

Second Harvest of Silicon Valley

Financial Statements
and Single Audit Reports and Schedules

June 30, 2019
(With Comparative Totals for 2018)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 25
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 <i>Government Auditing Standards</i>	27 - 28
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	29 - 30
Schedule of Expenditures of Federal and Other Governmental Awards	31
Notes to Schedule of Expenditures of Federal and Other Governmental Awards	32
Schedule of Findings and Questioned Costs	33 - 34
Summary Schedule of Prior Audit Findings	35



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Second Harvest of Silicon Valley (a California nonprofit corporation) (the "Second Harvest"), which comprise the statement of financial position as of June 30, 2019, 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 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 of America. 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 Second Harvest of Silicon Valley as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, Second Harvest has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.



An independent firm
associated with Moore
Global Network Limited

Other Matter

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 December 17, 2019, 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.

Report on Summarized Comparative Information

We have previously audited Second Harvest of Silicon Valley's 2018 financial statements, and our report dated December 6, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Jose, California

December 17, 2019

Second Harvest of Silicon Valley
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 11,832,519	\$ 1,511,350	\$ 13,343,869	\$ 12,467,511
Accounts receivable	43,890	-	43,890	143,928
Grants receivable	649,249	100,000	749,249	741,283
Pledges receivable, current portion	769,575	1,994,501	2,764,076	3,634,116
Inventory (Note 4)	3,346,931	-	3,346,931	3,439,622
Prepaid expenses and other assets	951,588	-	951,588	698,475
Total current assets	17,593,752	3,605,851	21,199,603	21,124,935
Non current assets				
Land, buildings, and equipment, net	28,145,190	-	28,145,190	27,624,947
Pledges receivable, net of current portion	-	2,810,242	2,810,242	2,657,751
Investments - other	24,286,923	-	24,286,923	22,661,681
Investments - board designated endowment	13,182,466	-	13,182,466	8,825,326
Total non current assets	65,614,579	2,810,242	68,424,821	61,769,705
Total assets	\$ 83,208,331	\$ 6,416,093	\$ 89,624,424	\$ 82,894,640
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 2,730,053	\$ -	\$ 2,730,053	\$ 2,181,939
Accrued expenses	1,489,355	-	1,489,355	1,321,507
Deferred revenue	4,500	-	4,500	-
Total current liabilities	4,223,908	-	4,223,908	3,503,446
Net assets				
Without donor restrictions				
Undesignated	500,000	-	500,000	500,000
Board designated (Note 11)	50,339,233	-	50,339,233	43,309,965
Land, buildings, and equipment fund	28,145,190	-	28,145,190	27,624,947
Total without donor restrictions	78,984,423	-	78,984,423	71,434,912
With donor restrictions				
Restricted for a specific purpose	-	1,948,395	1,948,395	1,280,742
Restricted to a passage of time	-	4,467,698	4,467,698	6,675,540
Total with donor restrictions (Note 13)	-	6,416,093	6,416,093	7,956,282
Total net assets	78,984,423	6,416,093	85,400,516	79,391,194
Total liabilities and net assets	\$ 83,208,331	\$ 6,416,093	\$ 89,624,424	\$ 82,894,640

