

**SECOND HARVEST FOOD BANK
SANTA CRUZ COUNTY**

**INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL REPORT
JUNE 30, 2018**

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BRYANT L. JOLLEY

CERTIFIED PUBLIC ACCOUNTANTS

Bryant L. Jolley C.P.A.
Ryan P. Jolley C.P.A.
Darryl L. Smith C.P.A.
Jaribu Nelson C.P.A.
Lan T. Kimoto
Jeffrey M. Schill

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Second Harvest Food Bank
Santa Cruz County
Watsonville, California 95076

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank Santa Cruz County (the "Organization"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Second Harvest Food Bank Santa Cruz County as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulation* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate 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, information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018, on our consideration of the Second Harvest Food Bank Santa Cruz County'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.

A handwritten signature in black ink, appearing to read "Meredith J. [unclear]", is written in a cursive style.

Firebaugh, California
November 9, 2018

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF FINANCIAL POSITION JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 604,816
Accounts receivable	19,231
Grant receivable	71,329
Operating investment account	1,685,699
Inventory	1,440,868
Prepaid expenses and deposits	<u>70,988</u>
Total current assets	<u>3,892,931</u>

PROPERTY AND EQUIPMENT, at cost

Building	6,594,189
Construction in progress	315,596
Land	627,898
Machinery and equipment	858,826
Computer equipment	465,377
Furniture and fixtures	106,250
Building improvements	<u>76,773</u>
	9,044,909
Less accumulated depreciation	<u>(2,975,630)</u>

PROPERTY AND EQUIPMENT, net

6,069,279

OTHER ASSETS

Long-term investments	<u>1,255,774</u>
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TOTAL ASSETS

\$ 11,217,984

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF FINANCIAL POSITION (Continued)

JUNE 30, 2018

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 208,515
Accrued expenses	175,869
Agency grants payable	5,197
Current of portion long-term debt	<u>50,561</u>

Total current liabilities 440,142

LONG-TERM DEBT

1,569,723

Total Liabilities 2,009,865

NET ASSETS

Unrestricted:

Undesignated 755,536

Board designated:

Net fixed assets 4,448,995

Inventory 1,440,868

Equipment replacement 600,000

Disaster fund 350,000

Legacy fund 300,000

USDA Rural debt service fund 116,400

Program development fund 200,000

Total unrestricted net assets 8,211,799

Temporarily restricted 996,320

Total Net Assets 9,208,119

TOTAL LIABILITIES AND NET ASSETS

\$ 11,217,984

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Support:			
Food donations	\$ 11,197,875	\$ -	\$ 11,197,875
Contributions	1,467,473	498,317	1,965,790
Government grants	-	642,165	642,165
Foundations	712,156	596,809	1,308,965
Corporate donations	86,034	390,298	476,332
Special events	222,044	-	222,044
Total Support	13,685,582	2,127,589	15,813,171
Revenue:			
Member agency shared maintenance fees	256,183	-	256,183
Other income	7,349	-	7,349
Dividend and interest	81,093	-	81,093
Realized (loss) on investments	21,987	-	21,987
Unrealized gain on investments	116,793	-	116,793
Total Revenue	483,405	-	483,405
Net assets released from restrictions	2,480,908	(2,480,908)	-
Total support and revenue	16,649,895	(353,319)	16,296,576
EXPENSES			
Food Distribution:			
Food to agencies and programs	13,105,722	-	13,105,722
Food to other food banks	26,594	-	26,594
Food distribution expense	1,405,867	-	1,405,867
	14,538,183	-	14,538,183
Programs and outreach	1,168,827	-	1,168,827
Total program services	15,707,010	-	15,707,010
Supporting services:			
Management and general	499,927	-	499,927
Fundraising	408,091	-	408,091
Total expenses	16,615,028	-	16,615,028
Increase/(decrease) in net assets	34,867	(353,319)	(318,452)
NET ASSETS, BEGINNING	8,176,932	1,349,639	9,526,571
NET ASSETS, ENDING	\$ 8,211,799	\$ 996,320	\$ 9,208,119

