

## **Second Harvest of Silicon Valley**

Financial Statements  
and Single Audit Reports and Schedules

June 30, 2021  
(With Comparative Totals for 2020)



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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, 2021, 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, 2021, 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

## **Emphasis of Matter**

As discussed in Note 20 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 20, 2021, 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 2020 financial statements, and our report dated December 4, 2020 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, 2020, 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 20, 2021

Second Harvest of Silicon Valley  
Statement of Financial Position  
June 30, 2021  
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 8,963,295	\$ 1,717,181	\$ 10,680,476	\$ 54,396,522
Accounts receivable	65,030	-	65,030	115,486
Grants receivable	774,366	300,000	1,074,366	1,729,686
Pledges receivable, current portion	15,050	1,179,937	1,194,987	3,313,761
Inventory	7,123,508	-	7,123,508	5,889,810
Prepaid expenses and other assets	1,073,981	-	1,073,981	1,579,835
Total current assets	18,015,230	3,197,118	21,212,348	67,025,100
Non current assets				
Land, buildings, and equipment, net	31,341,174	-	31,341,174	28,621,143
Pledges receivable, net of current portion	-	888,805	888,805	1,282,059
Deposits	2,000,000	-	2,000,000	-
Investments - other	115,529,022	-	115,529,022	24,949,129
Investments - board designated endowment	18,650,394	-	18,650,394	13,723,187
Total non current assets	167,520,590	888,805	168,409,395	68,575,518
Total assets	<u>\$185,535,820</u>	<u>\$ 4,085,923</u>	<u>\$189,621,743</u>	<u>\$135,600,618</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities				
Accounts payable	\$ 5,315,614	\$ -	\$ 5,315,614	\$ 5,721,167
Accrued expenses	2,618,929	-	2,618,929	1,894,980
Deferred revenue	229,141	-	229,141	53,425
Refundable advance - PPP	-	-	-	2,500,000
Total current liabilities	8,163,684	-	8,163,684	10,169,572
Net assets				
Without donor restrictions				
Undesignated	500,000	-	500,000	500,000
Board designated	145,530,962	-	145,530,962	91,150,847
Land, buildings, and equipment, net	31,341,174	-	31,341,174	28,621,143
Total without donor restrictions	177,372,136	-	177,372,136	120,271,990
With donor restrictions				
Restricted for a specific purpose	-	818,431	818,431	1,074,173
Restricted to a passage of time	-	3,267,492	3,267,492	4,084,883
Total with donor restrictions	-	4,085,923	4,085,923	5,159,056
Total net assets	177,372,136	4,085,923	181,458,059	125,431,046
Total liabilities and net assets	<u>\$185,535,820</u>	<u>\$ 4,085,923</u>	<u>\$189,621,743</u>	<u>\$135,600,618</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, 2021  
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Support, revenue, and net assets released from restriction				
Contributions in-kind - non-government	\$125,935,948	\$ -	\$125,935,948	\$ 95,950,568
Contributions	109,215,902	2,478,393	111,694,295	93,181,748
Government assistance - in-kind	66,168,227	-	66,168,227	20,078,332
Net investment income	14,658,922	-	14,658,922	905,585
Government assistance - cash	13,120,077	300,000	13,420,077	4,457,074
Government grant - PPP (Note 9)	2,500,000	-	2,500,000	-
Miscellaneous income	177,166	-	177,166	127,261
Net assets released from restriction	<u>3,851,526</u>	<u>(3,851,526)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>335,627,768</u>	<u>(1,073,133)</u>	<u>334,554,635</u>	<u>214,700,568</u>
Functional expenses				
Program services	<u>264,987,582</u>	<u>-</u>	<u>264,987,582</u>	<u>165,903,669</u>
Support services				
Management and general	6,671,583	-	6,671,583	4,244,995
Fundraising	<u>6,868,457</u>	<u>-</u>	<u>6,868,457</u>	<u>4,521,374</u>
Total support services	<u>13,540,040</u>	<u>-</u>	<u>13,540,040</u>	<u>8,766,369</u>
Total functional expenses	<u>278,527,622</u>	<u>-</u>	<u>278,527,622</u>	<u>174,670,038</u>
Change in net assets (Note 2)	57,100,146	(1,073,133)	56,027,013	40,030,530
Net assets, beginning of year	<u>120,271,990</u>	<u>5,159,056</u>	<u>125,431,046</u>	<u>85,400,516</u>
Net assets, end of year	<u>\$177,372,136</u>	<u>\$ 4,085,923</u>	<u>\$181,458,059</u>	<u>\$125,431,046</u>

