

## **Second Harvest of Silicon Valley**

Financial Statements  
and Single Audit Reports and Schedules

June 30, 2020  
(With Comparative Totals for 2019)



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## 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) ("Second Harvest"), which comprise the statement of financial position as of June 30, 2020, 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, 2020, 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.



An independent firm  
associated with Moore  
Global Network Limited

### **Change in Accounting Principle**

As described in Note 3 to the financial statements, Second Harvest has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). Our opinion is not modified with respect to that matter.

### **Emphasis of Matter**

As discussed in Note 21 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is unmodified with respect to that matter here.

### **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 4, 2020, 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 2019 financial statements, and our report dated December 17, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino<sup>LLP</sup>  
San Jose, California

December 4, 2020

Second Harvest of Silicon Valley  
Statement of Financial Position  
June 30, 2020  
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 53,548,286	\$ 848,236	\$ 54,396,522	\$ 13,343,869
Accounts receivable	115,486	-	115,486	43,890
Grants receivable	1,729,686	-	1,729,686	749,249
Pledges receivable, current portion	285,000	3,028,761	3,313,761	2,764,076
Inventory	5,889,810	-	5,889,810	3,346,931
Prepaid expenses and other assets	1,579,835	-	1,579,835	951,588
Total current assets	63,148,103	3,876,997	67,025,100	21,199,603
Non current assets				
Land, buildings, and equipment, net	28,621,143	-	28,621,143	28,145,190
Pledges receivable, net of current portion	-	1,282,059	1,282,059	2,810,242
Investments - other	24,949,129	-	24,949,129	24,286,923
Investments - board designated endowment	13,723,187	-	13,723,187	13,182,466
Total non current assets	67,293,459	1,282,059	68,575,518	68,424,821
Total assets	<u>\$130,441,562</u>	<u>\$ 5,159,056</u>	<u>\$135,600,618</u>	<u>\$ 89,624,424</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable	\$ 5,721,167	\$ -	\$ 5,721,167	\$ 2,730,053
Accrued expenses	1,894,980	-	1,894,980	1,489,355
Deferred revenue	53,425	-	53,425	4,500
Paycheck Protection Program forgivable loan	2,500,000	-	2,500,000	-
Total current liabilities	10,169,572	-	10,169,572	4,223,908
Net assets				
Without donor restrictions				
Undesignated	500,000	-	500,000	500,000
Board designated	91,150,847	-	91,150,847	50,339,233
Land, buildings, and equipment, net	28,621,143	-	28,621,143	28,145,190
Total without donor restrictions	120,271,990	-	120,271,990	78,984,423
With donor restrictions				
Restricted for a specific purpose	-	1,074,173	1,074,173	1,948,395
Restricted to a passage of time	-	4,084,883	4,084,883	4,467,698
Total with donor restrictions	-	5,159,056	5,159,056	6,416,093
Total net assets	120,271,990	5,159,056	125,431,046	85,400,516
Total liabilities and net assets	<u>\$130,441,562</u>	<u>\$ 5,159,056</u>	<u>\$135,600,618</u>	<u>\$ 89,624,424</u>

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, 2020  
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support, revenue, and net assets released from restriction				
Contributions	\$ 90,755,726	\$ 2,426,022	\$ 93,181,748	\$ 45,640,522
Contributions in-kind - non-government	95,950,568	-	95,950,568	76,337,067
United Way support	-	-	-	55,754
Government assistance - cash	4,457,074	-	4,457,074	2,530,142
Government assistance - in-kind	20,078,332	-	20,078,332	10,106,492
Net investment income	905,585	-	905,585	1,646,048
Miscellaneous income	127,261	-	127,261	46,470
Net assets released from restriction	<u>3,683,059</u>	<u>(3,683,059)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>215,957,605</u>	<u>(1,257,037)</u>	<u>214,700,568</u>	<u>136,362,495</u>
Functional expenses				
Program services	<u>165,903,669</u>	<u>-</u>	<u>165,903,669</u>	<u>123,211,187</u>
Support services				
Management and general	4,244,995	-	4,244,995	3,209,445
Fundraising	<u>4,521,374</u>	<u>-</u>	<u>4,521,374</u>	<u>3,932,541</u>
Total support services	<u>8,766,369</u>	<u>-</u>	<u>8,766,369</u>	<u>7,141,986</u>
Total functional expenses	<u>174,670,038</u>	<u>-</u>	<u>174,670,038</u>	<u>130,353,173</u>
Change in net assets (Note 2)	41,287,567	(1,257,037)	40,030,530	6,009,322
Net assets, beginning of year	<u>78,984,423</u>	<u>6,416,093</u>	<u>85,400,516</u>	<u>79,391,194</u>
Net assets, end of year	<u>\$120,271,990</u>	<u>\$ 5,159,056</u>	<u>\$125,431,046</u>	<u>\$ 85,400,516</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, 2020  
(With Comparative Totals for 2019)