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services		
	Food Distribution	Programs & Outreach	Total Program Services	Management and General	Fund- raising	Total
Food distribution:						
Food to agencies and programs	\$ 11,893,630	\$ -	\$ 11,893,630	\$ -	\$ -	\$ 11,893,630
Food to other food banks	<u>26,594</u>	<u>-</u>	<u>26,594</u>	<u>-</u>	<u>-</u>	<u>26,594</u>
	11,920,224	-	11,920,224	-	-	11,920,224
Payroll costs	1,251,313	805,268	2,056,581	388,526	268,061	2,713,168
Professional services	51,075	38,547	89,622	26,934	7,899	124,455
Telephone	16,742	10,774	27,516	5,198	3,586	36,300
Dues and subscriptions	12,961	8,341	21,302	4,025	2,777	28,104
Office expense	11,042	7,106	18,148	3,429	2,365	23,942
Advertising	1,197	770	1,967	372	256	2,595
Postage	3,053	1,965	5,018	948	654	6,620
Printing and copying	12,607	8,113	20,720	3,914	2,701	27,335
Investment fees	-	-	-	27,934	-	27,934
Board costs	-	-	-	8,796	-	8,796
Occupancy:						
Utilities	76,942	4,386	81,328	1,276	958	83,562
Loan interest	63,377	3,612	66,989	1,051	789	68,829
Building maintenance	23,677	1,131	24,808	329	247	25,384
Equipment maintenance	40,969	26,364	67,333	12,720	8,776	88,829
Depreciation expense	341,375	19,459	360,834	5,659	4,249	370,742
Program supplies	64,824	69,026	133,850	1,305	1,311	136,466
Poundage fees	194,771	129,847	324,618	-	-	324,618
Food drives	31,510	-	31,510	-	31,510	63,020
Agency grants	87,865	-	87,865	-	-	87,865
Transportation	216,465	21,363	237,828	1,506	2,753	242,087
Training and conference	16,672	10,729	27,401	5,416	3,572	36,389
Fundraising	63,973	-	63,973	-	65,185	129,158
Insurance	<u>35,549</u>	<u>2,026</u>	<u>37,575</u>	<u>589</u>	<u>442</u>	<u>38,606</u>
Total functional expenses	<u>\$ 14,538,183</u>	<u>\$ 1,168,827</u>	<u>\$ 15,707,010</u>	<u>\$ 499,927</u>	<u>\$ 408,091</u>	<u>\$ 16,615,028</u>

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from governmental grants	\$ 671,900
Cash received from individuals, corporations and foundations	4,260,390
Cash paid to suppliers and employees	(4,505,897)
Dividends and interest received	81,093
Interest expense	(68,829)
Realized loss on investments	<u>21,987</u>

Net cash provided by operating activities 460,644

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of investments	451,614
Purchases of investments	(574,929)
Purchase of property and equipment	<u>(384,236)</u>

Net cash used by investing activities (507,551)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment from long-term debt	<u>(47,571)</u>
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Net cash used by financing activities (47,571)

Net decrease in cash and cash equivalents (94,478)

CASH AND CASH EQUIVALENTS, BEGINNING 699,294

CASH AND CASH EQUIVALENTS, ENDING \$ 604,816

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

STATEMENT OF CASH FLOWS (Continued) FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Decrease in net assets	\$ (318,452)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	370,742
Loss on disposal of capital assets	-
Unrealized (gain) loss on investments	(116,793)
In-kind contributions of food (including USDA)	11,197,875
Distributions of food received in-kind (including spoilage)	(11,197,875)
(Increase) decrease in operating assets:	
Accounts receivable	29,735
Grants receivable	23,727
Inventory	315,131
Prepaid expenses and deposits	(14,307)
Increase (decrease) in operating liabilities:	
Accounts payable	151,942
Accrued expenses	<u>18,919</u>
Net cash provided by operating activities	<u>\$ 460,644</u>

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1 – General Information

Second Harvest Food Bank Santa Cruz County (the Organization), formally Second Harvest Food Bank Serving Santa Cruz and San Benito Counties, Inc., incorporated as a nonprofit corporation in 1993. The Organization's purpose is to acquire and distribute donated and purchased foods and United States Department of Agriculture (USDA) commodities to people in need throughout Santa Cruz County and the Pajaro Valley. This service is performed through a network of two hundred nonprofit food distribution agencies and programs. The mission of the Organization is to end hunger and malnutrition by educating and involving the community.