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, 2021  
(With Comparative Totals for 2020)

	Program Services	Support Services			2021 Total	2020 Total
		Management and General	Fundraising	Total Support Services		
Personnel expenses						
Salaries and wages	\$ 16,128,974	\$ 3,124,323	\$ 2,623,088	\$ 5,747,411	\$ 21,876,385	\$ 16,349,895
Employee benefits	3,679,675	631,733	555,024	1,186,757	4,866,432	3,146,068
Payroll taxes	1,178,984	228,380	191,741	420,121	1,599,105	1,160,909
Worker's compensation insurance	233,925	3,833	8,308	12,141	246,066	187,585
Total personnel expenses	21,221,558	3,988,269	3,378,161	7,366,430	28,587,988	20,844,457
Donated food and supplies distributed	188,397,123	-	-	-	188,397,123	117,892,354
Purchased food and supplies distributed	31,631,989	-	-	-	31,631,989	17,432,744
Occupancy, including in-kind	4,914,669	214,051	182,200	396,251	5,310,920	2,199,261
Outside services	4,958,524	171,536	96,800	268,336	5,226,860	2,789,838
Supplies, including in-kind	4,233,306	43,456	58,302	101,758	4,335,064	2,193,966
Depreciation	2,170,037	240,779	197,831	438,610	2,608,647	2,245,534
Equipment for agency infrastructure	2,354,942	-	-	-	2,354,942	1,609,710
Freight and storage	1,983,657	-	-	-	1,983,657	1,106,969
Professional services	438,899	427,037	651,423	1,078,460	1,517,359	1,264,663
Equipment rental and maintenance	843,909	86,895	188,325	275,220	1,119,129	775,939
Vehicle operating costs	940,260	-	-	-	940,260	697,270
Bank and payroll charges	-	877,367	-	877,367	877,367	679,882
Advertising and media (including in-kind of \$231,468 and \$405,909 for the years ended June 30, 2021 and 2020, respectively)	-	-	720,362	720,362	720,362	932,256
Postage and printing	147,585	3,890	543,246	547,136	694,721	452,779
Direct mailing costs	-	-	677,231	677,231	677,231	584,658
Telephone	340,549	65,967	55,384	121,351	461,900	311,109
Bad debt expense	-	399,654	-	399,654	399,654	695
Insurance	214,313	23,164	19,447	42,611	256,924	225,775
Dues and subscriptions	44,849	31,055	73,041	104,096	148,945	95,569
Recruitment expenses	41,426	81,591	15,329	96,920	138,346	85,366
Volunteer expenses	59,654	-	-	-	59,654	31,338
Travel	30,314	700	2,067	2,767	33,081	55,835
Conferences, conventions, and meetings	6,675	5,859	9,308	15,167	21,842	123,917
Affiliation fees	13,344	-	-	-	13,344	27,417
Taxes and licenses	-	10,313	-	10,313	10,313	10,737
	<u>\$ 264,987,582</u>	<u>\$ 6,671,583</u>	<u>\$ 6,868,457</u>	<u>\$ 13,540,040</u>	<u>\$ 278,527,622</u>	<u>\$ 174,670,038</u>
Percentage of total	<u>95.1 %</u>	<u>2.4 %</u>	<u>2.5 %</u>	<u>4.9 %</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, 2021  
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 56,027,013	\$ 40,030,530
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,608,647	2,245,534
Loss on sale and disposal of equipment	(39,955)	(10,624)
In-kind contributions of food and non-food supplies (including government and non government)	(190,841,534)	(117,980,151)
Distribution of food and non-food supplies received in-kind	188,397,123	117,892,754
Net realized and unrealized (gains) losses on investments	(13,524,754)	307,217
Changes in operating assets and liabilities		
Accounts receivable	50,456	(71,596)
Grants receivable	655,320	(980,437)
Pledges receivable	2,512,028	978,498
Purchased inventory (food)	1,210,713	(2,455,482)
Prepaid expenses and other assets	505,854	(628,874)
Deposits	(2,000,000)	-
Accounts payable	2,151,021	2,991,120
Accrued expenses	723,949	406,252
Deferred revenue	175,716	48,925
Refundable advance - PPP	(2,500,000)	2,500,000
Net cash provided by operating activities	<u>46,111,597</u>	<u>45,273,666</u>
Cash flows from investing activities		
Purchase of land, buildings, and equipment	(7,910,781)	(2,715,043)
Proceeds from sales of equipment	65,484	4,174
Purchases of investments	(93,637,906)	(13,503,586)
Proceeds from sale of investments	<u>11,655,560</u>	<u>11,993,442</u>
Net cash used in investing activities	<u>(89,827,643)</u>	<u>(4,221,013)</u>
Net increase (decrease) in cash and cash equivalents	(43,716,046)	41,052,653
Cash and cash equivalents, beginning of year	<u>54,396,522</u>	<u>13,343,869</u>
Cash and cash equivalents, end of year	<u>\$ 10,680,476</u>	<u>\$ 54,396,522</u>