	Program Services	Support Services			2020 Total	2019 Total
		Management and General	Fundraising	Total Support Services		
Personnel expenses						
Salaries and wages	\$ 12,639,615	\$ 2,076,080	\$ 1,634,200	\$ 3,710,280	\$ 16,349,895	\$ 13,016,590
Employee benefits	2,432,131	399,482	314,455	713,937	3,146,068	2,605,295
Payroll taxes	897,464	147,410	116,035	263,445	1,160,909	961,095
Worker's compensation insurance	176,444	3,613	7,528	11,141	187,585	192,441
Total personnel expenses	16,145,654	2,626,585	2,072,218	4,698,803	20,844,457	16,775,421
Donated food and supplies distributed	117,892,354	-	-	-	117,892,354	86,234,798
Purchased food and supplies distributed	17,432,744	-	-	-	17,432,744	14,177,504
Outside services	2,690,941	27,820	71,077	98,897	2,789,838	1,322,198
Depreciation	1,890,214	197,888	157,432	355,320	2,245,534	2,119,826
Occupancy, including in-kind	1,941,956	143,975	113,330	257,305	2,199,261	1,453,209
Supplies, including in-kind	2,066,994	30,791	96,181	126,972	2,193,966	1,183,123
Equipment for agency infrastructure	1,609,710	-	-	-	1,609,710	500,656
Professional services	472,459	257,475	534,729	792,204	1,264,663	1,263,355
Freight and storage	1,106,969	-	-	-	1,106,969	1,211,822
Advertising and media (including in-kind of \$405,909)	420,522	-	511,734	511,734	932,256	525,496
Equipment rental and maintenance	623,677	85,198	67,064	152,262	775,939	606,144
Vehicle operating costs	697,270	-	-	-	697,270	632,596
Bank and payroll charges	-	679,882	-	679,882	679,882	310,159
Direct mailing costs	-	-	584,658	584,658	584,658	727,092
Postage and printing	246,480	6,027	200,272	206,299	452,779	290,693
Telephone	240,508	39,505	31,096	70,601	311,109	232,573
Insurance	182,299	38,471	5,005	43,476	225,775	241,929
Conferences, conventions, and meetings	87,911	7,968	28,038	36,006	123,917	188,259
Dues and subscriptions	30,426	24,729	40,414	65,143	95,569	94,238
Recruitment expenses	19,515	63,407	2,444	65,851	85,366	72,183
Travel	46,311	3,842	5,682	9,524	55,835	69,633
Volunteer expenses	31,338	-	-	-	31,338	24,449
Affiliation fees	27,417	-	-	-	27,417	18,764
Taxes and licenses	-	10,737	-	10,737	10,737	1,032
Bad debt expense	-	695	-	695	695	100
Building demolition - Curtner remodeling	-	-	-	-	-	75,921
	<u>\$ 165,903,669</u>	<u>\$ 4,244,995</u>	<u>\$ 4,521,374</u>	<u>\$ 8,766,369</u>	<u>\$ 174,670,038</u>	<u>\$ 130,353,173</u>
Percentage of total	<u>95.0 %</u>	<u>2.4 %</u>	<u>2.6 %</u>	<u>5.0 %</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, 2020  
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 40,030,530	\$ 6,009,322
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,245,534	2,119,826
(Gain) loss on sale and disposal of equipment	(10,624)	16,636
Donated vehicles and equipment	-	(2,530)
Net present value amortization adjustment	-	8,761
In-kind contributions of food and non-food supplies (including USDA)	(117,980,151)	(86,443,559)
Distribution of food and non-food supplies received in-kind	117,892,754	86,234,798
Net realized and unrealized (gains) losses on investments	307,217	(983,743)
Changes in operating assets and liabilities		
Accounts receivable	(71,596)	100,038
Grants receivable	(980,437)	(7,966)
Pledges receivable	978,498	708,788
Purchased inventory (food)	(2,455,482)	301,452
Prepaid expenses and other assets	(628,874)	(253,113)
Accounts payable	2,991,120	548,114
Accrued expenses	406,252	167,848
Deferred revenue	48,925	4,500
Net cash provided by operating activities	<u>42,773,666</u>	<u>8,529,172</u>
Cash flows from investing activities		
Purchase of land, buildings, and equipment	(2,715,043)	(2,688,345)
Proceeds from sales of equipment	4,174	34,170
Purchases of investments	(13,503,586)	(11,263,545)
Proceeds from sale of investments	11,993,442	6,264,906
Net cash used in investing activities	<u>(4,221,013)</u>	<u>(7,652,814)</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program forgivable loan	<u>2,500,000</u>	<u>-</u>
Net cash provided by financing activities	<u>2,500,000</u>	<u>-</u>
Net increase in cash and cash equivalents	41,052,653	876,358
Cash and cash equivalents, beginning of year	<u>13,343,869</u>	<u>12,467,511</u>
Cash and cash equivalents, end of year	<u>\$ 54,396,522</u>	<u>\$ 13,343,869</u>

