

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

WITH INDEPENDENT AUDITORS' REPORT

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
JUNE 30, 2018 AND 2017

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
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

To 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, 2018 and 2017, 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, 2018 and 2017, 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 12, 2018, 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, 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 12, 2018

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
Current Assets:		
Cash	\$ 2,175,166	\$ 2,282,555
Restricted cash	131,327	391,999
Accounts receivable (net of allowance for doubtful accounts of \$0 and \$5,729, respectively)	17,056	24,599
Grants receivable	533,321	343,310
Unconditional promises to give	82,691	84,004
Inventory	2,257,528	2,892,007
Prepaid expenses and deposits	157,378	110,798
Total Current Assets	5,354,467	6,129,272
Property and Equipment, at Net Book Value	10,248,308	9,969,451
Other Assets:		
Long-term investments - unrestricted	28,721	14,319
Long-term investments - restricted	196,281	196,281
Long-term grants receivable	100,000	178,000
Long-term unconditional promises to give, net	76,987	96,747
Total Other Assets	401,989	485,347
Total Assets	\$ 16,004,764	\$ 16,584,070

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable and accrued expenses	\$ 568,305	\$ 415,997
Deferred revenue and deposits	200,158	183,381
Total Current Liabilities	768,463	599,378
Net Assets:		
Unrestricted	10,609,313	11,243,926
Temporarily restricted	4,430,707	4,544,485
Permanently restricted	196,281	196,281
Total Net Assets	15,236,301	15,984,692
Total Liabilities and Net Assets	\$ 16,004,764	\$ 16,584,070

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, 2018 AND 2017

	2018	2017
Unrestricted Support and Revenue:		
Community Support:		
Grants and awards	\$ 2,056,393	\$ 2,025,705
Contributions	2,445,279	2,501,313
Donated food products and merchandise	51,001,707	43,902,688
Events and solicitation revenue	2,794,282	2,471,623
Contributed services	113,197	138,390
Total Community Support	58,410,858	51,039,719
Revenue:		
Contract revenue	2,023,401	1,818,160
Community partner fees	547,365	610,683
Other income	27,205	34,075
Total Revenue	2,597,971	2,462,918
Net Assets Released from Restrictions	445,111	400,399
Total Unrestricted Support and Revenue	61,453,940	53,903,036
Expenses:		
Program services	58,876,894	50,932,016
Support services:		
Management and general	1,576,147	1,594,198
Fundraising	1,635,506	1,781,508
Total Support Services	3,211,653	3,375,706
Total Expenses	62,088,547	54,307,722
Decrease in Unrestricted Net Assets	(634,607)	(404,686)

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, 2018 AND 2017

	2018	2017
Temporarily Restricted Support:		
Funds used for operations	\$ (391,999)	\$ (347,287)
Grants received	331,327	391,999
Depreciation expense	(53,112)	(53,112)
Decrease in Temporarily Restricted Net Assets	(113,784)	(8,400)
Permanently Restricted Support:		
Other income	-	3,519
Increase in Permanently Restricted Net Assets	-	3,519
Decrease in Total Net Assets	(748,391)	(409,567)
Total Net Assets, Beginning of Year	15,984,692	16,394,259
Total Net Assets, End of Year	\$ 15,236,301	\$ 15,984,692

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, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities:		
Decrease in Total Net Assets	\$ (748,391)	\$ (409,567)
Noncash Items Included in Decrease in Total Net Assets:		
Depreciation	584,900	569,929
Unrealized gain on investments	(941)	(8,161)
Allowance for uncollectible promises to give	(1,109)	(2,531)
Allowance for doubtful accounts	(5,729)	738
Changes in:		
Accounts receivable	13,272	(13,893)
Grants receivable	(112,011)	144,087
Unconditional promises to give	22,182	50,618
Inventory	634,479	769,131
Prepaid expenses and deposits	(46,580)	(46,572)
Accounts payable and accrued expenses	152,308	63,802
Deferred revenue and deposits	16,777	2,113
Net Cash Provided by Operating Activities	509,157	1,119,694
Cash Flows from Investing Activities:		
Purchase of property and equipment	(863,757)	(649,783)
Proceeds from sale of investments	(14,402)	(10,321)
Investment income, net	941	644
Net Cash Used in Investing Activities	(877,218)	(659,460)
Net Increase (Decrease) in Cash	(368,061)	460,234
Cash and Restricted Cash, Beginning of Year	2,674,554	2,214,320
Cash and Restricted Cash, End of Year	\$ 2,306,493	\$ 2,674,554