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, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenue				
Support				
Contributions	\$ 42,188,234	\$ 3,452,288	\$ 45,640,522	\$ 39,955,219
Contributions - capital campaign	-	-	-	495,000
Contributions in-kind - non-government	76,337,067	-	76,337,067	76,607,886
United Way support	55,754	-	55,754	66,168
Total support	<u>118,581,055</u>	<u>3,452,288</u>	<u>122,033,343</u>	<u>117,124,273</u>
Revenue				
Government assistance - cash	2,453,642	76,500	2,530,142	2,436,009
Government assistance - in-kind (Note 14)	10,106,492	-	10,106,492	6,162,226
Net investment income (Note 5)	1,646,048	-	1,646,048	1,438,203
Other gains (losses), net	46,470	-	46,470	(588,108)
Total revenue	<u>14,252,652</u>	<u>76,500</u>	<u>14,329,152</u>	<u>9,448,330</u>
Total support and revenue	132,833,707	3,528,788	136,362,495	126,572,603
Net assets released from restriction (Note 13)	<u>5,068,977</u>	<u>(5,068,977)</u>	-	-
Total support, revenue, and net assets released from restriction	<u>137,902,684</u>	<u>(1,540,189)</u>	<u>136,362,495</u>	<u>126,572,603</u>
Functional expenses				
Program services	<u>123,211,187</u>	-	<u>123,211,187</u>	<u>117,060,884</u>
Support services				
Management and general	3,209,445	-	3,209,445	2,482,361
Fundraising	3,932,541	-	3,932,541	4,082,537
Total support services	<u>7,141,986</u>	-	<u>7,141,986</u>	<u>6,564,898</u>
Total functional expenses	<u>130,353,173</u>	-	<u>130,353,173</u>	<u>123,625,782</u>
Change in net assets	7,549,511	(1,540,189)	6,009,322	2,946,821
Net assets, beginning of year	<u>71,434,912</u>	<u>7,956,282</u>	<u>79,391,194</u>	<u>76,444,373</u>
Net assets, end of year	<u>\$ 78,984,423</u>	<u>\$ 6,416,093</u>	<u>\$ 85,400,516</u>	<u>\$ 79,391,194</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, 2019
(With Comparative Totals for 2018)

	Program Services	Support Services			2019 Total	2018 Total
		Management and General	Fundraising	Total Support Services		
Personnel expenses						
Salaries and wages	\$ 10,129,648	\$ 1,613,094	\$ 1,273,848	\$ 2,886,942	\$ 13,016,590	\$ 11,691,496
Employee benefits	2,027,468	322,864	254,963	577,827	2,605,295	2,362,912
Payroll taxes	747,934	119,105	94,056	213,161	961,095	849,239
Worker's compensation insurance	181,627	3,779	7,035	10,814	192,441	211,304
Total personnel expenses	13,086,677	2,058,842	1,629,902	3,688,744	16,775,421	15,114,951
Donated food and supplies distributed	86,234,798	-	-	-	86,234,798	82,189,710
Purchased food and supplies distributed	14,177,504	-	-	-	14,177,504	14,191,193
Depreciation	1,785,092	186,084	148,650	334,734	2,119,826	1,945,207
Occupancy	1,241,911	118,048	93,250	211,298	1,453,209	1,549,655
Outside services	1,220,499	21,862	79,837	101,699	1,322,198	1,243,022
Professional services	506,272	288,970	468,113	757,083	1,263,355	935,106
Freight and storage	1,211,822	-	-	-	1,211,822	1,165,514
Supplies, including in-kind	1,109,638	17,674	55,811	73,485	1,183,123	809,386
Direct mailing costs	-	-	727,092	727,092	727,092	739,218
Vehicle operating costs	632,596	-	-	-	632,596	639,249
Equipment rental and maintenance	497,837	60,991	47,316	108,307	606,144	456,626
Advertising and media, including in-kind	139,402	-	386,094	386,094	525,496	448,432
Equipment for agency infrastructure	500,656	-	-	-	500,656	398,952
Bank and payroll charges	-	310,159	-	310,159	310,159	269,905
Postage and printing	138,777	2,182	149,734	151,916	290,693	315,021
Insurance	196,060	41,003	4,866	45,869	241,929	229,016
Telephone	180,990	28,822	22,761	51,583	232,573	210,853
Conferences, conventions, and meetings	107,411	27,844	53,004	80,848	188,259	167,527
Dues and subscriptions	38,136	19,629	36,473	56,102	94,238	54,666
Building demolition - Curtner remodeling	75,921	-	-	-	75,921	320,042
Recruitment expenses	30,780	20,659	20,744	41,403	72,183	106,865
Travel	55,580	5,159	8,894	14,053	69,633	55,744
Volunteer expenses	24,064	385	-	385	24,449	34,778
Affiliation fees (Note 15)	18,764	-	-	-	18,764	18,396
Taxes and licenses	-	1,032	-	1,032	1,032	-
Bad debt expense	-	100	-	100	100	16,748
	<u>\$ 123,211,187</u>	<u>\$ 3,209,445</u>	<u>\$ 3,932,541</u>	<u>\$ 7,141,986</u>	<u>\$ 130,353,173</u>	<u>\$ 123,625,782</u>
Percentage of total	<u>94.5 %</u>	<u>2.5 %</u>	<u>3.0 %</u>	<u>5.5 %</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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 6,009,322	\$ 2,946,821
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,119,826	1,945,207
Loss on sale and disposal of equipment	16,636	665,890
Donated vehicles and equipment	(2,530)	(7,821)
Net present value amortization adjustment	8,761	8,540
Contributions restricted for long-term purposes	-	(495,000)
In-kind contributions of food and non-food supplies (including USDA)	(86,443,559)	(82,770,112)
Distribution of food and non-food supplies received in-kind	86,234,798	82,189,710
Net realized and unrealized gains on investments	(983,743)	(920,886)
Changes in operating assets and liabilities		
Accounts receivable	100,038	(121,850)
Grants receivable	(7,966)	2,422
Pledges receivable	708,788	629,950
Purchased inventory (food)	301,452	(56,957)
Prepaid expenses and other assets	(253,113)	357,414
Accounts payable	548,114	(288,500)
Accrued expenses	167,848	79,629
Deferred revenue	4,500	-
Net cash provided by operating activities	<u>8,529,172</u>	<u>4,164,457</u>
Cash flows from investing activities		
Purchase of land, buildings, and equipment	(2,688,345)	(6,060,504)
Proceeds from sales of equipment	34,170	177,704
Purchases of investments	(11,263,545)	(9,471,421)
Proceeds from sale of investments	6,264,906	6,129,937
Net cash used in investing activities	<u>(7,652,814)</u>	<u>(9,224,284)</u>
Cash flows from financing activities		
Contributions restricted for long-term purposes	-	495,000
Net cash provided by financing activities	<u>-</u>	<u>495,000</u>
Net increase (decrease) in cash and cash equivalents	876,358	(4,564,827)
Cash and cash equivalents, beginning of year	<u>12,467,511</u>	<u>17,032,338</u>
Cash and cash equivalents, end of year	<u>\$ 13,343,869</u>	<u>\$ 12,467,511</u>

