

Second Harvest of Silicon Valley

Financial Statements
and Single Audit Reports and Schedules

June 30, 2023
(With Comparative Totals for 2022)



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Second Harvest of Silicon Valley ("Second Harvest"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest of Silicon Valley as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Second Harvest of Silicon Valley and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest of Silicon Valley's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Second Harvest of Silicon Valley's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and other governmental awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2023, on our consideration of Second Harvest's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Second Harvest's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Second Harvest of Silicon Valley's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 31, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 19, 2023

Second Harvest of Silicon Valley
Statement of Financial Position
June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 14,720,420	\$ 13,051,639	\$ 27,772,059	\$ 30,393,178
Investments	10,719,792	-	10,719,792	36,132,760
Accounts receivable	20,893	-	20,893	157,059
Grants receivable	1,848,572	-	1,848,572	1,418,655
Pledges receivable, current portion	322,500	10,721,782	11,044,282	9,361,884
Inventory	3,751,332	-	3,751,332	7,008,520
Prepaid expenses and other assets	888,294	-	888,294	1,423,536
Total current assets	32,271,803	23,773,421	56,045,224	85,895,592
Non current assets				
Land, buildings, and equipment, net	43,797,659	29,964,344	73,762,003	71,636,265
Pledges receivable, net of current portion and discount	-	18,453,693	18,453,693	24,761,953
Investments	76,672,456	-	76,672,456	53,275,009
Investments - Board Designated Endowment	16,175,336	-	16,175,336	17,065,005
Operating lease right-of-use asset	1,316,358	-	1,316,358	-
Total non current assets	137,961,809	48,418,037	186,379,846	166,738,232
Total assets	\$ 170,233,612	\$ 72,191,458	\$ 242,425,070	\$ 252,633,824
LIABILITIES AND NET ASSETS				
Current liabilities				
Liquidity Access Line	\$ 10,719,792	\$ -	\$ 10,719,792	\$ 36,132,760
Accounts payable	5,659,205	-	5,659,205	6,173,483
Accrued expenses	3,985,792	-	3,985,792	3,718,526
Deferred revenue	-	-	-	55,350
Operating lease liability, current portion	1,140,755	-	1,140,755	-
Total current liabilities	21,505,544	-	21,505,544	46,080,119
Operating lease liability, net of current portion	194,250	-	194,250	-
Total liabilities	21,699,794	-	21,699,794	46,080,119
Net assets				
Without donor restrictions				
Undesignated	500,000	-	500,000	500,000
Board designated	113,481,664	-	113,481,664	118,036,452
Land, buildings, and equipment, net	34,552,154	-	34,552,154	35,446,297
Total without donor restrictions	148,533,818	-	148,533,818	153,982,749
With donor restrictions				
Restricted for Capital Campaign	-	63,161,497	63,161,497	39,408,895
Restricted for a specific purpose	-	784,352	784,352	1,434,544
Restricted to a passage of time	-	8,245,609	8,245,609	11,727,517
Total with donor restrictions	-	72,191,458	72,191,458	52,570,956
Total net assets	148,533,818	72,191,458	220,725,276	206,553,705
Total liabilities and net assets	\$ 170,233,612	\$ 72,191,458	\$ 242,425,070	\$ 252,633,824

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, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
Support, revenue, and net assets released from restriction				
Contributions in-kind - non-government Contributions	\$163,733,588	\$ -	\$163,733,588	\$155,896,930
Government assistance - cash	73,566,689	23,922,335	97,489,024	127,442,635
Government assistance - in-kind	12,362,487	-	12,362,487	11,192,569
Net investment income (loss)	10,734,612	-	10,734,612	13,009,217
Miscellaneous income	9,257,491	-	9,257,491	(13,527,350)
Net assets released from restriction	241,115	-	241,115	66,042
Total support, revenue, and net assets released from restriction	<u>4,301,833</u>	<u>(4,301,833)</u>	<u>-</u>	<u>-</u>
Functional expenses				
Program services	274,197,815	19,620,502	293,818,317	294,080,043
Support services				
Management and general	264,617,750	-	264,617,750	255,149,965
Fundraising	7,136,151	-	7,136,151	6,633,502
Total support services	7,892,845	-	7,892,845	7,200,930
Total functional expenses	<u>15,028,996</u>	<u>-</u>	<u>15,028,996</u>	<u>13,834,432</u>
Change in net assets (Note 2)	279,646,746	-	279,646,746	268,984,397
Net assets, beginning of year	(5,448,931)	19,620,502	14,171,571	25,095,646
Net assets, end of year	<u>153,982,749</u>	<u>52,570,956</u>	<u>206,553,705</u>	<u>181,458,059</u>
	<u>\$148,533,818</u>	<u>\$ 72,191,458</u>	<u>\$220,725,276</u>	<u>\$206,553,705</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, 2023
(With Comparative Totals for 2022)

