

Second Harvest of Silicon Valley

Financial Statements
and Single Audit Reports and Schedules

June 30, 2022
(With Comparative Totals for 2021)



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Second Harvest of Silicon Valley
San Jose, California

Opinion

We have audited the accompanying financial statements of Second Harvest of Silicon Valley ("Second Harvest"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest of Silicon Valley as of June 30, 2022, 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.

Basis of Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Second Harvest of Silicon Valley and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

We have previously audited Second Harvest of Silicon Valley's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management 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, and for 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.



An independent firm
associated with Moore
Global Network Limited

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Second Harvest of Silicon Valley's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Second Harvest of Silicon Valley's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Second Harvest of Silicon Valley's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

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 and other governmental awards, as required by Title 2 U.S. *Code of Federal Regulations* (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 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 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 January 31, 2023, on our consideration of Second Harvest'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 effectiveness of Second Harvest's 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 Second Harvest's internal control over financial reporting and compliance.



Armanino^{LLP}
San Jose, California

January 31, 2023

Second Harvest of Silicon Valley
Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)

| | Without Donor Restrictions | With Donor Restrictions | 2022 Total | 2021 Total |
|--|----------------------------------|----------------------------|----------------|----------------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 12,024,079 | \$ 18,369,099 | \$ 30,393,178 | \$ 10,680,476 |
| Investments | 36,132,760 | - | 36,132,760 | - |
| Accounts receivable | 157,059 | - | 157,059 | 65,030 |
| Grants receivable | 1,335,635 | 83,020 | 1,418,655 | 1,074,366 |
| Pledges receivable, current portion | 5,000 | 9,356,884 | 9,361,884 | 1,194,987 |
| Inventory | 7,008,520 | - | 7,008,520 | 7,123,508 |
| Prepaid expenses and other assets | 1,423,536 | - | 1,423,536 | 1,073,981 |
| Total current assets | 58,086,589 | 27,809,003 | 85,895,592 | 21,212,348 |
| Non current assets | | | | |
| Land, buildings, and equipment, net | 71,636,265 | - | 71,636,265 | 31,341,174 |
| Pledges receivable, net of current portion | - | 24,761,953 | 24,761,953 | 888,805 |
| Deposits | - | - | - | 2,000,000 |
| Investments | 53,275,009 | - | 53,275,009 | 115,529,022 |
| Investments - board designated endowment | 17,065,005 | - | 17,065,005 | 18,650,394 |
| Total non current assets | 141,976,279 | 24,761,953 | 166,738,232 | 168,409,395 |
| Total assets | \$ 200,062,868 | \$ 52,570,956 | \$ 252,633,824 | \$ 189,621,743 |
| LIABILITIES AND NET ASSETS | | | | |
| Current liabilities | | | | |
| Liquidity Access Line | \$ 36,132,760 | \$ - | \$ 36,132,760 | \$ - |
| Accounts payable | 6,173,483 | - | 6,173,483 | 5,315,614 |
| Accrued expenses | 3,718,526 | - | 3,718,526 | 2,618,929 |
| Deferred revenue | 55,350 | - | 55,350 | 229,141 |
| Total current liabilities | 46,080,119 | - | 46,080,119 | 8,163,684 |
| Net assets | | | | |
| Without donor restrictions | | | | |
| Undesignated | 500,000 | - | 500,000 | 500,000 |
| Board designated | 118,036,452 | - | 118,036,452 | 145,530,962 |
| Land, buildings, and equipment, net | 35,446,297 | - | 35,446,297 | 31,341,174 |
| Total without donor restrictions | 153,982,749 | - | 153,982,749 | 177,372,136 |
| With donor restrictions | | | | |
| Restricted for capital campaign | - | 39,408,895 | 39,408,895 | - |
| Restricted for a specific purpose | - | 1,434,544 | 1,434,544 | 818,431 |
| Restricted to a passage of time | - | 11,727,517 | 11,727,517 | 3,267,492 |
| Total with donor restrictions | - | 52,570,956 | 52,570,956 | 4,085,923 |
| Total net assets | 153,982,749 | 52,570,956 | 206,553,705 | 181,458,059 |
| Total liabilities and net assets | \$ 200,062,868 | \$ 52,570,956 | \$ 252,633,824 | \$ 189,621,743 |

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

Second Harvest of Silicon Valley
Statement of Activities
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

| | Without Donor Restrictions | With Donor Restrictions | 2022 Total | 2021 Total |
|--|----------------------------------|----------------------------|----------------------|----------------------|
| Support, revenue, and net assets released from restriction | | | | |
| Contributions in-kind - non-government Contributions | \$155,896,930 | \$ - | \$155,896,930 | \$125,935,948 |
| Government assistance - in-kind | 82,959,976 | 44,482,659 | 127,442,635 | 111,694,295 |
| Government assistance - cash | 13,009,217 | - | 13,009,217 | 66,168,227 |
| Miscellaneous income | 4,420,347 | 6,772,222 | 11,192,569 | 13,420,077 |
| Government grant - PPP (Note 9) | 66,042 | - | 66,042 | 177,166 |
| Net investment income (loss) | - | - | - | 2,500,000 |
| Net assets released from restriction | (13,527,350) | - | (13,527,350) | 14,658,922 |
| Total support, revenue, and net assets released from restriction | <u>2,769,848</u> | <u>(2,769,848)</u> | <u>-</u> | <u>-</u> |
| Functional expenses | | | | |
| Program services | 245,595,010 | 48,485,033 | 294,080,043 | 334,554,635 |
| Support services | | | | |
| Management and general | 255,149,965 | - | 255,149,965 | 264,987,582 |
| Fundraising | 6,633,502 | - | 6,633,502 | 6,671,583 |
| Total support services | 7,200,930 | - | 7,200,930 | 6,868,457 |
| Total functional expenses | <u>13,834,432</u> | <u>-</u> | <u>13,834,432</u> | <u>13,540,040</u> |
| Change in net assets (Note 2) | 268,984,397 | - | 268,984,397 | 278,527,622 |
| Net assets, beginning of year | (23,389,387) | 48,485,033 | 25,095,646 | 56,027,013 |
| Net assets, end of year | <u>177,372,136</u> | <u>4,085,923</u> | <u>181,458,059</u> | <u>125,431,046</u> |
| | <u>\$153,982,749</u> | <u>\$ 52,570,956</u> | <u>\$206,553,705</u> | <u>\$181,458,059</u> |