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

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION

Hunger is at an All-Time High in Silicon Valley

Second Harvest of Silicon Valley (also known as "Second Harvest"), a nonprofit 501(c)(3) organization established in 1974 and incorporated in 1979, continued to make significant progress in its effort to connect more people to nutritious food during its 2018-19 fiscal year. Hunger is at an all-time high in Silicon Valley. The cost of housing has increased dramatically in recent years, making it difficult for people from all walks of life to get by. That's because wages have remained relatively flat for most people. In fact, 9 out of 10 workers in Silicon Valley make less than they did in 1997 when adjusted for inflation. People who contribute to the success of our community, including health care workers, teachers, store clerks, and food servers can no longer afford to live here. As local governments grapple with the lack of affordable housing, Second Harvest is helping to keep people healthy and housed by lessening the burden of having to choose between buying nutritious food and paying for housing.

Although Second Harvest of Silicon Valley currently serves 1 in 10 Santa Clara and San Mateo county residents, Second Harvest is still not reaching everyone who needs help. An estimated 700,000 people, or 1 in 4, in the two counties Second Harvest serves are at risk of hunger. Making sure kids, families, and seniors have access to healthy food is critical to a vibrant community and strong workforce. Nutritious food is the foundation for a healthy, productive life and provides the fuel kids and adults need to succeed at school and work. Second Harvest will continue to expand its operations and distribute more food, while finding new and innovative ways to reach more people. It's the most strategic way to end hunger in Silicon Valley.