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



Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2021  
(With Comparative Totals for 2020)

1. ORGANIZATION

Second Harvest of Silicon Valley (also known as "Second Harvest"), a nonprofit 501(c)(3) organization established in 1974 and incorporated in 1979, has the mission of leading our community to ensure that everyone who needs a healthy meal can get one. In pursuit of this mission, the COVID-19 pandemic created unprecedented health and economic devastation never experienced by most and as a result, global food insecurity rose to unprecedented levels. The impact to those in the community served by Second Harvest was no exception, as the number of clients served increased from approximately 250,000 per month pre-pandemic to more than 500,000 per month during the pandemic. 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. Now, a year after the onset of the pandemic, the health and economic damage many are facing continues. Although the rate of infections is down year over year and the death rate has declined, the arrival of the Delta variant has detracted from much of the progress made with vaccinations and shelter-in-place activities. As a result, throughout fiscal year 2021, Second continued to serve approximately 500,000 clients per month. Second Harvest anticipates this level of food crisis will continue for the near future.

The pandemic changed the world in which Second Harvest operated. Prior to the pandemic, Second Harvest delivered its food via farmers market-style distributions. This type of food delivery was transitioned from a high-touch, client interactive activity to a low-touch, drive-thru 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 2021 there were over 130 distribution sites. In addition to the transition to drive-thru distributions, Second Harvest 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 4,000 households of homebound seniors and high-risk individuals (5,500 households in fiscal 2020).

Delivering almost twelve million pounds per month during fiscal 2021, was a major challenge for Second Harvest. The existing facilities were not sufficient to meet the needs resulting in Second Harvest leasing additional space in San Jose and increasing its fleet of trucks to 36. During fiscal 2021, Second Harvest delivered 143.9 million pounds versus 91.6 million pounds in fiscal 2020. Second Harvest realizes that its ability to maintain or scale its operations under the current conditions is not sustainable operating out of three sites. As a result, in May 2021, Second Harvest entered into an agreement to purchase land in North San Jose, with the intention of building a new operations warehouse to consolidate its operating activities into one location. The purchase of the property is in its early stages and has certain contingencies. Second Harvest does not expect to begin construction until all contingencies have been removed and does not expect to move into the facility until 2024. Purchasing this property is a major step for Second Harvest to improve and expand on its ability to deliver a nutritious mix of foods to the community.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2021  
(With Comparative Totals for 2020)

1. ORGANIZATION (continued)

In addition to delivering food to those in need, Second Harvest acts as an advocate helping school districts and community groups navigate existing federal feeding programs and leveraging public funds available to feed more children. Second Harvest is proud to have participated alongside various partners to support a state bill that resulted in California investing \$650 million annually to provide universally free breakfast and lunch to all students, affecting more than 247,000 students in Santa Clara and San Mateo counties. Second Harvest will continue to advocate on the federal level for all children in the U.S. to receive free school meals.

Volunteers and donors continue to be key to Second Harvest's ability to meet the need for food in our community. During fiscal year 2021, Second Harvest's 176,875 donors provided more than 191,000 gifts. These gifts totaled a record \$112.5 million for fiscal year 2021. As previously described, Second Harvest believes the increased need for its services will last for many years to come and the surplus generated this year from the high level of contributions will be used next year and in support of future years as available. In addition to the favorable donor performance, Second Harvest was fortunate to be able to leverage over 422,000 volunteer hours (including National Guard and San Jose Conservation Corp support) or approximately 203 full-time employees to its workforce.