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

Second Harvest of Silicon Valley
Statement of Functional Expenses
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

| | Program Services | Support Services | | | 2022 Total | 2021 Total |
|--|-----------------------|---------------------------|---------------------|---------------------------|-----------------------|-----------------------|
| | | Management and General | Fundraising | Total Support Services | | |
| Personnel expenses | | | | | | |
| Salaries and wages | \$ 19,132,585 | \$ 3,433,107 | \$ 3,337,995 | \$ 6,771,102 | \$ 25,903,687 | \$ 21,876,385 |
| Employee benefits | 3,406,275 | 646,760 | 599,569 | 1,246,329 | 4,652,604 | 4,866,432 |
| Payroll taxes | 1,355,658 | 253,452 | 242,572 | 496,024 | 1,851,682 | 1,599,105 |
| Worker's compensation insurance | 214,423 | 40,979 | 37,476 | 78,455 | 292,878 | 246,066 |
| Total personnel expenses | 24,108,941 | 4,374,298 | 4,217,612 | 8,591,910 | 32,700,851 | 28,587,988 |
| Donated food and supplies distributed | 168,813,218 | - | - | - | 168,813,218 | 188,397,123 |
| Purchased food and supplies distributed | 37,460,175 | - | - | - | 37,460,175 | 31,631,989 |
| Occupancy, including in-kind | 4,104,465 | 225,144 | 205,546 | 430,690 | 4,535,155 | 5,310,920 |
| Supplies, including in-kind | 4,231,346 | 43,721 | 29,204 | 72,925 | 4,304,271 | 4,335,064 |
| Outside services | 4,026,534 | 17,655 | 89,628 | 107,283 | 4,133,817 | 5,226,860 |
| Depreciation | 2,730,933 | 324,806 | 293,875 | 618,681 | 3,349,614 | 2,608,647 |
| Freight and storage, including in-kind | 3,214,198 | - | - | - | 3,214,198 | 1,983,657 |
| Professional services | 1,223,304 | 563,962 | 414,824 | 978,786 | 2,202,090 | 1,517,359 |
| Equipment for agency infrastructure | 1,946,531 | - | - | - | 1,946,531 | 2,354,942 |
| Vehicle operating costs | 1,226,330 | - | - | - | 1,226,330 | 940,260 |
| Equipment rental and maintenance | 711,176 | 94,063 | 85,770 | 179,833 | 891,009 | 1,119,129 |
| Advertising and media, including in-kind | 286,591 | - | 584,641 | 584,641 | 871,232 | 720,362 |
| Bank and payroll charges | - | 712,035 | - | 712,035 | 712,035 | 877,367 |
| Direct mailing costs | - | - | 659,061 | 659,061 | 659,061 | 677,231 |
| Postage and printing | 131,777 | 178 | 496,567 | 496,745 | 628,522 | 694,721 |
| Telephone | 307,836 | 58,908 | 53,727 | 112,635 | 420,471 | 461,900 |
| Insurance | 213,156 | 22,813 | 20,641 | 43,454 | 256,610 | 256,924 |
| Recruitment expenses | 37,686 | 137,573 | 12,229 | 149,802 | 187,488 | 138,346 |
| Dues and subscriptions | 113,119 | 20,230 | 21,159 | 41,389 | 154,508 | 148,945 |
| Interest | 108,510 | - | - | - | 108,510 | - |
| Volunteer expenses | 69,066 | - | - | - | 69,066 | 59,654 |
| Conferences, conventions, and meetings | 24,607 | 21,372 | 12,828 | 34,200 | 58,807 | 21,842 |
| Travel | 51,083 | 3,114 | 3,618 | 6,732 | 57,815 | 33,081 |
| Taxes and licenses | - | 13,550 | - | 13,550 | 13,550 | 10,313 |
| Affiliation fees | 9,383 | - | - | - | 9,383 | 13,344 |
| Bad debt expense | - | 80 | - | 80 | 80 | 399,654 |
| | <u>\$ 255,149,965</u> | <u>\$ 6,633,502</u> | <u>\$ 7,200,930</u> | <u>\$ 13,834,432</u> | <u>\$ 268,984,397</u> | <u>\$ 278,527,622</u> |
| Percentage of total | <u>94.8 %</u> | <u>2.5 %</u> | <u>2.7 %</u> | <u>5.2 %</u> | <u>100.0 %</u> | |

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

Second Harvest of Silicon Valley
Statement of Cash Flows
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 25,095,646 | \$ 56,027,013 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | 3,349,614 | 2,608,647 |
| Capital Campaign contributions, net | (39,408,895) | - |
| Loss on sale and disposal of equipment | (102,341) | (39,955) |
| In-kind contributions of food and non-food supplies (including government and non-government) | (167,872,232) | (190,841,534) |
| Distribution of food and non-food supplies received in-kind | 168,813,218 | 188,397,123 |
| Net realized and unrealized (gains) losses on investments | 16,082,913 | (13,524,754) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (92,028) | 50,456 |
| Grants receivable | (344,289) | 655,320 |
| Pledges receivable | (8,314,455) | 2,512,028 |
| Purchased inventory (food) | (825,998) | 1,210,713 |
| Prepaid expenses and other assets | (348,991) | 505,854 |
| Deposits | 2,000,000 | (2,000,000) |
| Accounts payable | 857,868 | 2,151,021 |
| Accrued expenses | 1,099,033 | 723,949 |
| Deferred revenue | (173,791) | 175,716 |
| Refundable advance - PPP | - | (2,500,000) |
| Net cash provided by (used in) operating activities | <u>(184,728)</u> | <u>46,111,597</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 40,061,155 | 11,655,560 |
| Purchases of investments | (28,437,426) | (93,637,906) |
| Proceeds from sales of equipment | 289,072 | 65,484 |
| Purchase of land, buildings, and equipment | (43,831,436) | (7,910,781) |
| Net cash used in investing activities | <u>(31,918,635)</u> | <u>(89,827,643)</u> |
| Cash flows from financing activities | | |
| Proceeds from Liquidity Access Line | 36,132,760 | - |
| Proceeds received from Capital Campaign | <u>15,683,305</u> | <u>-</u> |
| Net cash provided by financing activities | <u>51,816,065</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | 19,712,702 | (43,716,046) |
| Cash and cash equivalents, beginning of year | <u>10,680,476</u> | <u>54,396,522</u> |
| Cash and cash equivalents, end of year | <u>\$ 30,393,178</u> | <u>\$ 10,680,476</u> |