Connecting More People to Food

This fiscal year, Second Harvest served more people than ever before – an average of 266,180 people a month. Seniors are the fastest growing segment. In the last three years, the number of older adults who receive food from Second Harvest every month increased by 14%. More and more seniors on fixed incomes are being priced out of their neighborhoods. Many have worked hard their entire lives, and now they are being forced to choose between food and medications, housing, and other basic necessities. The free nutritious food seniors get from Second Harvest helps them stay healthy and independent.

Second Harvest distributes food through its network of 310 partners at 999 sites. Second Harvest added nine new schools to its school pantry program for a total of 142 K-12 schools and 13 colleges served. Second Harvest launched its tailored school solutions initiative five years ago to address the huge increase in kids and families who need food. This intensive effort to open a network of school pantries – where families can pick up groceries and fresh produce right in their own neighborhoods, learn more about nutrition, and get connected to other resources like CalFresh (food stamps) – is paying off. During that same time, Second Harvest increased the number of K-12 schools served by 914% and the number of colleges served by 550%. This fiscal year alone, Second Harvest opened two college pantries and now has pantries at every community college in both counties, as well as San Jose State University and two private colleges. In its continued effort to make food more accessible, Second Harvest now serves 87 affordable and supportive housing complexes – a 64% increase in just the last three years.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION (continued)

Connecting More People to Food (continued)

Second Harvest increased the amount of food it provided to the community this fiscal year, distributing 69.2 million pounds – enough food for more than 58 million meals – a 6% increase over the previous year. Second Harvest was able to accomplish this by streamlining and enhancing its operations. Second Harvest also sourced more food through strategic partnerships with companies like Amazon, Starbucks, and Costco, and increased how quickly fresh produce moves through the system, reducing spoilage, and waste. Second Harvest was also able to secure 5 million pounds of food from the United States Department of Agriculture due to bonus and trade mitigation allocations.

Second Harvest continued to leverage federal nutrition programs, including school meals. Second Harvest built relationships with school districts and advocated for universal school meal programs and other ways to eliminate barriers so more kids and teens can get the nutritious food they need to stay healthy and engaged at school. Second Harvest worked with 14 school districts this fiscal year to increase the use of federally funded school meals, including Breakfast after the Bell, providing guidance and infrastructure like meal carts and milk coolers.

But students lose access to these school meals during the summer. To address this, Second Harvest partnered with schools, libraries, summer camps, and other service providers to increase the number of federally funded summer meal sites by coordinating efforts and connecting partners to resources. Second Harvest created marketing materials like fliers and banners its partners could use to promote the sites to local families, and launched its own promotional campaign using tools like radio and bus shelter ads. Second Harvest also provided leadership and shared best practices through the Child Nutrition Coalition. In the summer of 2018, 639,872 meals were provided through these efforts.

Second Harvest also advocated for policies aimed at reducing hunger and food insecurity. Second Harvest fought for a strong Farm Bill that protected CalFresh grocery benefits for low-income residents and championed stronger school and summer meal programs. At the state level, Second Harvest supported lowering barriers to CalFresh and increasing reimbursements for school and summer meal programs.

Second Harvest's multilingual team of specially trained staff, who answer its Food Connection hotline and work in the community connecting people to food, provided 22,709 referrals to local food resources this fiscal year, including grocery distributions, meal sites, and programs like CalFresh. Additionally, Second Harvest screened 34,900 people for CalFresh – a 37% increase over the previous year. Second Harvest stepped up its efforts to connect more low-income seniors and people with disabilities to this important resource after a recent rule change made many people eligible who had not been before. Of the 3,930 CalFresh applications that were submitted with Second Harvest's help, 2,882 were approved, resulting in an additional 4 million meals for our community.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION (continued)

Connecting More People to Food (continued)

Second Harvest raised significant dollars to support these efforts and effectively managed its resources to make the most impact. Second Harvest received Charity Navigator's four-star rating for financial stability, accountability, and transparency – exceeding industry standards – for the 13th year in a row. Second Harvest's expansive base of 44,213 donors made 94,314 gifts totaling \$45,640,522 this fiscal year. Second Harvest was also able to increase its impact by leveraging a significant amount of volunteer hours. Volunteers donated 222,842 hours to Second Harvest valued at \$5,000,000 the equivalent of adding 107 full-time employees to its workforce.