	Program Services	Support Services			2023 Total	2022 Total
		Management and General	Fundraising	Total Support Services		
Personnel expenses						
Salaries and wages	\$ 21,286,678	\$ 4,100,778	\$ 3,849,199	\$ 7,949,977	\$ 29,236,655	\$ 25,903,687
Employee benefits	3,932,836	781,824	686,979	1,468,803	5,401,639	4,652,604
Payroll taxes	1,593,729	307,584	287,628	595,212	2,188,941	1,851,682
Worker's compensation insurance	258,578	53,406	43,679	97,085	355,663	292,878
Total personnel expenses	27,071,821	5,243,592	4,867,485	10,111,077	37,182,898	32,700,851
Donated food and supplies distributed	174,936,392	-	-	-	174,936,392	168,813,218
Purchased food and supplies distributed	38,442,481	-	-	-	38,442,481	37,460,175
Occupancy, including in-kind	3,755,563	134,741	129,301	264,042	4,019,605	4,535,155
Supplies, including in-kind	3,448,176	18,962	88,214	107,176	3,555,352	4,304,271
Depreciation	3,193,718	120,381	136,438	256,819	3,450,537	3,349,614
Freight and storage, including in-kind	3,066,124	-	-	-	3,066,124	3,214,198
Professional services	1,520,720	579,120	180,744	759,864	2,280,584	2,202,090
Outside services	2,138,088	3,789	122,090	125,879	2,263,967	4,133,817
Vehicle operating costs	1,739,634	-	-	-	1,739,634	1,226,330
Equipment for agency infrastructure	1,597,888	-	-	-	1,597,888	1,946,531
Equipment rental and maintenance	1,021,649	76,445	162,541	238,986	1,260,635	891,009
Advertising and media, including in-kind	182,922	-	949,890	949,890	1,132,812	871,232
Insurance	581,117	96,399	77,914	174,313	755,430	256,610
Interest	682,187	-	-	-	682,187	108,510
Postage and printing	105,484	10,422	494,089	504,511	609,995	628,522
Bank and payroll charges	-	594,150	-	594,150	594,150	712,035
Direct mailing costs	-	-	528,092	528,092	528,092	659,061
Taxes and licenses	457,217	4,835	1,776	6,611	463,828	13,550
Telephone	333,057	68,789	56,588	125,377	458,434	420,471
Dues and subscriptions	80,196	36,809	67,492	104,301	184,497	154,508
Recruitment expenses	29,358	125,194	3,267	128,461	157,819	187,488
Conferences, conventions, and meetings	88,044	17,857	9,669	27,526	115,570	58,807
Travel	54,682	4,646	17,255	21,901	76,583	57,815
Volunteer expenses	72,468	-	-	-	72,468	69,066
Affiliation fees	18,764	-	-	-	18,764	9,383
Bad debt expense	-	20	-	20	20	80
	<u>\$ 264,617,750</u>	<u>\$ 7,136,151</u>	<u>\$ 7,892,845</u>	<u>\$ 15,028,996</u>	<u>\$ 279,646,746</u>	<u>\$ 268,984,397</u>
Percentage of total	<u>94.6 %</u>	<u>2.6 %</u>	<u>2.8 %</u>	<u>5.4 %</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, 2023
(With Comparative Totals for 2022)