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, 2018

	Program Services	Support Services			Total Functional Expenses
		Management and General	Fundraising	Total	
Salaries and Related Expense:					
Salaries and wages	\$ 2,175,020	\$ 711,550	\$ 534,643	\$ 1,246,193	\$ 3,421,213
Benefits	278,832	91,492	65,351	156,843	435,675
Payroll taxes and workers' compensation	339,833	111,508	79,648	191,156	530,989
Other personnel costs	21,482	7,049	5,035	12,084	33,566
Total Salaries and Related Expense	2,815,167	921,599	684,677	1,606,276	4,421,443
Other Expenses:					
Donated food and supplies, in-kind	51,434,533	7,842	185,461	193,303	51,627,836
Donated professional fees and services, in-kind	-	20,534	92,663	113,197	113,197
Product fees and purchases	1,195,431	-	-	-	1,195,431
Freight and storage	229,561	-	-	-	229,561
Program costs	1,526,111	-	-	-	1,526,111
Vehicle operation	348,954	-	-	-	348,954
Professional fees and services	6,977	236,907	43,948	280,855	287,832
General supplies	13,896	41,150	1,371	42,521	56,417
Postage and printing	-	36,498	2,793	39,291	39,291
Telephone	36,128	17,382	1,765	19,147	55,275
Occupancy	326,720	24,112	2,722	26,834	353,554
Repairs and maintenance	202,731	-	-	-	202,731
Insurance	143,580	10,596	1,196	11,792	155,372
Direct mailing costs	-	-	293,204	293,204	293,204
Community events	-	-	217,463	217,463	217,463
Bank fees	-	66,378	-	66,378	66,378
Dues and subscriptions	842	48,026	2,194	50,220	51,062
Mileage	24,306	9,384	1,142	10,526	34,832
Advertising and promotion	10,124	76,842	92,451	169,294	179,418
Conference and meeting	21,326	25,845	7,952	33,797	55,123
Other	-	(6,838)	-	(6,838)	(6,838)
Total Other Expenses	55,521,220	614,658	946,325	1,560,984	57,082,204
Expenses before Depreciation	58,336,387	1,536,257	1,631,002	3,167,260	61,503,647
Depreciation	540,507	39,890	4,504	44,393	584,900
Total Functional Expenses	\$ 58,876,894	\$ 1,576,147	\$ 1,635,506	\$ 3,211,653	\$ 62,088,547

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
Total Salaries and Related Expense	2,579,449	981,358	692,513	1,673,871	4,253,320
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
Total Other Expenses	47,825,896	573,971	1,084,606	1,658,577	49,484,473
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
Total Functional Expenses	\$ 50,932,016	\$ 1,594,198	\$ 1,781,508	\$ 3,375,706	\$ 54,307,722

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, 2018 AND 2017

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 (“US GAAP”).

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Net assets, 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, Cash Equivalents, and Restricted 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, 2018 AND 2017

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

Cash, Cash Equivalents, and Restricted Cash (Continued)

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

Cash and cash equivalents	\$ 2,175,166
Restricted cash	<u>131,327</u>
 Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows	 <u>\$ 2,306,493</u>

Amounts included in restricted cash represent those required to be set aside by a contractual agreement with a grantor for use during a specific time period.

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, 2018 and 2017, unconditional promises to give due within a year totaled \$82,691 and \$84,004, respectively. Those due in subsequent years are reflected as long-term unconditional promises to give. At June 30, 2018 and 2017, total long-term unconditional promises to give totaled \$85,391 and \$106,260, respectively. Management has provided a reserve for uncollectible promises to give that totaled \$8,404 and \$9,513 at June 30, 2018 and 2017, respectively, that are applied to the long-term amounts.

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 Receivable

The Organization's accounts and grants receivable 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 the current financial condition of 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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.

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, 2018 and 2017. The maximum shared maintenance rate is the maximum amount per pound that the Organization can recover from the purchasing agencies.

