed by and serve the OCCF Board of Directors, and which shall administer the investment portfolio in compliance with all written policies approved by the OCCF Board. Annual distributions are subject to the policies of the OCCF, which limit them to a maximum of 5 percent of the rolling average of the total account balance over the prior 12 months.

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

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 9: Endowment Fund (Continued)

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

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

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

The following is the endowment net asset composition as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ 9,683	\$ -	\$ 196,281	\$ 205,964

The following are the changes in the endowment net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ 22,310	\$ -	\$ 196,281	\$ 218,591
Investment Return:				
Investment income	4,037	-	-	4,037
Net depreciation	<u>(3,711)</u>	<u>-</u>	<u>-</u>	<u>(3,711)</u>
Total Investment Return	327	-	-	327
Grants	(10,653)	-	-	(10,653)
Amount Appropriated for Expenditure	<u>(2,300)</u>	<u>-</u>	<u>-</u>	<u>(2,300)</u>
Endowment Net Assets, End of Year	<u>\$ 9,683</u>	<u>\$ -</u>	<u>\$ 196,281</u>	<u>\$ 205,964</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 9: Endowment Fund (Continued)

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

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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 10: Fair Value Measurements (Continued)

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

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

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

A description of the valuation methodologies used for assets measured at fair value is disclosed in Note 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the years ended June 30, 2015 and 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, 2015 and 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 \$205,964 and \$218,591, 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, 2015 AND 2014

Note 10: Fair Value Measurements (Continued)

The following is a reconciliation of activity for the year ended June 30, 2015 for assets measured at fair value based on significant unobservable (non-market) information:

Balance, Beginning of Year	\$ 218,591
Interest Income	4,037
Unrealized Losses	
Included in Earnings	(3,711)
Purchases, Issuances, and Settlements	<u>(12,953)</u>
Balance, End of Year	<u>\$ 205,964</u>

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.

Note 11: Net Asset Value (NAV) Per Share

The following table for June 30, 2015 and 2014 sets forth a summary of Second Harvest's investments whose fair value is estimated using NAV (or its equivalent):

	<u>Unfunded</u> <u>Commitment</u>	<u>Redemption</u> <u>Frequency</u>	<u>Other</u> <u>Redemption</u> <u>Restrictions</u>	<u>Redemption</u> <u>Notice</u> <u>Period</u>
Alternative Investments:				
Hedge Funds	None	Quarterly	None	35-65 Days
Private Equities	None	N/A	None	N/A

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 11: Net Asset Value (NAV) Per Share (Continued)

Hedge Funds

This class represents investments in hedge funds. Approximately 95 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-four 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-one 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 eighty-nine percent of the funds will be liquidated over the next 3 to 7 years and the balance within the next 10 years.

Note 12: Subsequent Events

Events occurring after June 30, 2015 have been evaluated for possible adjustment to the financial statements or disclosure as of November 30, 2015, 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, 2015

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2015

	<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 OMB Circular A-133 and on the Schedule of Expenditures and 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of Orange County, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2015, 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 30, 2015.

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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 30, 2015

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2015.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Organization as of and for the year ended June 30, 2015, and have issued our report thereon dated November 30, 2015, 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 OMB Circular A-133 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 30, 2015

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor / Pass-through Grantor / Program Title	Catalog Of Federal Domestic Assistance Number (CFDA No.)	Grantor Contract Number	Federal Expenditures
United States Department of Agriculture:			
Passed through the California Department of Social Services			
Emergency Food Assistance Program (EFAP):			
Cash Program	10.568	MOU 10-6049	\$ 232,457
Food Distribution (non-cash)	10.569	-	<u>5,919,053</u>
			6,151,510
Passed through the California Department of Education			
Child Nutrition Fiscal Services:			
Summer Food Service Program for Children	10.559	05660-SFSP-30	240,596
Passed through the California Department of Education			
Child Nutrition Fiscal Services:			
Child and Adult Care Food Program	10.558	05660-CACFP-30	<u>1,040,084</u>
Total United States Department of Agriculture			7,432,190
United States Department of Housing and Urban Development:			
California Association of Food Banks:			
Nutrition Education Program	10.561	12-0355	5,716
Supplemental Nutrition Assistance Program	10.561	14-0355	<u>25,111</u>
Total United States Department of Housing and Urban Development			<u>30,827</u>
Total Federal Expenditures			<u>\$ 7,463,017</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, 2015

Note 1: General

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of all federal award programs of the Organization for the year ended June 30, 2015. The Schedule of Expenditures of Federal Awards includes amounts passed through the State of California, as well as other governments, and private agencies.

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

Note 2: Basis of Accounting

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

Note 3: Relationship to Federal Financial Reports

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

Note 4: Amounts Provided to Subrecipients

For the year ended June 30, 2015, the Organization passed through \$5,919,053 to other not-for-profit agencies under the U.S. Department of Agriculture/California Department of Social Services - Emergency Food Assistance Program (CFDA #10.569).

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

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 that are not considered material weakness(es)? _____ 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 that are not considered material weakness(es)? _____ 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 Section 510(a) of OMB Circular A-133 are reported in this Schedule? _____ yes X no

Identification of major programs:

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

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

1. Summary Of Auditors' Results - (Continued)

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.558	United States Department of Agriculture: Passed-through the California Department of Education Child Nutrition Fiscal Services - Child and Adult Care Food Program

Dollar threshold used for distinguishing between
Type A and B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes no

2. Findings Relating to Financial Statements:

None.

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

None.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015**

Financial Statement Findings

There were no findings or questioned costs for the year ended June 30, 2014.

Major Federal Awards Findings

There were no findings or questioned costs for the year ended June 30, 2014.