Piloting New Ways to Reach More People

Over the last 12 years, Second Harvest has doubled the food it provides to the community, but these efforts haven't been enough to tackle the growing problem of hunger. There are still thousands of people in our community who need nutritious food but aren't getting it. Second Harvest realized it would have to find innovative ways to address hunger in Silicon Valley. This year it began laying the groundwork to re-imagine how it does business so it can reach more people with nutritious food. That means providing food when, where and how people need it.

After conducting extensive market research, Second Harvest found that the major barriers to accessing food are lack of knowledge about available services, logistical issues such as transportation and schedules, and emotional barriers such as stigma and fear. This fiscal year, Second Harvest began piloting new approaches to overcome these barriers. Successful pilots will eventually be scaled and implemented throughout Silicon Valley.

Providing the Nutrition our Community Needs to Thrive

Second Harvest remains committed to providing the most nutritious food possible, with fresh produce comprising half the food it distributed last fiscal year. Protein and dairy accounted for 27%. But providing nutritious food is only the first step in helping people eat healthier. Second Harvest's team of nutritionists reached 42,769 clients this fiscal year – a 14% increase over the previous year – with nutrition education, food tastings, and cooking demonstrations so people could learn how to prepare delicious meals with the food they received. Second Harvest's innovative Health Ambassador program helped Second Harvest reach more people. Health Ambassadors are a specially trained, multilingual group of volunteers who provide culturally appropriate nutrition education.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. ORGANIZATION (continued)

Building a Hunger-Free Community

Second Harvest created a strategic plan this fiscal year to serve as a road map for connecting more people to food. This three-year plan represents an evolution for Second Harvest – a continuation of its commitment to ensuring that anyone who needs a nutritious meal can get one, while making major investments in growth and innovation that will bring Second Harvest closer to its vision of a hunger-free community. The strategic goals include breaking down barriers to access and providing an excellent end-to-end service for clients; developing organizational capacity, capabilities, and employee engagement to support significant growth; and increasing community investment in food security as foundational to economic stability and health.

Everyone in our community should be able to get the nutritious food they need to thrive – no matter who they are or where they come from. That's why Second Harvest is committed to doing whatever it takes to end hunger in Silicon Valley. The new plan will help to guide these efforts over the next three years.

2. 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.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Methods used to allocate costs among program and support functions.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

- e. Underwater endowment funds.
3. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

Second Harvest adopted the ASU during the year ended June 30, 2019 and applied the amendments on a retrospective basis for the year ended June 30, 2018.

Financial statement presentation

In accordance with accounting principles generally accepted in the United States of America, 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 unrestricted 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. Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments. Second Harvest had no net assets subject to non-expiring donor restrictions as of June 30, 2019.

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, 2019
(With Comparative Totals for 2018)

2. 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, 2018, 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 \$1.62 and \$1.68 per pound for the years ended June 30, 2019 and 2018, respectively. Donated government food was valued at \$1.52 and \$1.57 per pound for the years ended June 30, 2019 and 2018, 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."

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

2. 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, 2019 and 2018. 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, 2019 and 2018 was \$871,965 and \$814,323, respectively, and is included in accrued expenses.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Second Harvest recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Second Harvest will not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. A promise that calls for specific outcomes to be achieved will be treated as a conditional promise to give. 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.

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 14.

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.

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.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

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, 2019 and 2018 totaled \$525,496 and \$448,432, respectively. Of these costs, \$0 and \$64,665, respectively were in-kind contributions.

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, 2019 for potential recognition or disclosure in the financial statements. Second Harvest did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2019. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 17, 2019.