Despite the challenges raised by the pandemic, Second Harvest has continued to focus on its commitment of delivering healthy food to its partner agencies and clients in the community. As we move out of the depth of the pandemic, Second Harvest is looking for additional ways to reach and serve more of those in need. Second Harvest does not anticipate a reduction in need anytime soon – history has shown that the people who are most vulnerable have been hit hardest and will take the longest to recover. Second Harvest intends to be there to deliver to those most vulnerable and those in need near term and for the long term.

2. CHANGE IN NET ASSETS

The significant positive change in net assets for the years ended June 30, 2021 and 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.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2021  
(With Comparative Totals for 2020)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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, 2020, 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.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2021  
(With Comparative Totals for 2020)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$1.79 and \$1.74 per pound for the years ended June 30, 2021 and 2020, respectively. Donated government food was valued at \$1.70 and \$1.49 per pound for the years ended June 30, 2021 and 2020, 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.

Second Harvest of Silicon Valley  
Notes to Financial Statements  
June 30, 2021  
(With Comparative Totals for 2020)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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, 2021 and 2020. 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, 2021 and 2020 was \$1,361,768 and \$1,154,281, 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 of Silicon Valley  
Notes to Financial Statements  
June 30, 2021  
(With Comparative Totals for 2020)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions (continued)

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

Contributions in-kind

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2021 and 2020 totaled \$720,362 and \$932,256, respectively. Of these costs, \$231,468 and \$405,909 were from in-kind contributions for the years ended June 30, 2021 and 2020, respectively.

Reclassifications

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

Subsequent events

Management of Second Harvest has evaluated events and transactions subsequent to June 30, 2021 for potential recognition or disclosure in the financial statements. Second Harvest did not have subsequent events that requires disclosure in the financial statements for the year ended June 30, 2021. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 20, 2021.

4. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	<u>2021</u>	<u>2020</u>
Pledges receivable in less than one year	\$ 1,240,050	\$ 3,485,000
Pledges receivable in one to three years	<u>910,000</u>	<u>1,305,000</u>
	2,150,050	4,790,000
Less discounts to net present value	<u>(66,258)</u>	<u>(194,180)</u>
	<u>\$ 2,083,792</u>	<u>\$ 4,595,820</u>

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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 \$1.79 and \$1.74 per pound for the years ended June 30, 2021 and 2020, respectively. Donated government food was valued at \$1.70 and \$1.49 per pound for the years ended June 30, 2021 and 2020, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food approximates actual cost and is valued utilizing first in, first out (FIFO) method. All donated food, non-food items, and USDA commodities inventory are classified as Level 2 assets and all purchased food inventory is classified as a Level 1 asset (see Note 3).

Inventory consisted of the following:

	<u>2021</u>	<u>2020</u>
Donated non-government food and non-food supplies	\$ 4,788,133	\$ 2,293,079
Purchased food	1,375,727	2,720,588
USDA food commodities	626,185	584,418
Mixed box	230,999	65,934
Purchased non-food supplies	102,464	133,381
CFAP food commodities	<u>-</u>	<u>92,410</u>
	<u>\$ 7,123,508</u>	<u>\$ 5,889,810</u>

6. INVESTMENTS

Investments consisted of the following:

	<u>2021</u>	<u>2020</u>
Investments - other	\$ 115,529,022	\$ 24,949,129
Investments - board designated endowment (Notes 13 and 14)	<u>18,650,394</u>	<u>13,723,187</u>
	<u>\$ 134,179,416</u>	<u>\$ 38,672,316</u>



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6. INVESTMENTS (continued)

Net investment income consisted of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 1,605,557	\$ 1,497,520
Net realized and unrealized gains (losses)	<u>13,524,754</u>	<u>(307,217)</u>
	15,130,311	1,190,303
Investment fees	<u>(471,389)</u>	<u>(284,718)</u>
	<u>\$ 14,658,922</u>	<u>\$ 905,585</u>

7. FAIR VALUE MEASUREMENTS

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

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

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

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	<u>-</u>	<u>239,026</u>	<u>-</u>	<u>239,026</u>
	<u>\$ 20,481,688</u>	<u>\$ 18,190,628</u>	<u>\$ -</u>	<u>\$ 38,672,316</u>

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8. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following:

	2021	2020
Land	\$ 3,865,858	\$ 3,865,858
Buildings and improvements	28,793,717	28,129,974
Equipment	19,374,955	14,466,350
Construction-in-progress	470,894	935,909
	52,505,424	47,398,091
Accumulated depreciation	(21,164,250)	(18,776,948)
	\$ 31,341,174	\$ 28,621,143

Depreciation expense for the years ended June 30, 2021 and 2020 totaled \$2,608,647 and \$2,245,534, respectively.