Supplemental disclosure of cash flow information

| | | |
|------------------------------------|-----------|------|
| Cash paid during the year interest | \$ 51,304 | \$ - |
|------------------------------------|-----------|------|

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

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

1. ORGANIZATION

Second Harvest of Silicon Valley (also known as "Second Harvest"), a nonprofit 501(c)(3) organization established in 1974 and incorporated in 1979, has the mission of leading our community to ensure that everyone who needs a healthy meal can get one. As an organization, Second Harvest faced one of its greatest challenges of living up to the mission during the COVID-19 pandemic. The economic crises created by the pandemic pushed many families deeper into poverty and caused many others to seek food assistance for the very first time. Within just a few months of the onset of the pandemic, the number of clients Second Harvest served grew from 250,000 to over 500,000 on average per month. While vaccines are widely available and businesses have reopened, the economic environment has only worsened due to inflation. Record-high food and gas prices, a housing shortage and the financial devastation caused by the pandemic have prompted another surge in the need for food assistance. Second Harvest does not believe the level of clients requiring its services will decrease to pre-pandemic levels. Second Harvest is continuing to serve 450,000 people on average every month, and the client numbers are trending up as the challenging economic conditions continue. Second Harvest anticipates this level of food insecurity will continue.

During the pandemic Second Harvest transitioned from walk-up to drive-thru distributions providing pre-boxed food to ensure the safety of its clients, volunteers and staff. Drive-thru grocery distributions offer clients a pre-selected mix of foods, while Second Harvest's walk-up farmers' market-style distributions allow clients to choose only the foods they want. As Second Harvest moves forward, it has focused its efforts on continuing to safely provide enough food to meet the higher demand, while transitioning some sites back to farmers' market style distributions. Second Harvest's mix of distributions using both the choice and drive-thru models has allowed it to better meet its clients' needs. In addition, Second Harvest continues to deliver pre-boxed groceries to an average of 4,900 households with homebound seniors and high-risk individuals.

During fiscal year 2022, Second Harvest distributed 130 million pounds of food – nearly 11 million pounds per month, versus 144 million pounds delivered in fiscal year 2021. While the total pounds decreased year over year, the amount of food delivered in fiscal year 2022 exceeded pre-pandemic levels by 90%, up from 69 million pounds in 2019. Meeting the increased need for food assistance in our community has continued to be a challenge as Second Harvest is currently operating out of four locations, one of which was specifically leased to support its increased distribution needs during the pandemic. While the leased facility continues to be a critical component of Second Harvest's overall operations, Second Harvest has realized that operating out of four sites is not sustainable. As a result, during fiscal year 2022, Second Harvest of Silicon Valley acquired 10.4 acres of land in north San Jose with the intention of building a new operations warehouse that will allow it to consolidate its existing four operating warehouses into one location (see Note 8). Second Harvest believes the new facility is critical for it to improve and expand on its ability to deliver a nutritious mix of foods to the community.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

1. ORGANIZATION (continued)

In addition to distributing food, Second Harvest acts as an advocate helping school districts and community groups navigate existing state and federal meal programs and leveraging available public funds to make more food accessible to children. One in three kids in Santa Clara county is at risk of food insecurity and the issue is compounded by inflation which has increased food prices and impacted family budgets. Second Harvest stepped up its efforts to ensure that every child has access to healthy food – during the school year and all summer long. Second Harvest proudly participated with its partners to successfully support a state bill that resulted in California being the first state in the country to pass a Universal Meals Program, meaning every student can receive free school meals, reducing the stigma often associated with participating in meal programs. California is investing \$650 million annually to provide universally free breakfast and lunch to all students, affecting more than 247,000 students in Santa Clara and San Mateo counties. Second Harvest will continue to advocate on the federal level for all children in the U.S. to receive free school meals.

Volunteers and donors continue to be key to Second Harvest's ability to meet the need for food in our community. During fiscal year 2022, more than 58,000 donors provided over 140,000 gifts totaling \$127.4 million. As previously described, Second Harvest believes the increased need for its services will last for many years to come. The surplus generated in prior years will be used to cover its planned deficit of \$15 million in fiscal year 2023 and support the increased needs next year and future years as available. In addition to the continued strong donor support, Second Harvest was able to leverage 413,000 volunteer hours (including San Jose Conservation Corps support), the equivalent of 198 full-time employees.

While it may seem that the worst of the pandemic is over, its impact will be felt for years as the economic challenges it created continue to increase food insecurity in our community. Record high inflation is making it even more difficult for families to recover. It is because of this challenging landscape that Second Harvest of Silicon Valley remains focused on meeting the needs of our community. Second Harvest does not anticipate a reduction in need anytime soon – the people who are most vulnerable have been hit hardest and will take the longest to recover. Second Harvest is committed to serving our community for as long as it takes to ensure that everyone has enough healthy food to thrive.

2. CHANGE IN NET ASSETS

The significant positive change in net assets for the year ended June 30, 2022 of approximately \$25 million was largely due to the increase in multi-year contributions of \$8.5 million and capital campaign funds of \$39 million, which cancelled out the organizational deficit of \$23 million (of which 57% was the result of unrealized losses on investments). The capital campaign funds raised will be used for the land acquisition and the building construction to support Second Harvest's increased operating activities to provide more food to the community (see Note 8).

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of Second Harvest of Silicon Valley have been prepared on the accrual basis of accounting.

Financial statement presentation

In accordance with accounting principles generally accepted in the United States of America ("GAAP"), Second Harvest reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of Second Harvest. Under this category, Second Harvest maintains an operating fund, any net assets designated by the Board for specific purposes, and the land, buildings, and equipment fund.
- *Net assets with donor restrictions* - include contributions received from donors that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

Change in accounting principle

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The update requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including fixed assets, supplies, services, and other items. The update includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. Second Harvest adopted ASU 2020-07 with a date of the initial application of July 1, 2021, using the full retrospective method.