Recent Accounting Pronouncement

Pronouncement effective in the future -

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2018-08, Not-For-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made to clarify and improve the scope and the accounting guidance for contributions received and contributions made*. Specifically, this update is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchange (reciprocal) transaction, as well as determining whether a contribution is conditional.

The amendments in the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018 or Second Harvest's year ending June 30, 2020. Management is currently evaluating the effect that the updated standard will have on the financial statements.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

3. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	2019	2018
Pledges receivable in less than one year	\$ 3,009,575	\$ 3,808,000
Pledges receivable in one to five years	2,865,000	2,725,000
	5,874,575	6,533,000
Less discounts to net present value	(300,257)	(241,133)
	\$ 5,574,318	\$ 6,291,867

4. 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 \$1.62 and \$1.68 per pound for the years ended June 30, 2019 and 2018, respectively. Donated government food was valued at \$1.52 and \$1.57 per pound for the years ended June 30, 2019 and 2018, 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 2).

Inventory consisted of the following:

	2019	2018
Donated non-government food and non-food supplies	\$ 1,731,339	\$ 2,337,188
USDA food commodities	1,151,170	566,503
Purchased food	450,835	535,931
Purchased non-food supplies	10,244	-
FEMA food	3,343	-
	\$ 3,346,931	\$ 3,439,622

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

5. INVESTMENTS

Investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Investments - board designated endowment (Notes 11 and 12)	\$ 13,182,466	\$ 8,825,326
Investments - other	<u>24,286,923</u>	<u>22,661,681</u>
	<u>\$ 37,469,389</u>	<u>\$ 31,487,007</u>

Investment earnings consisted of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 911,314	\$ 740,712
Net realized and unrealized gains	<u>983,743</u>	<u>920,886</u>
	1,895,057	1,661,598
Investment fees	<u>(249,009)</u>	<u>(223,395)</u>
	<u>\$ 1,646,048</u>	<u>\$ 1,438,203</u>

6. 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity investments	\$ 20,258,144	\$ -	\$ -	\$ 20,258,144
Corporate bonds and notes	-	14,217,825	-	14,217,825
Money market investments	1,460,028	-	-	1,460,028
Real estate investment trusts	-	1,122,934	-	1,122,934
Master limited partnerships	-	<u>410,458</u>	-	<u>410,458</u>
	<u>\$ 21,718,172</u>	<u>\$ 15,751,217</u>	<u>\$ -</u>	<u>\$ 37,469,389</u>

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

6. 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity investments	\$ 16,761,214	\$ -	\$ -	\$ 16,761,214
Corporate bonds and notes	-	12,102,791	-	12,102,791
Money market investments	1,418,446	-	-	1,418,446
Real estate investment trusts	-	840,788	-	840,788
Master limited partnerships	-	363,768	-	363,768
	<u>\$ 18,179,660</u>	<u>\$ 13,307,347</u>	<u>\$ -</u>	<u>\$ 31,487,007</u>

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,865,858	\$ 3,865,858
Buildings and improvements	27,810,233	27,097,527
Equipment	12,984,115	11,357,844
Construction-in-progress	207,528	704,455
	44,867,734	43,025,684
Accumulated depreciation	<u>(16,722,544)</u>	<u>(15,400,737)</u>
	<u>\$ 28,145,190</u>	<u>\$ 27,624,947</u>

Depreciation expense for the years ended June 30, 2019 and 2018 totaled \$2,119,826 and \$1,945,207, respectively.

8. 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 fiscal years ended June 30, 2019 and 2018 were limited to a maximum of \$4,000,000. Interest on outstanding funds is payable monthly at the bank's prime rate and has a floor rate of 5%. The maturity date was May 10, 2019 and has been extended to April 10, 2020. The credit line is secured by certain assets owned by Second Harvest and contains a covenant clause that requires \$8,000,000 of liquidity in cash and investments. There was no balance outstanding or related interest expense on this line of credit for either of the years ended June 30, 2019 and 2018.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

9. 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 of the financial statements. 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.

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, 2019.

10. 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, 2019 and 2018 were \$518,706 and \$506,184 respectively. All of the Plan's administration costs were paid for by the Plan.