9. PAYCHECK PROTECTION PROGRAM

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

In accordance with generally accepted accounting principles, Second Harvest has two options to record the transactions of PPP loan. An organization can record the PPP loan as a loan payable when receives the loan proceeds, and other income when receives loan forgiveness approval. If an organization expects to meet the PPP eligibility criteria and concludes that the PPP loan represents a grant, the PPP loan can be also recorded as refundable advance at receiving, and recognized as contribution revenue when conditions are met.

Second Harvest expects to meet the PPP’s eligibility criteria and, therefore, has concluded that the PPP loan represents, in substance, a grant that is expected to be forgiven. As a result, Second Harvest has accounted for the PPP loan in accordance with FASB ASC 958-605 as a conditional contribution.

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

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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, 2021 and 2020 were limited to a maximum of \$4,000,000. Interest on outstanding funds is payable monthly at the bank's prime rate of 3.25%. The maturity date is September 10, 2022. The line of credit is secured by certain assets owned by Second Harvest. There was no balance outstanding or related interest expense on this line of credit for either of the years ended June 30, 2021 and 2020.

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 financial position. Management has determined that recognition of an in-kind contribution for this amount on an annual basis is overall not material to the financial statements.

Second Harvest entered into a temporary lease agreement for an additional 43,685 square feet of warehouse space on March 31, 2020. The lease term was six months through September 30, 2020 at a rate of \$0 per month. Second Harvest has recognized in-kind contributions totaling \$100,476 and \$152,344 based on the estimated fair value of the rent for the years ended June 30, 2021 and 2020, respectively. On July 21, 2020, Second Harvest signed a new lease agreement for 91,202 square feet of warehouse space. The term of the lease was from September 30, 2020 to June 30, 2021. On June 7, 2021, the lease was extended through August 31, 2024. The warehouse space will allow Second Harvest to expand its food handling and distribution to meet the increased food need in our community.

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

<u>Year ending June 30,</u>	
2022	\$ 1,201,720
2023	1,252,917
2024	1,252,917
2025	<u>313,229</u>
	<u>\$ 4,020,783</u>

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11. COMMITMENTS AND CONTINGENCIES (continued)

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, 2021.

Commitment

In May 2021, Second Harvest entered into an agreement to purchase land in North San Jose, with the intention of building a new operations warehouse to unify its operations in Santa Clara County. The purchase price totals \$37,000,000 and required a \$2,000,000 deposit that is held in escrow until close and subject to refund if such close under certain conditions. The purchase of the property is in its early stages and is contingent on getting the land entitled for its intended use; only then would construction commence. Any move into the new location would not happen until 2024. The potential purchase of this property is a major step for Second Harvest to improve and expand on its ability to deliver a nutritious mix of food to its clients and ensure food security for our community in the long term. While the new site will support both counties, Second Harvest will continue to maintain a location in San Mateo County to continue meeting the needs of our peninsula community.

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, 2021 and 2020 totaled \$811,558 and \$614,497, 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. Pandemic recovery fund reserve provides additional funding for food when uncertain times and potential scarcity could unexpectedly develop into a sudden, unplanned community need which requires spending for additional food. In addition, the designated funds shall be used to support the longer-term recovery of the community as a result of sudden unplanned community need. The Board may also designate funds to support investment in the infrastructure of its partners to strengthen the distribution channel. The designated capital replacement fund is calculated as the present-value of a ten-year asset replacement plan including additional funds for upgrades of existing assets. Inventory reserved is the on-hand fair market value as of June 30, 2021.

Board designated net assets consisted of the following:

	<u>2021</u>	<u>2020</u>
Designated for operating reserves	\$ 50,365,806	\$ 45,425,659
Pandemic recovery fund reserve	44,451,713	16,185,894
Board designated endowment fund (investment)	18,650,394	13,723,187
Board designated facility expansion reserve	15,000,000	-
Designated for capital replacement	9,939,541	9,926,297
Inventory	<u>7,123,508</u>	<u>5,889,810</u>
	<u>\$ 145,530,962</u>	<u>\$ 91,150,847</u>

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, 2021 and 2020, there were no spending allocations made. \$2,925,539 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.