The adoption of ASU 2020-07 did not have a significant impact on the Second Harvest's financial position, result of operations, or cash flows. Second Harvest has updated disclosures as necessary.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the period. Accordingly, actual results could differ from those estimates.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Second Harvest's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

Cash and cash equivalents

Cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. Second Harvest maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Second Harvest has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts, grants, and pledges receivable

Second Harvest considers all accounts, grants, and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

Inventory

Inventory consists of donated food and non-food items, purchased food, and United States Department of Agriculture (USDA) commodities received from the government. Donated non-government products were valued at \$1.92 and \$1.79 per pound for the years ended June 30, 2022 and 2021, respectively. Donated government food was valued at \$1.53 and \$1.70 per pound for the years ended June 30, 2022 and 2021, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food approximates actual cost and is valued utilizing first in, first out (FIFO) method.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Fair value measurements

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of Second Harvest. Unobservable inputs reflect Second Harvest's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect Second Harvest's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Land, buildings, and equipment

Land, buildings, and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Equipment purchases over \$5,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is charged to the activity benefiting from the use of the facilities or equipment. Amounts expended for maintenance and repairs are charged to operations as incurred.

Accrued flexible time off (FTO)

Accrued FTO represents vacation and sick time earned, but not taken as of June 30, 2022 and 2021. The maximum FTO that can be accrued and carried over to the next year is 300 hours for employees hired prior to March 10, 2008 and 240 hours for employees hired after March 10, 2008. The accrued FTO balance as of June 30, 2022 and 2021 was \$1,612,134 and \$1,361,768, respectively, and is included in accrued expenses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions that are considered conditional promises to give which contain barriers and a right of return or right of release are not recognized until the conditions on which they depend are met, at which time, the gifts are recognized as contributions with or without donor restrictions. Contributions are recorded as with or without donor restrictions depending on the nature of donor restrictions. Restricted contributions are reported as increases in net assets without donor restrictions if the restrictions have been met in the current fiscal period. If the restriction has not been met by fiscal year end, the amount is reported as an increase in net assets with donor restrictions. When the restriction is finally met on a contribution received in a prior fiscal period, the amount is shown as a reclassification from net assets with donor restrictions to net assets without donor restrictions.

Second Harvest receives a significant amount of government in-kind food assistance and government cash assistance through reimbursement by local, state and federally funded programs. The support generated from these programs is recorded as government assistance in the statement of activities. These government assistance categories meet the criteria to be classified as conditional contributions under GAAP revenue recognition for nonprofit organizations as they contain barriers related to the incurrence of qualifying expenditures and a right of return or release. Second Harvest has elected the simultaneous release option to account for these grants. Therefore, they are recorded as government assistance without donor restrictions upon satisfaction of the barriers. In the event amounts are received and barriers have not been met, Second Harvest records such amounts as refundable advances until the barriers have been met.

Contributions in-kind

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which Second Harvest would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. Second Harvest also receives donated services that do not require specific expertise but which are nonetheless central to Second Harvest's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 17.

Functional expense allocation

Management estimates Second Harvest's indirect salary expense allocation based on individual employees estimated time spent by function or actual time studies. Management's estimate of other indirect costs are based on salary expense, poundage, or actual food distribution by counties.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

Second Harvest of Silicon Valley is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by Second Harvest in its federal and state exempt organization tax returns are more-likely-than-not to be sustained upon examination.

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2022 and 2021 totaled \$871,232 and \$720,362, respectively. Of these costs, \$274,993 and \$231,468 were from in-kind contributions for the years ended June 30, 2022 and 2021, respectively.

Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events

Management of Second Harvest has evaluated events and transactions subsequent to June 30, 2022 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, January 31, 2023. Refer to Note 22 for additional information.

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4. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|---------------------|
| Pledges receivable in less than one year | \$ 10,803,536 | \$ 1,240,050 |
| Pledges receivable in one to five years | <u>27,040,528</u> | <u>910,000</u> |
| | 37,844,064 | 2,150,050 |
| Less discounts to net present value | <u>(3,720,227)</u> | <u>(66,258)</u> |
| | <u>\$ 34,123,837</u> | <u>\$ 2,083,792</u> |

5. INVENTORY

Inventory consists of donated food and non-food items, purchased food and United States Department of Agriculture (USDA) commodities received from the government. Donated non-government products were valued at \$1.92 and \$1.79 per pound for the years ended June 30, 2022 and 2021, respectively. Donated government food was valued at \$1.53 and \$1.70 per pound for the years ended June 30, 2022 and 2021, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food approximates actual cost and is valued utilizing first in, first out (FIFO) method. All donated food, non-food items, and USDA commodities inventory are classified as Level 2 assets and all purchased food inventory is classified as a Level 1 asset (see Note 3).

Inventory consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Donated non-government food and non-food supplies | \$ 4,178,791 | \$ 4,788,133 |
| Purchased food | 2,302,433 | 1,375,727 |
| USDA food commodities | 292,154 | 626,185 |
| Mixed box | 122,763 | 230,999 |
| Purchased non-food supplies | 109,992 | 102,464 |
| FEMA food commodities | <u>2,387</u> | <u>-</u> |
| | <u>\$ 7,008,520</u> | <u>\$ 7,123,508</u> |

Second Harvest of Silicon Valley
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6. INVESTMENTS

Investments consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| Investments | \$ 89,407,769 | \$ 115,529,022 |
| Investments - board designated endowment (Notes 14 and 15) | <u>17,065,005</u> | <u>18,650,394</u> |
| | <u>\$ 106,472,774</u> | <u>\$ 134,179,416</u> |

Net investment income (loss) consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|--|------------------------|----------------------|
| Interest and dividends | \$ 3,407,239 | \$ 1,605,557 |
| Net realized and unrealized gains (losses) | <u>(16,082,913)</u> | <u>13,524,754</u> |
| | (12,675,674) | 15,130,311 |
| Investment fees | <u>(851,676)</u> | <u>(471,389)</u> |
| | <u>\$ (13,527,350)</u> | <u>\$ 14,658,922</u> |

7. FAIR VALUE MEASUREMENTS

Second Harvest's investment policy is to maintain a moderately conservative but balanced portfolio, with the primary investment objectives being the preservation of purchasing power and the preservation of capital. Second Harvest's investment portfolio is structured and maintained with the overall objective of providing the resources and liquidity for Second Harvest to fulfill its mission statement.