Note 2 – Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The net assets, revenues, gains and losses, and other support and expenses and other charges in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, for reporting purposes, net assets of the Organization and changes therein are classified as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations. This includes certain amounts designated by the Board.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may be maintained permanently by the Organization. The Organization has no permanently restricted net assets for the year ended June 30, 2018.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, not recognized until conditions are met. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Organization applies GAAP for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within a fair measurement in its entirety falls in based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2018:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market	\$ 161,016	\$ -	\$ -	\$ 161,016
Exchange Traded Funds	889,193	-	-	889,193
Mutual Funds	<u>1,891,264</u>	<u>-</u>	<u>-</u>	<u>1,891,264</u>
Total	<u>\$ 2,941,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,941,473</u>

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Land, Building, Furniture and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which is generally from three to thirty years.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributed Services

During the year ended June 30, 2018, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization receives more than 31,000 volunteer hours per year.

Functional Allocation of Expenses

The cost of providing program services and other activities has been presented on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accumulated Vacation

Accumulated benefits are recognized as liabilities of the Organization. The value of accumulated unpaid benefits of paid time off at June 30, 2018, is \$102,138.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Note 2 – Summary of Significant Accounting Policies (Continued)

Tax-Exempt Status

The Organization is a not-for-profit organization that is exempt from income taxes under sections 501(c)(3) of the Internal Revenue Code and from state franchise tax under California Revenue and Taxation Code Section 23701(d) but is subject to taxes on unrelated business income when earned. The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. Management evaluated tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for the years before 2014.

Subsequent Events

Subsequent events have been evaluated through November 9, 2018, which is the date the financial statements were available to be issued.

Note 3 - Inventory

The Organization was established to acquire and distribute donated and purchased foods and USDA commodities. The Organization's policy is to recognize the flow of food through the Organization as in-kind contributions. The Organization's policy is that inventory may neither be sold nor pledged as security for debt.

The inventory and food distribution consist of three types: 1) donated foods, 2) purchased food valued at cost, and 3) Emergency Food Assistance Program (EFAP). For the year ended June 30, 2018, donated and EFAP foods are valued at a national average value of \$1.52 per pound. The valuation is based on a cost study conducted by other outside professionals for the national organization, Feeding America.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Note 4 - Investments

The Organization maintains two separate investment accounts. The Operating Investment Account is designated as short-term with an eye toward reasonably liquid investments (i.e., convertible to cash within 1 to 3 market business days) because they may be needed at any time. The Long-Term Investment Account is not expected to be used in the near future, and has the primary goal of growth.

Investments were composed of the following at June 30, 2018:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Operating Investment Account			
Money Market	\$ 97,573	\$ 97,573	\$ -
Exchange Traded Funds	351,572	466,126	114,554
Mutual Funds	<u>1,075,803</u>	<u>1,122,000</u>	<u>46,197</u>
Total Operating Investment Account	<u>1,524,948</u>	<u>1,685,699</u>	<u>160,751</u>
Long-term Investment Account			
Money Market	63,443	63,443	-
Exchange Traded Funds	227,987	423,067	195,080
Mutual Funds	<u>736,595</u>	<u>769,264</u>	<u>32,669</u>
Total Long-term Investment Account	<u>1,028,025</u>	<u>1,255,774</u>	<u>227,749</u>
Total Investments	<u>\$ 2,552,973</u>	<u>\$ 2,941,473</u>	<u>\$ 388,500</u>

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Note 5 – Long-term Debt

In May 2010, the Organization was provided a \$2,000,000 loan through the United States Department of Agriculture Rural Development Community Facilities loan program. The proceeds of the loan were to be used for a warehouse expansion project. The Organization made withdrawals on the loan funds as needed to fund the expansion costs. The loan, which bears an interest rate of 4.125% per annum, provides for monthly principal and interest payments for thirty years with the final payment due April 2040. As of June 30, 2018, the Organization had an outstanding balance of \$1,620,284.