11. 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 six months of the coming year's annual budget, with adjustments for purchased inventory on hand and current liabilities. Current investment in inventory is reviewed on a monthly basis and is generally below one month's distribution. The designation for capital replacement fund is calculated as the present-value of a ten year asset replacement plan.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

11. BOARD DESIGNATED NET ASSETS (continued)

Board designated net assets consisted of the following:

	2019	2018
Designated for operating reserves	\$ 24,261,594	\$ 21,804,788
Urgent food and infrastructure fund	1,500,000	1,500,000
Inventory	3,346,931	3,439,622
Board designated endowment fund (investment)	13,182,466	8,825,326
Designated for capital replacement	8,048,242	7,740,229
	\$ 50,339,233	\$ 43,309,965

12. 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.

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 - 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.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

12. BOARD DESIGNATED ENDOWMENT FUND (continued)

Strategies employed for achieving objectives (continued)

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% (with a target of 57%) of the Fund will be invested in equity and/or equity mutual funds. Of that, 20% to 35% (with a target of 26.3%) 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% (with a target of 38%) 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 Board's first objective was to grow the fund to \$1,000,000 which was achieved as of June 30, 2014. Starting July 1, 2014 the Fund's 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.

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, 2019 and 2018, there were no spending allocations made.

Endowment composition

Changes in board-designated endowment net assets are as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 8,825,326	\$ 7,152,977
Transfers to board designated endowment fund	3,889,055	1,569,303
Investment income	545,614	170,174
Investment fees	<u>(77,529)</u>	<u>(67,128)</u>
Balance, end of year	<u>\$ 13,182,466</u>	<u>\$ 8,825,326</u>

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Purpose restrictions		
Stand Up for Kids	\$ 1,277,430	\$ 248,744
One Community	188,130	-
Food purchase	176,939	183,180
CalFresh program	90,417	112,007
Holiday food and fund drive	90,000	93,333
FoodShare	49,333	-
Truck sponsor	40,000	-
NE and food distributed	24,146	-
Strategic planning	12,000	-
Capacity building	-	500,000
School pantry	-	83,478
Community nutrition	-	60,000
	1,948,395	1,280,742
Time restrictions		
General support for future periods	4,291,198	6,330,699
Government - Sequoia (program)	100,000	250,000
Government - The Health Trust	76,500	94,841
	4,467,698	6,675,540
	\$ 6,416,093	\$ 7,956,282

Net assets with donor restrictions released from restriction during the year ended June 30, 2019 were as follows:

Time restrictions	\$ 3,818,394
Capacity building	500,000
Food purchase	183,180
Stand Up for Kids	123,744
CalFresh program	112,007
Food assistance	94,841
Holiday food and fund drive	93,333
School pantry	83,478
Community nutrition	60,000
	\$ 5,068,977

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

14. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, gift certificates, property and equipment, advertisements, supplies, and expert services received are recorded as contributions. Donated non-government products were valued at \$1.62 and \$1.68 per pound for the years ended June 30, 2019 and 2018, respectively. Donated government food was valued at \$1.52 and \$1.57 per pound for the years ended June 30, 2019 and 2018, respectively. This valuation is based on a cost study conducted for Feeding America.

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

	2019	2018
Contributions in-kind - non government		
Food and non-food inventory	\$ 76,074,896	\$ 75,521,142
Supplies and minor equipment	238,958	987,586
Gift certificates	20,683	26,300
Vehicles and equipment	2,530	7,821
Media	-	64,665
Services	-	372
	76,337,067	76,607,886
Government assistance - in-kind		
Food - government	10,106,492	6,162,226
	<u>\$ 86,443,559</u>	<u>\$ 82,770,112</u>

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, 2019 and 2018, the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$5,059,246 and \$5,449,568, respectively. The value of these services are not reflected in the financial statements.

15. 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, 2019 and 2018 were \$18,764 and \$18,396, respectively.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

16. 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.