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 14,171,571	\$ 25,095,646
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	3,450,537	3,349,614
Capital Campaign contributions, net	(22,417,196)	(39,408,895)
Gain on sale and disposal of equipment	(41,397)	(102,341)
In-kind contributions of food and non-food supplies (including government and non-government)	(173,626,647)	(167,872,232)
Distribution of food and non-food supplies received in-kind	174,936,392	168,813,218
Net realized and unrealized (gains) losses on investments	(6,785,465)	16,082,913
Amortization of operating lease right-of-use asset	1,094,113	-
Changes in operating assets and liabilities		
Accounts receivable	136,165	(92,028)
Grants receivable	(429,917)	(344,289)
Pledges receivable, net of discount	2,194,378	(8,314,455)
Purchased inventory (food)	1,947,443	(825,998)
Prepaid expenses and other assets	535,242	(348,991)
Deposits	-	2,000,000
Accounts payable	(514,277)	857,868
Accrued expenses	267,266	1,099,033
Deferred revenue	(55,350)	(173,791)
Operating lease liability	(1,075,466)	-
Net cash used in operating activities	(6,212,608)	(184,728)
Cash flows from investing activities		
Proceeds from sale of investments	28,962,617	40,061,155
Purchases of investments	(19,271,962)	(28,437,426)
Proceeds from sales of equipment	69,555	289,072
Purchase of land, buildings, and equipment	(5,604,433)	(43,831,436)
Net cash provided by (used in) investing activities	4,155,777	(31,918,635)
Cash flows from financing activities		
Proceeds from Liquidity Access Line	-	36,132,760
Payments on Liquidity Access Line	(25,412,968)	-
Proceeds received from Capital Campaign	24,848,680	15,683,305
Net cash provided by (used in) financing activities	(564,288)	51,816,065
Net increase (decrease) in cash and cash equivalents	(2,621,119)	19,712,702
Cash and cash equivalents, beginning of year	30,393,178	10,680,476
Cash and cash equivalents, end of year	\$ 27,772,059	\$ 30,393,178

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 684,293	\$ 51,304
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Supplemental schedule of noncash investing and financing activities

Operating right-of-use asset in exchange for operating lease liability	\$ 2,410,471	\$ -
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The accompanying notes are an integral part of these financial statements.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

1. ORGANIZATION

Second Harvest of Silicon Valley (also known as "Second Harvest") is a nonprofit 501(c)(3) organization established in 1974 and incorporated in 1979. Second Harvest is committed to doing whatever it takes to end hunger in our community. That means distributing nutritious food to nearly every neighborhood in Silicon Valley, leveraging every available food resource, and collaborating with organizations and people who share our belief that hunger is unacceptable. Nutritious food is the foundation for a healthy, productive life.

In fiscal 2023, Second Harvest continued to face the economic hangover of the COVID-19 pandemic. In addition, Second Harvest's clients faced additional hardship as result of reduced government subsidies, and an economy facing additional headwinds from inflation and increased unemployment. Today, more than three years since the pandemic began, Second Harvest is serving approximately 500,000 people on average every month across Santa Clara and San Mateo counties matching the number of people served during the heart of the pandemic. Income inequality and the high cost of housing — compounded by the continuing impact of COVID-19 — have created an increased, long-term need for nutritious food, accessible to anyone. Even before the economic crisis caused by the pandemic, 1 in 4 people in Silicon Valley were at risk of food insecurity because they struggled to afford basic expenses. Second Harvest does not expect the number of people accessing our services to ever return to pre-pandemic levels. Access to nutritious food is critical for so many people who are struggling to get by in Silicon Valley: parents juggling multiple jobs, college students who need to focus on their studies, homebound seniors and more. As the challenging economic conditions continue, Second Harvest anticipates this level of food insecurity will continue.

In order to serve this high volume of people, Second Harvest partners with its network of nearly 400 partners at more than 900 sites supplying food via walk-up (farmers' market style) or drive-thru distributions. Drive-thru grocery distributions offer clients a pre-selected mix of foods, while Second Harvest's walk-up farmers' market-style distributions allow clients to choose only the foods they want. As Second Harvest moves forward, it has focused its efforts on continuing to safely provide enough food to meet the higher demand, while transitioning some sites back to farmers' market style distributions. Second Harvest's mix of distributions using both the choice and drive-thru models has allowed it to better meet its clients' needs. In addition, Second Harvest continues to deliver pre-boxed groceries to an average of 4,900 households with homebound seniors and high-risk individuals.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