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14. BOARD DESIGNATED ENDOWMENT FUND (continued)

Endowment composition

Changes in board designated endowment net assets are as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 13,723,187	\$ 13,182,466
Transfers to board designated endowment fund	1,297,035	419,124
Investment income	3,856,994	232,008
Investment fees	<u>(226,822)</u>	<u>(110,411)</u>
Balance, end of year	<u>\$ 18,650,394</u>	<u>\$ 13,723,187</u>

15. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2021</u>	<u>2020</u>
Purpose restrictions	\$ 818,431	\$ 1,074,173
Time restrictions	<u>3,267,492</u>	<u>4,084,883</u>
	<u>\$ 4,085,923</u>	<u>\$ 5,159,056</u>

Net assets with donor restrictions released from restriction during the year ended June 30, 2021 were as follows:

Purpose restrictions	\$ 302,603
Time restrictions	<u>3,548,923</u>
	<u>\$ 3,851,526</u>

16. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, gift certificates, property and equipment, advertising, supplies, expert services, freight, and warehouse space received are recorded as contributions. Donated non-government products were valued at \$1.79 and \$1.74 per pound for the years ended June 30, 2021 and 2020, respectively. Donated government food was valued at \$1.70 and \$1.49 per pound for the years ended June 30, 2021 and 2020, respectively. This valuation is based on a cost study conducted for Feeding America.

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16. CONTRIBUTIONS IN-KIND (continued)

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

	2021	2020
Contributions in-kind - non government		
Food and non-food inventory	\$ 125,064,262	\$ 95,247,795
Supplies and minor equipment	282,918	109,721
Advertising and media	231,468	405,909
Freight	210,417	-
Warehouse space	100,476	152,334
Vehicles and equipment	30,053	-
Gift certificates	16,354	34,809
	125,935,948	95,950,568
Government assistance - in-kind		
Food - government	66,168,227	20,078,332
	\$ 192,104,175	\$ 116,028,900

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, 2021 and 2020, the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$9,846,377 and \$5,979,876, respectively. The value of these services are not reflected in the financial statements.

17. 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, 2021 and 2020 were \$13,344 and \$27,417, respectively.

18. 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.

19. 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.



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19. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

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, \$2,925,539 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, 2021. 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, 2021 to fund general expenditures and other obligations when they become due:

Available financial assets consisted of the following:

Cash and cash equivalents	\$ 10,680,476
Accounts receivable	65,030
Grants receivable	1,074,366
Pledges receivable	2,083,792
Investments - other	115,529,022
Investments - board designated endowment	<u>18,650,394</u>
	<u>148,083,080</u>

Less amounts unavailable for general expenditure within one year:

Investments - board designated endowment	(18,650,394)
Net assets restricted for a specified purpose	(818,431)
Net assets restricted to a passage of time	(2,227,492)
Board designated for capital replacement	(9,939,541)
Board designated facility expansion reserve	<u>(15,000,000)</u>
	<u>(46,635,858)</u>

Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 101,447,222</u>
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20. RISKS AND UNCERTAINTIES

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

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, 2021, 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 20, 2021.

### **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 20, 2021

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, 2021. 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, 2021.