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

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

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, rose to meet unprecedented challenges during its 2019-2020 fiscal year. Before COVID-19, Second Harvest was responding to a level of food insecurity in Silicon Valley that indicated there was already a crisis, providing groceries to more than 250,000 clients every month on average. After the pandemic hit, that number doubled to an average of more than 500,000 people each month. The economic crisis created by the pandemic pushed many families deeper into poverty and caused others to seek food assistance for the very first time.

Within weeks of shelter-in-place, the need for food assistance skyrocketed and Second Harvest changed its distribution protocols to safely serve the community. Prior to COVID-19, Second Harvest utilized farmers market-style distributions that provided client choice. In order to protect clients, volunteers and staff, Second Harvest began pre-boxing food in its warehouses - a much more labor-intensive process - and implemented low-touch, drive-thru distributions where volunteers placed food directly into clients' trunks without person-to-person contact. Pre-pandemic there were only three drive-thru distributions in Santa Clara and San Mateo counties; by the end of the fiscal year there were 129.

Second Harvest also expanded its home delivery program to serve vulnerable, homebound residents in Santa Clara and San Mateo counties. Working with partners like Catholic Charities, Team Rubicon, Cathedral of Faith and many others, Second Harvest has been making twice-monthly deliveries of pre-boxed groceries to an average of more than 5,500 households of homebound seniors and high-risk individuals.

The challenges of this year have impacted almost every aspect of Second Harvest's operations. Second Harvest doubled the amount of food it sourced, opened a new, temporary warehouse location, and scaled its transportation fleet to 31 trucks to meet the rising need for food. As a result of these changes, Second Harvest distributed 91.6 million pounds of food in its service area this fiscal year - a 32% increase over the previous fiscal year. And despite supply chain challenges, produce represented more than 46% of total food distributed, as Second Harvest remains committed to providing clients with a nutritious mix of foods.

Volunteers and donors are key to Second Harvest's ability to meet the need for food in our community. Second Harvest's expansive base of more than 68,500 donors made nearly 142,500 gifts totaling \$93.2 million this fiscal year, the surplus of which will be used in the next fiscal year to cover the increased level of need within the community. As part of its response, Second Harvest was also able to leverage 255,000 volunteer hours - the equivalent of adding nearly 123 full-time employees to its workforce.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

1. ORGANIZATION (continued)

Since the shelter-in-place order, Second Harvest staff and volunteers have been on the frontline every day making sure that anyone who needs nutritious food can get it. With the COVID-19 pandemic and resulting financial crisis still impacting the global economy, 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. A key priority for Second Harvest in the coming year will be finding more permanent facilities solutions to ensure it has the capacity and resilience needed to serve the community now and for the long term.

2. CHANGE IN NET ASSETS

The significant positive change in net assets for the year ended June 30, 2020 is largely due to operating funds raised in response to the COVID-19 pandemic. The impact from the virus resulted in a doubling of the number of people served monthly, a doubling in the amount of food Second Harvest distributes and a doubling of its costs. Most of the additional costs are in food acquisition and personnel. The increased need and a resulting increased spend is expected to last for the foreseeable future. The operating funds raised will be used to support Second Harvest's increased operating activities to provide more food to the community. In addition, these funds will be used to support capital related activities to expand the operations capabilities.