The following table sets forth by level, within the fair value hierarchy, Second Harvest's assets at fair value as of June 30, 2022:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> |
|-------------------------------|----------------------|----------------------|----------------|----------------------|
| Equity investments | \$ 56,039,935 | \$ - | \$ - | \$ 56,039,935 |
| Corporate bonds and notes | - | 44,656,278 | - | 44,656,278 |
| Real estate investment trusts | - | 2,942,939 | - | 2,942,939 |
| Money market investments | <u>2,833,622</u> | <u>-</u> | <u>-</u> | <u>2,833,622</u> |
| | <u>\$ 58,873,557</u> | <u>\$ 47,599,217</u> | <u>\$ -</u> | <u>\$106,472,774</u> |

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7. FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, Second Harvest's assets at fair value as of June 30, 2021:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u> |
|-------------------------------|----------------------|----------------------|----------------|-----------------------|
| Equity investments | \$ 70,508,952 | \$ - | \$ - | \$ 70,508,952 |
| Corporate bonds and notes | - | 50,885,416 | - | 50,885,416 |
| Real estate investment trusts | - | 6,105,861 | - | 6,105,861 |
| Money market investments | <u>6,679,187</u> | <u>-</u> | <u>-</u> | <u>6,679,187</u> |
| | <u>\$ 77,188,139</u> | <u>\$ 56,991,277</u> | <u>\$ -</u> | <u>\$ 134,179,416</u> |

8. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|----------------------------------|----------------------|----------------------|
| Land - Alviso | \$ 38,702,824 | \$ - |
| Buildings and improvements | 29,167,950 | 28,793,717 |
| Equipment | 20,443,463 | 19,374,955 |
| Land | 3,865,858 | 3,865,858 |
| Construction-in-progress | 1,638,102 | 470,894 |
| Construction-in-process - Alviso | <u>1,060,518</u> | <u>-</u> |
| | 94,878,715 | 52,505,424 |
| Accumulated depreciation | <u>(23,242,450)</u> | <u>(21,164,250)</u> |
| | <u>\$ 71,636,265</u> | <u>\$ 31,341,174</u> |

Depreciation expense for the years ended June 30, 2022 and 2021 totaled \$3,349,614 and \$2,608,647, respectively.

In April 2022, Second Harvest purchased land in the Alviso neighborhood of North San Jose, California, for a total price (including closing costs) of approximately \$38,700,000 for the purpose of creating a new warehouse site to unify its operations in Santa Clara County. During fiscal year 2022, Second Harvest incurred costs related to the land use entitlement. The purchase of this property is a major step for Second Harvest to improve and expand on its ability to deliver a nutritious mix of food to its clients and ensure food security for the community for the long term. While the new site will support both counties, Second Harvest will continue to maintain a location in San Mateo County to continue meeting the needs of the peninsula community. To facilitate the purchase of the land and the construction of the new warehouse, Second Harvest has entered into a liquidity access line of credit (see Note 11), as well as funds raised from donors through its Capital Campaign. Also, see subsequent events Note 22.

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9. PAYCHECK PROTECTION PROGRAM

Second Harvest was granted a loan under a promissory note issued by Self-Help Federal Credit Union, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and is administered by the U.S. Small Business Administration ("SBA"). On May 7, 2020, Second Harvest received funding for \$2,500,000. The loan had a five-year term at an interest rate of 1%. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loan granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations.

On June 14, 2021, Second Harvest received forgiveness for the PPP loan with full amount of \$2,500,000 from the SBA, resulting in recognition of the entire amount as government grant revenue during the year ended June 30, 2021 in the accompanying financial statements.

10. LINE OF CREDIT

Second Harvest established a revolving line of credit with Wells Fargo Bank to meet short-term working capital borrowing needs. Borrowings under the line of credit for the years ended June 30, 2022 and 2021 were limited to a maximum of \$4,000,000. Interest on outstanding funds is payable monthly at the bank's prime rate, which was 4.75% as of June 30, 2022. The maturity date is September 10, 2022. The line of credit is secured by certain assets owned by Second Harvest. There was no balance outstanding or related interest expense on this line of credit for either of the years ended June 30, 2022 and 2021.

11. LIQUIDITY ACCESS LINE

In April 2022, Second Harvest entered into a Liquidity Access Line agreement (the "LAL") with Morgan Stanley. The LAL is a form of line of credit, and is collateralized by certain Second Harvest investment accounts. Borrowings under the LAL are limited to a maximum of \$60,000,000. There is no specified maturity date for the LAL, the LAL is callable by Morgan Stanley at any time.

Second Harvest used the proceeds from the LAL to purchase a land parcel located in the Alviso neighborhood of North San Jose, California (see Note 8). As of June 30, 2022, total borrowings under the LAL were \$36,132,760. The LAL carries a variable interest rate, and the effective rate as of June 30, 2022 was 2.14%. As of June 30, 2022, accrued interest on the LAL was \$57,206, and is included in the accompanying financial statements as a component of accrued expenses. Second Harvest plans to use proceeds generated by the Capital Campaign to pay down the LAL. Subsequent to June 30, 2022, Second Harvest repaid \$15,683,305 of its outstanding debt using Capital Campaign funds received to date (see Note 22).

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12. COMMITMENTS AND CONTINGENCIES

Operating leases

Second Harvest leases from the County of Santa Clara the land on which the San Jose distribution center is located. The lease term is 50 years, commencing July 30, 1991, at the rate of \$1 per year, with three 10-year renewal options. In the event the premises cease to be used as a nonprofit food collection and distribution facility, the County of Santa Clara has the right to terminate the lease. Due to this condition of the lease, in-kind land is not recorded as an asset on the statement financial position. Management has determined that recognition of an in-kind contribution for this amount on an annual basis is overall not material to the financial statements.

Second Harvest entered into a temporary lease agreement for an additional 43,685 square feet of warehouse space on March 31, 2020. The lease term was six months through September 30, 2020 at a rate of \$0 per month. Second Harvest has recognized in-kind contributions totaling \$100,476 based on the estimated fair value of the rent for the year ended June 30, 2021. On July 21, 2020, Second Harvest signed a new lease agreement for 91,202 square feet of warehouse space. The term of the lease was from September 30, 2020 to June 30, 2021. On June 7, 2021, the lease was extended through August 31, 2024. The warehouse space will allow Second Harvest to expand its food handling and distribution to meet the increased food need in our community.