As of June 30, 2018, the donated food inventory is valued at a fair value of \$1.68 per gross pound in the statement of financial position, which totaled \$2,247,583. 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 \$2,006,771 and \$45,823,611, respectively, at June 30, 2018, with a corresponding decrease in community support for the Organization during the period.

As of June 30, 2017, the donated food inventory was valued at a fair value of \$1.73 per gross pound on the statement of financial position, which totaled \$2,873,712. 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 \$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.

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, 2018 and 2017, depreciation expense totaled \$584,900 and \$569,929, respectively.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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, 2018 and 2017.

Deferred Revenue and Deposits

As of June 30, 2018 and 2017, deferred revenue and deposits consist principally of amounts received from participants in advance for fundraising events occurring subsequent to year-end. At June 30, 2018 and 2017, deferred revenue and deposits totaled \$200,158 and \$183,381, 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, 2018 and 2017, totaled \$179,418 and \$166,543, 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 \$113,197 and \$138,390 for the years ended June 30, 2018 and 2017, 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, 2018 (unaudited):

Number of Volunteers	Number of Hours	Value
24,321	102,346	\$ 1,100,214

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Contributed Services (Continued)

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

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 foundation. 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, whereby an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not that the position will be sustained. The Organization does not believe that 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.

Use of Estimates

The preparation of financial statements in accordance with US 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, 2018 and 2017, 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Investment Valuation and Income Recognition (Continued)

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.

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 new revenue recognition guidance (“ASC 606”), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 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. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. 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 ASC 606 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 June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities - Revenue Recognition (Topic 958-605)*. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2018-08 on the presentation of its financial statements.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2: Concentrations, Risks, and Uncertainties

The Organization maintains cash balances at a single financial institution. At June 30, 2018 and 2017, accounts at this institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. As of June 30, 2018 and 2017, the Organization had approximately \$1,900,000 and \$2,400,000 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 \$225,002 and \$210,600 as of June 30, 2018 and 2017, respectively.

Note 3: Inventory

Inventory consists of the following at June 30, 2018 and 2017:

	2018	2017
Donated food	\$ 2,247,583	\$ 2,873,712
Purchased commodities	9,945	18,295
Total Inventory	\$ 2,257,528	\$ 2,892,007

Note 4: Property and Equipment

Property and equipment consist of the following at June 30, 2018 and 2017:

	2018	2017
Land	\$ 2,400,000	\$ 2,400,000
Building	8,811,619	8,800,903
Vehicles	2,453,647	1,859,796
Furniture and equipment	1,865,443	1,693,247
Total property and equipment, at cost	15,530,709	14,753,946
Less: Accumulated depreciation	(5,282,401)	(4,784,495)
Property and Equipment, at Net Book Value	\$ 10,248,308	\$ 9,969,451

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 5: Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2018 and 2017, consist of the following:

	2018	2017
Restricted cash	\$ 131,327	\$ 391,999
Grant receivable	200,000	-
Land, building, and equipment, net	4,099,380	4,152,486
Total Temporarily Restricted Net Assets	\$ 4,430,707	\$ 4,544,485

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, 2018, the investment's activity consisted of dividends and interest income of \$1,275, unrealized gains of \$15,343, and investment fees of \$2,216 for a net increase in the investment of \$14,402. At the end of the year, the fair value of the investment was \$225,002, of which \$196,281 was permanently restricted. 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.

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, which bears interest at the bank's reference rate (5.00 percent as of June 30, 2018) on the unpaid principal balance maturing in June 2020. The line of credit is secured by substantially all of the assets of the Organization. At June 30, 2018 and 2017, there was no principal balance outstanding on this line of credit.

The line of credit agreement with the bank contains various covenants pertaining to the maintenance of tangible net worth. At June 30, 2018 and 2017, the Organization was in compliance with respect to all terms of the line of credit agreement.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018, totaled \$10,356.

The future aggregate minimum annual lease payment under this noncancelable lease for the subsequent year ending June 30 is as follows:

2019	\$ <u>10,356</u>
Total Minimum Lease Payment	\$ <u>10,356</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, 2018 and 2017, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$510,667 and \$463,762, respectively. These activities include direct mail costs of \$293,204 and fundraising campaigns and special event costs totaling \$217,463 for the year ended June 30, 2018. For the year ended June 30, 2017, these activities included direct mail costs of \$262,617 and fundraising campaigns and special event costs totaling \$201,145.