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, 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.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. Second Harvest adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on Second Harvest's financial position, result of operations, or cash flows. Second Harvest has evaluated contributions received and contributions made and has determined that there is no significant change as a result of the adoption of the standard.

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.

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, 2019, 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.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. Donated government food was valued at \$1.49 and \$1.52 per pound for the years ended June 30, 2020 and 2019, 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."

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.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and 2019. 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, 2020 and 2019 was \$1,154,281 and \$871,965, respectively, and is included in accrued expenses.

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 cash and in-kind food assistance through reimbursement 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.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 16.

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.

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, 2020 and 2019 totaled \$932,256 and \$525,496, respectively. Of these costs, \$405,909 and \$0 were from in-kind contributions for the years ended June 30, 2020 and 2019.

Reclassifications

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

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management of Second Harvest has evaluated events and transactions subsequent to June 30, 2020 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 year ended June 30, 2020. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 4, 2020.

4. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	2020	2019
Pledges receivable in less than one year	\$ 3,485,000	\$ 3,009,575
Pledges receivable in one to three years	1,305,000	2,865,000
	4,790,000	5,874,575
Less discounts to net present value	(194,180)	(300,257)
	\$ 4,595,820	\$ 5,574,318

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 \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. Donated government food was valued at \$1.49 and \$1.52 per pound for the years ended June 30, 2020 and 2019, 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).

Second Harvest of Silicon Valley  
Notes to Financial Statements  
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5. INVENTORY (continued)

Inventory consisted of the following:

	<u>2020</u>	<u>2019</u>
Purchased food	\$ 2,720,588	\$ 450,835
Donated non-government food and non-food supplies	2,293,079	1,731,339
USDA food commodities	584,418	1,151,170
Purchased non-food supplies	133,381	10,244
CFAP food commodities	92,410	-
Mixed Box	65,934	-
FEMA food	-	3,343
	<u>\$ 5,889,810</u>	<u>\$ 3,346,931</u>

6. INVESTMENTS

Investments consisted of the following:

	<u>2020</u>	<u>2019</u>
Investments - other	\$ 24,949,129	\$ 24,286,923
Investments - board designated endowment (Notes 13 and 14)	<u>13,723,187</u>	<u>13,182,466</u>
	<u>\$ 38,672,316</u>	<u>\$ 37,469,389</u>

Investment earnings consisted of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 1,497,520	\$ 911,314
Net realized and unrealized gains (losses)	<u>(307,217)</u>	<u>983,743</u>
	1,190,303	1,895,057
Investment fees	<u>(284,718)</u>	<u>(249,009)</u>
	<u>\$ 905,585</u>	<u>\$ 1,646,048</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.

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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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity investments	\$ 18,969,823	\$ -	\$ -	\$ 18,969,823
Corporate bonds and notes	-	16,825,303	-	16,825,303
Money market investments	1,511,865	-	-	1,511,865
Real estate investment trusts	-	1,126,299	-	1,126,299
Master limited partnerships	-	239,026	-	239,026
	<u>\$ 20,481,688</u>	<u>\$ 18,190,628</u>	<u>\$ -</u>	<u>\$ 38,672,316</u>

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	-	410,458	-	410,458
	<u>\$ 21,718,172</u>	<u>\$ 15,751,217</u>	<u>\$ -</u>	<u>\$ 37,469,389</u>

8. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 3,865,858	\$ 3,865,858
Buildings and improvements	28,129,974	27,810,233
Equipment	14,466,350	12,984,115
Construction-in-progress	935,909	207,528
	<u>47,398,091</u>	<u>44,867,734</u>
Accumulated depreciation	<u>(18,776,948)</u>	<u>(16,722,544)</u>
	<u>\$ 28,621,143</u>	<u>\$ 28,145,190</u>

Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$2,245,534 and \$2,119,826, respectively.

Second Harvest of Silicon Valley  
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9. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act commonly referred to as the CARES Act. One component of the CARES Act was the paycheck protection program (“PPP”) which provides small business with the resources needed to maintain their payroll and cover applicable overhead. The PPP is implemented by the Small Business Administration (“SBA”) with support from the Department of the Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities. On May 7, 2020, Second Harvest received funding of \$2,500,000.