The scheduled minimum lease payments under the lease terms are as follows:

Year ending June 30,

| | | |
|------|--|----------------------------|
| 2023 | | \$ 1,262,666 |
| 2024 | | 1,297,018 |
| 2025 | | <u>217,114</u> |
| | | <u><u>\$ 2,776,798</u></u> |

Contingencies

Grants and contracts awarded to Second Harvest of Silicon Valley are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations, and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, Second Harvest could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered through the year ended June 30, 2022.

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13. RETIREMENT PLAN

Second Harvest maintains a tax deferred 403(b) retirement plan (the "Plan") to provide retirement benefits for all eligible employees. The Plan provides for Second Harvest contributions of 5% of eligible employee compensation. Vesting is based on years of service, with 100% vesting of employer matching contributions upon eligibility. Second Harvest contributions for the years ended June 30, 2022 and 2021 totaled \$975,382 and \$811,558, respectively. All of the Plan's administration costs were paid for by the Plan.

14. BOARD DESIGNATED NET ASSETS

As part of Second Harvest's annual review of designated assets, the Board adopted specific guidelines for establishing the level of each designation. Operating reserves include approximately three to six months of the coming year's annual budget. Pandemic recovery fund reserve provides additional funding for food when uncertain times and potential scarcity could unexpectedly develop into a sudden, unplanned community need which requires spending for additional food. In addition, the designated funds shall be used to support the longer-term recovery of the community as a result of sudden unplanned community need. The Board may also designate funds to support investment in the infrastructure of its partners to strengthen the distribution channel. The designated capital replacement fund is calculated as the present-value of a ten-year asset replacement plan including additional funds for upgrades of existing assets. Inventory reserved is the on-hand fair market value as of June 30, 2022 and 2021.

Board designated net assets consisted of the following:

| | 2022 | 2021 |
|---|----------------|----------------|
| Board designated for operating reserves | \$ 43,389,883 | \$ 50,365,806 |
| Board designated pandemic recovery fund reserve | 29,222,303 | 44,451,713 |
| Board designated endowment fund (investment) | 17,065,005 | 18,650,394 |
| Board designated facility expansion reserve | 15,000,000 | 15,000,000 |
| Board designated for capital replacement | 6,350,741 | 9,939,541 |
| Inventory | 7,008,520 | 7,123,508 |
| | \$ 118,036,452 | \$ 145,530,962 |

15. BOARD DESIGNATED ENDOWMENT FUND

Second Harvest of Silicon Valley's Board Designated Endowment consists of unrestricted net assets which the Board of Directors has chosen to hold as a general endowment fund (the "Fund") to support the mission of Second Harvest.

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15. BOARD DESIGNATED ENDOWMENT FUND (continued)

Return objectives and risk parameters

The Board Designated Endowment (the "Fund") was created to ensure a reasonable, predictable, and sustainable source of funds. Second Harvest will designate 90% of each unrestricted donor bequest to the endowment. The Fund will be used to produce a growing level of income in order to support future activities, programs and the capital needs of Second Harvest. Second Harvest's objective is to provide a predictable stream of funding while seeking to maintain the purchasing power of the Fund's assets and preserve capital. The primary goal is to seek a total return (net of fees and expenses) that equals at least 500 basis points over the inflation rate, as measured by the Consumer Price Index on an annualized basis. These objectives and goals are expected to be achieved over 6 to 10 years.

Strategies employed for achieving objectives

The Board has determined that the assets of the Fund will be professionally managed in a moderately conservative manner. Management of the Fund's portfolio should focus on satisfying these objectives through the optimal allocation of stocks and fixed income securities. Fixed income securities should be used to satisfy current income requirements and control total portfolio volatility. Common stocks should generate income and capital growth to preserve and enhance the purchasing power of the portfolio. The nature of the assets involved and the long-term objectives of the Fund suggest utilizing a "total return approach" to investment management.

The Equity portion of the Fund will consist of publicly traded common and preferred stocks and convertible debt. It is expected that 40% to 70% of the Fund will be invested in equity and/or equity mutual funds. Of that, 20% to 35% will be invested in international equity and/or international equity mutual funds (foreign securities traded in the United States). It is expected that 30% to 60% of the Fund will be invested in fixed income securities. It is expected that no more than 5% of the Fund will be invested in alternative investments with no more than 3% in real estate and 2% in commodities.

Spending policy and how investment objectives relate to spending policy

The endowment spending policy aims to ensure a prudent trade-off between current program needs and long-term purchasing power. Therefore, the spending range of 4% to 5.75%, with a desired optimal target of 5%, is considered prudent.

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15. BOARD DESIGNATED ENDOWMENT FUND (continued)

Spending policy and how investment objectives relate to spending policy (continued)

The amount of funds allocated for expenditure ("Spending Allocation") will be calculated in April of each year and based on the rolling prior 12-quarter average. If less than 12 quarters are available, then the available quarters will be used. The Spending Allocation will be transferred to the operations account between July and October in the fiscal year following the calculation. Second Harvest may choose to defer the transfer to a future period and will maintain record of the accumulated distributable amount. During the years ended June 30, 2022 and 2021, there were no spending allocations made. \$2,905,252 of the accumulated spending allocation amount (since the endowment policy's established date of November 18, 2018) is available for use without the Board's additional approval.

Endowment composition

Changes in board designated endowment net assets are as follows:

| | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| Balance, beginning of year | \$ 18,650,394 | \$ 13,723,187 |
| Transfers to board designated endowment fund | 755,100 | 1,297,035 |
| Investment income (loss) | (2,193,537) | 3,856,994 |
| Investment fees | <u>(146,952)</u> | <u>(226,822)</u> |
| Balance, end of year | <u>\$ 17,065,005</u> | <u>\$ 18,650,394</u> |

16. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|----------------------|----------------------|---------------------|
| Capital Campaign | \$ 39,408,895 | \$ - |
| Time restrictions | 11,727,517 | 3,267,492 |
| Purpose restrictions | <u>1,434,544</u> | <u>818,431</u> |
| | <u>\$ 52,570,956</u> | <u>\$ 4,085,923</u> |

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16. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year ended June 30, 2022 were as follows:

| | |
|----------------------|---------------------|
| Time restrictions | \$ 2,145,707 |
| Purpose restrictions | <u>624,141</u> |
| | <u>\$ 2,769,848</u> |

17. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, gift certificates, property and equipment, advertising, supplies, expert services, freight, and warehouse space received are recorded as contributions. Donated non-government products were valued at \$1.92 and \$1.79 per pound for the years ended June 30, 2022 and 2021, respectively. Donated government food was valued at \$1.53 and \$1.70 per pound for the years ended June 30, 2022 and 2021, respectively. This valuation is based on a cost study conducted for Feeding America. The value of donated freight costs is estimated based on the actual cost for freight that Second Harvest pays for comparable freight services. The value of donated warehouse space is estimated based on the cost per square foot price Second Harvest pays for comparable warehouse space. The value of donated supplies and minor equipment is based on online research of current prices for comparable supplies and minor equipment, and on the actual prices paid for recent purchases of similar supplies and minor equipment. Donated vehicles and equipment are valued based on online research of prices for similar vehicles. Donated gift certificates are valued based on the face value of the gift certificates received.