Aggregate maturities or payments of principal and interest under long-term debt as of June 30, 2018, are as follows:

Years ended June 30:	
2019	\$ 50,561
2020	52,686
2021	54,901
2022	57,209
2023	59,614
Thereafter	<u>1,345,313</u>
	<u>\$ 1,620,284</u>

Interest paid on long-term debt for the year ended June 30, 2018, was \$68,829.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Note 6 –Temporarily Restricted Net Assets

Temporarily restricted net assets were available at June 30, 2018, for the following purposes:

	Balance			Balance
	June 30, 2017	Added	Satisfied	June 30, 2018
Capital Contributions	\$ 481,525	\$ -	\$ 315,596	\$ 165,929
Equipment	39,804	97,341	-	137,145
Food Assistance	571,866	1,211,506	1,421,709	361,663
Nutrition Program	180,597	743,670	666,767	257,500
Raley's (Food Purchase)	42,968	37,365	43,957	36,376
Food Purchases	<u>32,879</u>	<u>37,707</u>	<u>32,879</u>	<u>37,707</u>
	<u>\$ 1,349,639</u>	<u>\$ 2,127,589</u>	<u>\$ 2,480,908</u>	<u>\$ 996,320</u>

Note 7 – Payments to Affiliates

In accordance with affiliation agreements between the Second Harvest Food Bank and organizations such as Feeding America, Ag Against Hunger, and the California Association of Food Banks, Second Harvest Food Bank pays fees based on total poundage of food received. Poundage fees paid to these affiliates for the year ended June 30, 2018, were \$324,618.

Note 8 – Concentration of Credit Risk

Deposits with banks and certain financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC). At times, the Organization may hold balances in cash and interest-bearing deposit accounts in financial institutions in excess of the amount insured by the FDIC. In the event of insolvency by the financial institution the deposits in excess of insured amounts potentially subjects the Organization to unrecoverable loss. At June 30, 2018, the Organization held \$151,767 in excess of FDIC limits.

Note 9 – Retirement Plan

The Organization maintains a tax deferred 403(b) retirement plan (the "Plan") to provide retirement benefits for all eligible employees. The Plan provides for a 100% employer matching contribution up to \$1,040 per year. The Organization's contributions for the fiscal year ending June 30, 2018 were \$16,221.

**INDEPENDENT AUDITOR'S 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***

To the Board of Trustees
Second Harvest Food Santa Cruz County

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 Santa Cruz County (the Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated November 9, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank Santa Cruz County'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 entity'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 Second Harvest Food Bank Santa Cruz County'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.

A handwritten signature in black ink, appearing to read "Meredith J. [unclear]", written in a cursive style.

Firebaugh, California
November 9, 2018

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
Second Harvest Food Bank Santa Cruz County

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank Santa Cruz County's (the Organization) compliance with the types of compliance requirements described in the *OMB 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 auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to be 'Meredith J. [unclear]', written in a cursive style.

Firebaugh, California
November 9, 2018

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Program Title	Federal CFDA Number	Program/ Contract Number	Federal Expenditures
MAJOR AWARDS:			
U.S. Department of Agriculture:			
Emergency Food Assistance Program			
Food Commodities	10.569	TEFAP	\$ 1,405,867
Administration Costs	10.568	TEFAP	170,892
Subtotal Emergency Food Assistance Program			1,576,759
Total U.S. Department of Agriculture			1,576,759
Total Expenditures of Federal Awards			\$ 1,576,759

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2018

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Second Harvest Food Bank Santa Cruz County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2 – Food Donation

Nonmonetary assistance is reported in the schedule at the rate established by Feeding America, which was \$1.52 a pound during the fiscal year. At June 30, 2018, the Organization had food commodities totaling \$889,836 in inventory.

NOTE 3 – Cost Rate

Second Harvest Food Bank Santa Cruz County does not elect to use the 10% de minimis cost rate.

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2018

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of Major Programs

CFDA Number	Name of Federal Program or Cluster
10.569	Emergency Food Assistance Program - Commodities
10.568	Emergency Food Assistance Program - Administration Costs
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

B. Financial Statement Findings

No matters were reported

C. Findings and Questioned Costs for Federal Awards

No matters were reported

SECOND HARVEST FOOD BANK SANTA CRUZ COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS YEAR ENDED JUNE 30, 2017

There were no prior year audit findings.