The loan is a five-year loan with a maturity date of April 16, 2025. The loan bears an annual interest rate of 1%. The loan shall be payable monthly with the first ten monthly payments deferred. It is Second Harvest’s intent to apply for loan forgiveness under the provisions of Section 1106 of the CARES Act. Loan forgiveness is subject to the sole approval of the SBA. Second Harvest is eligible for loan forgiveness in an amount equal to payments made during the 24-week period beginning on the Loan date, with the exception that no more than 40% of the amount of loan forgiveness may be for expenses other than payroll expenses.

Second Harvest used all loan proceeds to partially subsidize payroll expenses and eligible non-payroll expenses. Second Harvest expects to meet the PPP's eligibility criteria and concludes that the PPP loan will be recognized as a revenue upon loan forgiveness. As of June 30, 2020, the PPP loan is recognized as Paycheck Protection Program forgivable loan on the statement of financial position and disclosed as the conditional government grant (see Note 17). Second Harvest plans to submit its forgiveness application during year ending June 30, 2021. The loan will be recognized as income in the statement of activities in the year Second Harvest receives formal approval of forgiveness.

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, 2020 and 2019 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 April 10, 2020 and has been extended to August 10, 2021. The line of credit 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, 2020 and 2019.

Second Harvest of Silicon Valley  
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11. 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.

Second Harvest entered into a new temporary lease agreement for an additional 43,685 square feet of warehouse space on March 31, 2020. The lease term was six months to September 30, 2020 at a rate of \$0 a month. Second Harvest has recognized in-kind contributions totaling to \$152,344 based on the estimated fair value of the rent. On July 21, 2020, Second Harvest signed a new lease agreement for 91,202 square feet of warehouse space. The term of the new lease is from September 30, 2020 to June 30, 2021. The new temporary warehouse space will allow Second Harvest to expand its food handling and distribution to meet the increased food need in our community.

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, 2020.

12. 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, 2020 and 2019 totaled \$614,497 and \$518,706, respectively. All of the Plan's administration costs were paid for by the Plan.

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13. 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. Food and infrastructure fund provides additional funding for food and infrastructure for Second Harvest's partners during uncertain times such as the COVID-19 crisis or other unplanned community needs. 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, 2020.

Board designated net assets consisted of the following:

	2020	2019
Designated for operating reserves	\$ 45,425,659	\$ 24,261,594
Food and infrastructure fund	16,185,894	1,500,000
Board designated endowment fund (investment)	13,723,187	13,182,466
Designated for capital replacement	9,926,297	8,048,242
Inventory	5,889,810	3,346,931
	\$ 91,150,847	\$ 50,339,233

14. 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.

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14. BOARD DESIGNATED ENDOWMENT FUND (continued)

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.

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, 2020 and 2019, there were no spending allocations made. \$1,725,110 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.

Second Harvest of Silicon Valley  
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14. BOARD DESIGNATED ENDOWMENT FUND (continued)

Endowment composition

Changes in board designated endowment net assets are as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 13,182,466	\$ 8,825,326
Transfers to board designated endowment fund	419,124	3,889,055
Investment income	232,008	545,614
Investment fees	<u>(110,411)</u>	<u>(77,529)</u>
Balance, end of year	<u>\$ 13,723,187</u>	<u>\$ 13,182,466</u>

15. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Purpose restrictions	\$ 1,074,173	\$ 1,948,395
Time restrictions	<u>4,084,883</u>	<u>4,467,698</u>
	<u>\$ 5,159,056</u>	<u>\$ 6,416,093</u>

Net assets with donor restrictions released from restriction during the year ended June 30, 2020 were as follows:

Program restrictions	\$ 1,498,957
Time restrictions	<u>2,184,102</u>
	<u>\$ 3,683,059</u>

16. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, gift certificates, property and equipment, advertising, supplies, expert services, and warehouse space received are recorded as contributions. Donated non-government products were valued at \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. Donated government food was valued at \$1.49 and \$1.52 per pound for the years ended June 30, 2020 and 2019, respectively. This valuation is based on a cost study conducted for Feeding America.

Second Harvest of Silicon Valley  
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16. CONTRIBUTIONS IN-KIND (continued)

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

	2020	2019
Contributions in-kind - non government		
Food and non-food inventory	\$ 95,247,795	\$ 76,074,896
Supplies and minor equipment	109,721	238,958
Warehouse space	152,334	-
Gift certificates	34,809	20,683
Vehicles and equipment	-	2,530
Advertising and media	405,909	-
	95,950,568	76,337,067
 Government assistance - in-kind		
Food - government	20,078,332	10,106,492
	\$ 116,028,900	\$ 86,443,559

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, 2020 and 2019, the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$5,979,876 and \$5,059,246, respectively. The value of these services are not reflected in the financial statements.