In-kind contributions received during the year were as follows:

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|
| Contributions in-kind - non government | | |
| Food and non-food inventory | \$ 155,210,998 | \$ 125,064,262 |
| Advertising and media | 274,993 | 231,468 |
| Freight | 170,480 | 210,417 |
| Utilities | 125,604 | - |
| Supplies and minor equipment | 50,399 | 282,918 |
| Vehicles and equipment | 46,625 | 30,053 |
| Gift certificates | 17,831 | 16,354 |
| Warehouse space | <u>-</u> | <u>100,476</u> |
| | 155,896,930 | 125,935,948 |
| Government assistance - in-kind | | |
| Food - government | <u>13,009,217</u> | <u>66,168,227</u> |
| | <u>\$ 168,906,147</u> | <u>\$ 192,104,175</u> |

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17. CONTRIBUTIONS IN-KIND (continued)

Second Harvest also receives donated services that do not require specific expertise but which are nonetheless central to Second Harvest's operations. For the years ended June 30, 2022 and 2021, the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$10,276,491 and \$9,846,377, respectively. The value of these services are not reflected in the financial statements.

18. PAYMENTS TO AFFILIATES

In accordance with the affiliation agreement between Feeding America and Second Harvest, Second Harvest pays fees based on total poundage of food received from Feeding America. Affiliation payments for the years ended June 30, 2022 and 2021 were \$9,383 and \$13,344, respectively.

19. CONFLICT OF INTEREST POLICY

Included among Second Harvest's Board of Directors and Officers are volunteers from the community who provide valuable assistance to Second Harvest in the development of policies and programs and in the evaluation of business transactions. Second Harvest has adopted a conflict of interest policy whereby board members are disqualified from participation in the final decisions regarding any action affecting their related company or organization.

20. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of Second Harvest's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Long-term investments include endowment funds consisting of board designated endowments. As described in Note 15, the endowment has a spending rate of between 4% and 5.75% (with a desired optimal target of 5%). Accordingly, \$2,905,252 of appropriations from the endowment could be available within the next 12 months. Also, the board designated endowment could be available in its entirety if needed.

Short-term contributions receivable consists of accounts, grants, and pledges receivable expected to be received within one year from June 30, 2022. Short-term accounts, grants, and pledges receivable without donor restrictions will be available to support general operations of Second Harvest.

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20. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes financial assets that are available within one year of June 30, 2022 to fund general expenditures and other obligations when they become due:

Available financial assets consisted of the following:

| | |
|--|--------------------|
| Cash and cash equivalents | \$ 30,393,178 |
| Accounts receivable | 157,059 |
| Grants receivable | 1,418,655 |
| Pledges receivable | 34,123,837 |
| Investments | 89,407,769 |
| Investments - board designated endowment | 17,065,005 |
| | <u>172,565,503</u> |

Less amounts unavailable for general expenditure within one year:

| | |
|--|---------------------|
| Investments - board designated endowment (less anticipated appropriations) | (14,159,753) |
| Net assets restricted for capital campaign | (39,408,895) |
| Net assets restricted to a passage of time | (6,681,897) |
| Net assets restricted for a specified purpose | (1,434,544) |
| Board designated for capital replacement | (6,350,741) |
| Board designated facility expansion reserve | (15,000,000) |
| | <u>(83,035,830)</u> |

| | |
|--|----------------------|
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 89,529,673</u> |
|--|----------------------|

21. RISKS AND UNCERTAINTIES

During the COVID-19 pandemic, Second Harvest's services have generally been considered essential in nature and have not been materially interrupted (see Notes 1 and 2). As the situation continues to evolve, Second Harvest is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how it impacts Second Harvest's food distribution, vendors, employees and ability to provide services. Second Harvest believes the ultimate impact of the COVID-19 pandemic on its program services and financial condition is likely to be determined by factors which are uncertain, unpredictable and outside of its control.

Also, see subsequent events Note 22.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

22. SUBSEQUENT EVENTS

In September 2022, Second Harvest received notice that it was a party-in-interest in a lawsuit filed against the City of San Jose by Organizacion Comunidad de Alviso led by a local resident. The lawsuit challenges the City's process and approval to allow Second Harvest to build its new warehouse as it relates to the entitlement filing under review. Management and legal counsel believe it is too early to assess the likelihood of success in the case since it was filed and served in September 2022. Second Harvest intends to vigorously defend its position and believes it will be successful. Second Harvest intends to continue to plan, design, and build its new facility and believes the financial risk associated with the lawsuit is low. In the event that Second Harvest is unsuccessful, Second Harvest can refile for entitlement with the city or pursue other options for completing the project.

In August 2022, the Second Harvest paid down approximately \$15.7 million of its Liquidity Access Line balance (see Note 11) using funds generated from its capital campaign.