## 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 20, 2021

Second Harvest of Silicon Valley  
Schedule of Expenditures of Federal and Other Governmental Awards  
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
<b>EXPENDITURES OF FEDERAL AWARDS</b>			
<b><u>U.S. Department of Agriculture</u></b>			
Passed through:			
California Department of Social Services			
Emergency Food Assistance Program (Administrative Costs)			
Emergency Food Assistance Program (Administrative Costs)	10.568	N/A	\$ 421,082
Emergency Food Assistance Program (CARES Supplemental)	10.568	N/A	15,901
Emergency Food Assistance Program (CARES)	10.568	N/A	73,375
Emergency Food Assistance Program (TEFAP Supplemental)	10.568	N/A	50,577
Emergency Food Assistance Program (FFCRA)	10.568	N/A	129,002
Emergency Food Assistance Program (CRRS)	10.568	N/A	311,027
Emergency Food Assistance Program (FFCRA COVID Tax Credit)	10.568	N/A	75,608
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	17,982,567
			<u>19,059,139</u>
Passed through:			
California Department of Social Services			
Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178	N/A	<u>61,240</u>
Passed through:			
California Association of Food Banks			
Specialty Crop Block Grant Program - Farm Bill	10.170	N/A	<u>238,635</u>
Passed through:			
California Association of Food Banks			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	<u>230,070</u>
<b>Total U.S. Department of Agriculture</b>			<u>19,589,084</u>
<b><u>Federal Emergency Management Agency</u></b>			
Direct Program:			
Emergency Food and Shelter National Board Program			
Santa Clara County Phase 37	97.024	N/A	200,000
San Mateo County Phase 37	97.024	N/A	<u>72,000</u>
<b>Total Federal Emergency Management Agency</b>			<u>272,000</u>

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

Second Harvest of Silicon Valley  
Schedule of Expenditures of Federal and Other Governmental Awards  
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Expenditures
<b><u>U.S. Department of Treasury</u></b>			
Coronavirus Relief Fund			
Passed through:			
California Department of Social Services	21.019	N/A	1,473,135
California Department of Social Services (ACT Addition)	21.019	N/A	157,460
California Association of Food Banks	21.019	N/A	2,778,384
Cal Foods Logistics	21.019	N/A	1,333,444
Cal Foods Logistics (CRF Incentives)	21.019	N/A	82,020
City of San Jose	21.019	N/A	2,639,000
San Mateo County	21.019	N/A	<u>4,000,000</u>
<b>Total U.S. Department of Treasury</b>			<u>12,463,443</u>
<b>Total Expenditures of Federal Awards</b>			<u>32,324,527</u>
<b><u>Other Governmental Awards</u></b>			
Santa Clara County - Department of Social Services	N/A	N/A	839,842
State Emergency Food Assistance Program (SEFAP)	N/A	N/A	303,313
State Emergency Food Assistance Program (CA DSS Disaster Box)	N/A	N/A	170,460
State Emergency Food Assistance Program (Food Bank Capacity)	N/A	N/A	401,044
Emergency Food Assistance Program (Tax Check Off)	N/A	N/A	14,812
California Recycle (Truck Purchase and Driver Salary)	N/A	N/A	300,000
Daylight Foods - Passed through from USDA (Farm to Family Boxes)	N/A	N/A	135,488
Santa Clara County - Strengthening Summer Meals	N/A	N/A	112,831
Santa Clara County - Refrigerated Truck	N/A	N/A	120,000
San Mateo County - Food Rescue	N/A	N/A	195,145
San Mateo County - Summer Meal	N/A	N/A	40,000
San Mateo County - Adult Meal	N/A	N/A	20,000
Sequoia HCD - Pharm Pantry	N/A	N/A	40,000
Sequoia HCD - Food Assistance	N/A	N/A	100,000
Sequoia HCD - COVID Support	N/A	N/A	50,000
Sequoia HCD - Food Assistance	N/A	N/A	250,000
San Mateo County - Measure K	N/A	N/A	159,135
San Mateo County - Food Assistance	N/A	N/A	74,011
San Mateo County - Peninsula Healthcare District	N/A	N/A	50,000
San Mateo County - Peninsula Healthcare District - COVID	N/A	N/A	37,500
City of San Jose - Fresh Groceries	N/A	N/A	<u>15,000</u>
<b>Total Other Governmental Awards</b>			<u>3,428,581</u>
<b>Total Expenditures of Federal and Other Government Awards</b>			<u><u>\$ 35,753,108</u></u>

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



Second Harvest of Silicon Valley  
Notes to Schedule of Expenditures of Federal and Other Governmental Awards  
June 30, 2021

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, 2021. 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:

CFDA Number	Program Name	Amount Provided to Subrecipients
10.569	Emergency Food Assistance Program (Food Commodities)	\$17,982,567
21.019	Coronavirus Relief Fund	\$12,463,443

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, 2021, Second Harvest had food commodities totaling \$626,185 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, 2021

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>
Coronavirus Relief Fund	21.019
Dollar threshold used to distinguish between Type A and Type B programs	\$969,736
Auditee qualified as low-risk auditee?	Yes

Second Harvest of Silicon Valley  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2021

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, 2021

There were no prior year findings.