17. CONDITIONAL GOVERNMENT GRANTS

Conditional government grants are recognized when Second Harvest meets the terms of the conditions in the grant agreements.

The conditional government grants are detailed as follows:

Incurring qualifying costs for forgiveness of the PPP forgivable loan	\$ 2,500,000
Incurring allowable expenditures for federal, state and other other governmental grants	634,607
	\$ 3,134,607

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, 2020 and 2019 were \$27,417 and \$18,764, respectively.

Second Harvest of Silicon Valley  
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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 14, the endowment has a spending rate of between 4% and 5.75% (with a desired optimal target of 5%). Accordingly, \$1,725,110 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, 2020. Short-term accounts, grants, and pledges receivable without donor restrictions will be available to support general operations of Second Harvest.

The following is a quantitative disclosure which describes financial assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations when they become due:

Available financial assets consisted of the following:

Cash and cash equivalents	\$ 54,396,522
Accounts receivable	115,486
Grants receivable	1,729,686
Pledges receivable	4,595,820
Investments - other	24,949,129
Investments - board designated endowment	<u>13,723,187</u>
	<u>99,509,830</u>

Less amounts unavailable for general expenditure within one year:

Investments - board designated endowment	(13,723,187)
Net assets restricted to a passage of time	(828,913)
Net assets restricted for a specified purpose	(1,074,173)
Board designated for capital replacements	<u>(9,926,297)</u>
	<u>(25,552,570)</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 73,957,260</u>
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Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2020  
(With Comparative Totals for 2019)

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. 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.

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, 2020, 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 4, 2020.

### **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<sup>LLP</sup>  
San Jose, California

December 4, 2020

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, 2020. 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, 2020.

## 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<sup>LLP</sup>  
San Jose, California

December 4, 2020

Second Harvest of Silicon Valley  
Schedule of Expenditures of Federal and Other Governmental Awards  
For the Year Ended June 30, 2020

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	\$ 14,549,788
Emergency Food Assistance Program (Administrative Costs)	10.568	MOU#10-6060	856,715
Emergency Food Assistance Program (Supplemental Costs)	10.568	MOU#10-6060	320,524
Emergency Food Assistance Program (CARES)	10.568	N/A	720,594
Emergency Food Assistance Program (Trade Mitigation)	10.568	N/A	211,032
Emergency Food Assistance Program (Food Purchase District Program)	10.568	N/A	183,742
Emergency Food Assistance Program (Food Commodities) (Passed through California Association of Food Bank)	10.569	N/A	<u>142,894</u>
Total Food Distribution Cluster			16,985,289
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	220,954
Specialty Crop Block Grant Program - Farm Bill	10.170	N/A	<u>154,372</u>
			375,326
			<u>17,360,615</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>90,440</u>
			<u>17,451,055</u>
<u>Expenditures of Other Government Awards</u>			
Direct awards			
Santa Clara County - Department of Social Services	N/A	N/A	839,842
State Emergency Food Assistance Program (SEFAP)	N/A	N/A	303,589
State Emergency Food Assistance Program (CA DSS Disaster Box)	N/A	N/A	73,110
Emergency Food Assistance Program (Tax Check Off)	N/A	N/A	14,825
Santa Clara County - Summer Feeding	N/A	N/A	35,500
San Mateo County - Food Rescue	N/A	N/A	153,325
San Mateo County - Summer Feed	N/A	N/A	20,000
Sequoia HCD - Pharm Pantry	N/A	N/A	50,000
Sequoia HCD - COVID Support	N/A	N/A	50,000
San Mateo County - Measure K	N/A	N/A	154,500
San Mateo County - Food Assistance	N/A	N/A	71,164
San Mateo County - Peninsula Healthcare District	N/A	N/A	50,000
San Mateo County - Peninsula Healthcare District - COVID	N/A	N/A	12,000
City of San Jose	N/A	N/A	<u>25,218</u>
			1,853,073
			<u>19,304,128</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, 2020

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, 2020. 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:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.569	Emergency Food Assistance Program (Food Commodities)	\$14,549,788

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, 2020, Second Harvest had food commodities totaling \$584,418 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, 2020

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, 2020

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, 2020

There were no prior year findings.