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 US 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.

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 the gifts with donor-imposed restrictions and maintains that such funds be retained as a permanent endowment.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 9: Endowment Fund (Continued)

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, as 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.

The following is the endowment net asset composition as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ 28,721	\$ -	\$ 196,281	\$ 225,002

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 9: Endowment Fund (Continued)

The following are the changes in the endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 14,319	\$ -	\$ 196,281	\$ 210,600
Investment return:				
Investment income	1,275	-	-	1,275
Net appreciation	<u>15,343</u>	<u>-</u>	<u>-</u>	<u>15,343</u>
Total investment return	16,618	-	-	16,618
Grants	-	-	-	-
Amount appropriated for expenditure	<u>(2,216)</u>	<u>-</u>	<u>-</u>	<u>(2,216)</u>
Endowment Net Assets, End of Year	<u>\$ 28,721</u>	<u>\$ -</u>	<u>\$ 196,281</u>	<u>\$ 225,002</u>

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	<u>\$ 14,319</u>	<u>\$ -</u>	<u>\$ 196,281</u>	<u>\$ 210,600</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 9: Endowment Fund (Continued)

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>

Note 10: Fair Value Measurements

Second Harvest has adopted FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurement.

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

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair value is a market-based 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.

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 10: Fair Value Measurements (Continued)

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

A description of the valuation methodologies used for assets measured at fair value is disclosed in Note 1 (Investment Valuation and Income Recognition). There have been no changes in the methodologies used during the years ended June 30, 2018 and 2017.

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, 2018 and 2017, 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 \$225,002 and \$210,600, 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.

The following is a reconciliation of activity at June 30, 2018, for assets measured at fair value based on significant unobservable (nonmarket) information:

Balance, beginning of year	\$ 210,600
Interest income	1,275
Unrealized gains included in earnings	15,343
Purchases, issuances, and settlements	<u>(2,216)</u>
Balance, End of Year	<u>\$ 225,002</u>

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 losses included in earnings	22,480
Purchases, issuances, and settlements	<u>(6,041)</u>
Balance, End of Year	<u>\$ 210,600</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, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of November 12, 2018, 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, 2018

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2018

	<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 Federal 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, 2018, and the related statements of activities and changes in net assets, 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 12, 2018.

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 12, 2018

**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, 2018. 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 US *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, 2018.

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, 2018, and have issued our report thereon dated November 12, 2018, 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 12, 2018

SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number (CFDA No.)	Grantor Contract Number	Federal Expenditures	Subrecipient Expenditures
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	\$ 214,428	\$ -
Emergency Food Assistance Program (Food Commodities)	10.569	-	<u>4,642,174</u>	<u>4,642,174</u>
Total Food Distribution Cluster			4,856,602	4,642,174
Passed through the California Department of Education				
Child Nutrition Fiscal Services:				
Summer Food Service Program for Children	10.559	05660-SFSP-30	240,693	-
Child and Adult Care Food Program	10.558	05660-CACFP-30-NP	<u>1,019,586</u>	<u>-</u>
Total Child Nutrition Fiscal Services			<u>1,260,279</u>	<u>-</u>
California Association of Food Banks:				
Supplemental Nutrition Assistance Program	10.561	16-SUB-00965/14-3055	<u>64,625</u>	<u>-</u>
Total United States Department of Agriculture			6,181,506	4,642,174
United States Department of Homeland Security:				
Passed through the Emergency Food and Shelter National Board:				
Emergency Food and Shelter Program	97.024	34-078600-058	<u>216,011</u>	<u>-</u>
Total United States Department of Homeland Security			<u>216,011</u>	<u>-</u>
Total Federal Expenditures			<u>\$ 6,397,517</u>	<u>\$ 4,642,174</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, 2018

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 the Schedule is presented in accordance with the requirements of Title 2 US *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “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, 2018, the Organization passed through \$4,642,174 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. The Organization has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**SECOND HARVEST FOOD BANK OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018**

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 (CONTINUED)
YEAR ENDED JUNE 30, 2018**

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, 2018**

Financial Statement Findings

There were no findings or questioned costs for the year ended June 30, 2017.

Major Federal Awards Findings

There were no findings or questioned costs for the year ended June 30, 2017.