SINGLE AUDIT REPORTS AND SCHEDULES

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*

Board of Directors
Second Harvest of Silicon Valley
San Jose, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest of Silicon Valley ("Second Harvest"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated January 31, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest's internal control over financial reporting (internal control) as a basis for designing 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 Second Harvest's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest'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 financial statements. 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 Second Harvest's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
San Jose, California

January 31, 2023



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

Board of Directors
Second Harvest of Silicon Valley
San Jose, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Second Harvest of Silicon Valley ("Second Harvest")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Second Harvest's major federal programs for the year ended June 30, 2022. Second Harvest's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Second Harvest 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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Second Harvest and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Second Harvest's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Second Harvest's federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Second Harvest’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Second Harvest’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Second Harvest’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Second Harvest’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Second Harvest’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

January 31, 2023

Second Harvest of Silicon Valley
Schedule of Expenditures of Federal and Other Governmental Awards
For the Year Ended June 30, 2022

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Total Expenditures |
|--|--------------------------------------|--|-----------------------|
| EXPENDITURES OF FEDERAL AWARDS | | | |
| <u>U.S. Department of Agriculture</u> | | | |
| Passed through: | | | |
| California Department of Social Services | | | |
| Food Distribution Cluster | | | |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | N/A | \$ 468,279 |
| Emergency Food Assistance Program (Administrative Costs - TEFAP Supplemental) | 10.568 | N/A | 230,965 |
| Emergency Food Assistance Program (Administrative Costs - CRRS) | 10.568 | N/A | 74,296 |
| Emergency Food Assistance Program (Administrative Costs - FFCRA COVID Tax Credit) | 10.568 | N/A | 25,836 |
| Emergency Food Assistance Program (Food Commodities) | 10.569 | N/A | <u>12,809,934</u> |
| Total Food Distribution Cluster | | | <u>13,609,310</u> |
| Passed through: | | | |
| California Department of Social Services | | | |
| Trade Mitigation Program Eligible Recipient Agency | | | |
| Operational Funds | 10.178 | N/A | <u>369,751</u> |
| Passed through: | | | |
| California Association of Food Banks | | | |
| Specialty Crop Block Grant Program - Farm Bill | 10.170 | N/A | <u>154,491</u> |
| Passed through: | | | |
| California Association of Food Banks | | | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | N/A | 183,181 |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (Pandemic Electronic Benefits Transfer) | 10.561 | N/A | <u>41,354</u> |
| Total State Administrative Matching Grants for Supplemental Nutrition Assistance Program | | | <u>224,535</u> |
| Total U.S. Department of Agriculture | | | <u>14,358,087</u> |
| <u>Federal Emergency Management Agency</u> | | | |
| Direct Program: | | | |
| Emergency Food and Shelter National Board Program | | | |
| Santa Clara County Phase 38 | 97.024 | N/A | 125,000 |
| San Mateo County (St. Vincent De Paul) | 97.024 | N/A | 24,788 |
| San Mateo County Phase 38 | 97.024 | N/A | 73,791 |
| San Mateo County Phase 38 | 97.024 | N/A | <u>135,912</u> |
| Total Federal Emergency Management Agency | | | <u>359,491</u> |

The accompanying notes to the Schedule of Expenditures of Federal and Other Governmental Awards are an integral part of this schedule.

Second Harvest of Silicon Valley
Schedule of Expenditures of Federal and Other Governmental Awards
For the Year Ended June 30, 2022

| Federal Grantor/Pass-Through Grantor/ Program or Cluster Title | Federal Assistance Listing Number | Pass-Through Entity Identifying Number | Total Expenditures |
|---|--------------------------------------|--|-----------------------------|
| <u>U.S. Department of Treasury</u> | | | |
| Coronavirus Relief Fund | | | |
| Passed through: | | | |
| Cal Foods Logistics (CRF) | 21.019 | N/A | 44,792 |
| Cal Foods Logistics (CRF Incentives) | 21.019 | N/A | 381,235 |
| San Mateo County | 21.019 | N/A | <u>387,774</u> |
| Total U.S. Department of Treasury | | | <u>813,801</u> |
| Total Expenditures of Federal Awards | | | <u>15,531,379</u> |
| <u>Other Governmental Awards</u> | | | |
| Santa Clara County - Department of Social Services | N/A | N/A | 839,840 |
| State Emergency Food Assistance Program (SEFAP) | N/A | N/A | 320,901 |
| State Emergency Food Assistance Program (Food Bank Capacity) | N/A | N/A | 95,723 |
| State Emergency Food Assistance Program (Climate and Capacity Grant Land) | N/A | N/A | 6,772,222 |
| Emergency Food Assistance Program (Tax Check Off) | N/A | N/A | 31,381 |
| Santa Clara County - Strengthening Summer Meals | N/A | N/A | 78,363 |
| San Mateo County - Summer Meals | N/A | N/A | 8,831 |
| Sequoia HCD - Pharm Pantry | N/A | N/A | 40,000 |
| Sequoia HCD - Food Assistance | N/A | N/A | 200,000 |
| San Mateo County - Measure K | N/A | N/A | 159,135 |
| San Mateo County - Food Assistance | N/A | N/A | 74,011 |
| San Mateo County - Peninsula Healthcare District | N/A | N/A | <u>50,000</u> |
| Total Other Governmental Awards | | | <u>8,670,407</u> |
| Total Expenditures of Federal and Other Government Awards | | | <u><u>\$ 24,201,786</u></u> |

The accompanying notes to the Schedule of Expenditures of Federal and Other Governmental Awards are an integral part of this schedule.

Second Harvest of Silicon Valley
Notes to Schedule of Expenditures of Federal and Other Governmental Awards
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and other governmental awards (the "Schedule") includes the federal and other governmental award activity of Second Harvest of Silicon Valley ("Second Harvest") under programs of the federal, state and local governments for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*). Because the Schedule presents only a selected portion of the operations of Second Harvest, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Second Harvest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This Schedule is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.

3. SUBRECIPIENTS

Of the federal expenditures presented in the Schedule, Second Harvest of Silicon Valley provided federal awards to Subrecipients as follows:

| Federal Assistance Listing Number | Program Name | Amount Provided to Subrecipients |
|--------------------------------------|---|-------------------------------------|
| 10.569 | Emergency Food Assistance Program (Food Commodities) | \$12,809,934 |

4. FOOD DISTRIBUTION

Nonmonetary assistance for commodities received are reported in the Schedule based on a cost study conducted for Feeding America. At June 30, 2022, Second Harvest had food commodities totaling \$292,154 in inventory.

5. INDIRECT COST RATE

Second Harvest of Silicon Valley has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Second Harvest of Silicon Valley
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | 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)? | No |

Identification of major programs:

| <u>Name of Federal Program or Cluster</u> | <u>Federal Assistance Listing Number</u> |
|---|--|
| Food Distribution Cluster | |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 |
| Emergency Food Assistance Program (Food Commodities) | 10.569 |
| Dollar threshold used to distinguish between Type A and Type B programs | \$750,000 |
| Auditee qualified as low-risk auditee? | Yes |

Second Harvest of Silicon Valley
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Second Harvest of Silicon Valley
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

There were no prior year findings.