17. 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 12, the endowment has a spending rate of between 4% and 5.75% (with a desired optimal target of 5%). Accordingly, \$1,242,634 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, 2019. Short-term accounts, grants, and pledges receivable without donor restrictions will be available to support general operations of Second Harvest.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

17. 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, 2019 to fund general expenditures and other obligations when they become due:

Available financial assets consisted of the following:

Cash and cash equivalents	\$ 13,343,869
Accounts receivable	43,890
Grants receivable	749,249
Pledges receivable	5,574,318
Investments - other	24,286,923
Investments - board designated endowment	<u>13,182,466</u>
	<u>57,180,715</u>

Less amounts unavailable for general expenditure within one year:

Investments - board designated endowment	(13,182,466)
Net assets restricted to a passage of time	(1,365,616)
Net assets restricted for a specified purpose	(1,948,395)
Board designated for capital replacements	(8,048,242)
Board designated for urgent food and infrastructure fund	<u>(1,500,000)</u>
	<u>(26,044,719)</u>

Financial assets available to meet cash needs for general expenditures within one year

\$ 31,135,996

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 (a California nonprofit corporation) ("Second Harvest"), which comprise the statement of financial position as of June 30, 2019, 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 December 17, 2019.

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) 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 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 may exist that have not been identified.

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 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 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

December 17, 2019

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

We have audited Second Harvest of Silicon Valley (a California nonprofit corporation) ("Second Harvest")'s compliance with the types of compliance requirements described 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, 2019. 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.

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 Second Harvest's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Second Harvest'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 Second Harvest's compliance.

Opinion on Each Major Federal Program

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, 2019.

Report on Internal Control Over Compliance

Management of Second Harvest 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 Second Harvest's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Second Harvest'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 weakness or significant deficiencies.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Armanino^{LLP}
San Jose, California

December 17, 2019

Second Harvest of Silicon Valley
Schedule of Expenditures of Federal and Other Governmental Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Agriculture			
Passed through			
California Department of Social Services			
Food Distribution Cluster			
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	\$ 10,106,492
Emergency Food Assistance Program (Administrative Costs)	10.568	MOU#10-6060	461,616
Emergency Food Assistance Program (Supplemental Costs)	10.568	MOU#10-6060	29,512
State Emergency Food Assistance Program (SEFAP)	10.568	MOU#10-6060	313,966
Emergency Food Assistance Program (Tax Check Off)	10.568	MOU#10-6060	<u>17,681</u>
Total Food Distribution Cluster			<u>10,929,267</u>
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	<u>258,598</u>
Total U.S. Department of Agriculture			<u>11,187,865</u>
U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA)			
Direct awards			
Emergency Food and Shelter National Board Program	97.024	N/A	<u>129,798</u>
Total Expenditures of Federal Awards			<u>11,317,663</u>
<u>Expenditures of Other Government Awards</u>			
Direct awards			
Santa Clara County - Department of Social Services	N/A	N/A	815,380
Santa Clara County - The Health Trust	N/A	N/A	127,000
San Mateo County - Food Rescue	N/A	N/A	33,597
San Mateo County - Measure K	N/A	N/A	150,000
San Mateo County - Food Assistance	N/A	N/A	68,424
San Mateo County - Peninsula Healthcare District	N/A	N/A	<u>25,000</u>
			<u>1,219,401</u>
Passed through			
California Department of Social Services - Emergency Food Assistance Program - Food Bank Capacity	N/A	SGRT-19-0039	<u>99,570</u>
Total Expenditures of Other Government Awards			<u>1,318,971</u>
Total Expenditures of Federal and Other Government Awards			<u>\$ 12,636,634</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, 2019

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 (the "Second Harvest") under programs of the federal, state and local governments for the year ended June 30, 2019. 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 the Second Harvest, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the 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:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.569	Emergency Food Assistance Program (Food Commodities)	\$10,106,492

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, 2019, Second Harvest had food commodities totaling \$1,151,170 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, 2019

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>CFDA 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, 2019

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, 2019

There were no prior year findings.