1. ORGANIZATION (continued)

During fiscal year 2023, Second Harvest distributed 125 million pounds of food – slightly more than 10 million pounds per month, versus 130 million pounds delivered in fiscal year 2022. While the total pounds decreased year over year, the amount of food delivered in fiscal year 2023 exceeded pre-pandemic levels by over 80%, up from 69 million pounds in 2019. The increased food insecurity experienced by our community has stretched Second Harvest's facilities as far as they can go. Second Harvest's management believes it is not operating efficiently – every week, Second Harvest must make 54+ deliveries to move food between its warehouses before it even reaches the community. Meeting the increased need for food assistance in our community has continued to be a challenge as Second Harvest is currently operating out of four locations, one of which was specifically leased to support its increased distribution needs during the pandemic. While the leased facility continues to be a critical component of Second Harvest's overall operations, Second Harvest has realized that operating out of four sites is not sustainable. As a result, during fiscal year 2022, Second Harvest of Silicon Valley acquired 10.4 acres of land in north San Jose with the intention of building a new operations warehouse that will allow it to consolidate its existing four operating warehouses into one location (see Note 8). Second Harvest believes the new facility is critical for it to improve and expand on its ability to deliver a nutritious mix of foods to the community.

In addition to distributing food, Second Harvest acts as an advocate helping school districts and community groups navigate existing state and federal meal programs and leveraging available public funds to make more food accessible to children. One in three kids in San Mateo and Santa Clara Counties are at risk of food insecurity and the issue is compounded by inflation which has increased food prices and impacted family budgets. Second Harvest stepped up its efforts to ensure that every child has access to healthy food – during the school year and all summer long. Second Harvest proudly participated with its partners to successfully support a state bill that resulted in California being the first state in the country to pass a Universal Meals Program, meaning every student can receive free school meals, reducing the stigma often associated with participating in meal programs. School Year 2022-2023 was the first year for this program's implementation. An additional 247,000 students in San Mateo and Santa Clara Counties were able to eat two meals at school at no cost to them as a result. Second Harvest will continue to advocate on the federal level for all children in the U.S. to receive free school meals.

A critical component to the success of Second Harvest's ability to deliver nutritious food to meet the needs of the community is its donors and volunteers. During fiscal year 2023, more than 53,000 donors provided over 133,000 gifts totaling \$76.8 million. As previously described, Second Harvest believes the increased need for its services will last for many years to come. The surplus generated in prior years will be used to cover its planned deficit of \$16 million in fiscal year 2024 and support the increased needs next year and future years as available. In addition to the continued strong donor support, Second Harvest was able to leverage 358,024,000 volunteer hours (including San Jose Conservation Corps support), the equivalent of 172 full-time employees.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

1. ORGANIZATION (continued)

The impact of the pandemic continues to be felt in our communities. In addition to the on-going effects of COVID-19 and the challenges we are facing today from high inflation, high unemployment, instability around the world and political dynamics make it more challenging than ever for families facing food insecurity to recover. As a result, Second Harvest remains centered on meeting the needs of our community by providing healthy food to those who are most vulnerable and will continue to do so for as long as our community needs its support.

2. CHANGE IN NET ASSETS

The positive change in net assets for the year ended June 30, 2023 of approximately \$14 million was primarily due to the increase in capital campaign of \$23 million, net of loan repayments); reduction in multi-year contributions of \$4 million and the organizational deficit of \$5 million (reflecting a \$13 million deficit from operations, offset by \$8 million in investment gains). The capital campaign funds raised has supported the land acquisition and will support the building construction as a part of Second Harvest's warehouse consolidation efforts to improve delivery efficiencies and allow for the organization to provide more food to the community (see Note 8).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Financial statement presentation

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

- *Net assets without donor restrictions* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of Second Harvest. Under this category, Second Harvest maintains an operating fund, any net assets designated by the Board of Directors 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.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Codification 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Second Harvest adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022 through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840.

Second Harvest elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, Second Harvest recognized on July 1, 2022, an initial lease liability of \$2,410,471 which represents the present value of the remaining operating lease payments of \$2,483,089 discounted using rates ranging from the risk-free rate and a right-of-use asset of \$2,410,471.

The standard did not have a material impact on the Second Harvest's financial statements for the year ended June 30, 2023.

Use of estimates

The preparation of financial statements in conformity with GAAP 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 GAAP. Accordingly, such information should be read in conjunction with Second Harvest's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Second Harvest of Silicon Valley
Notes to Financial Statements
June 30, 2023
(With Comparative Totals for 2022)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Accounts, grants, and pledges receivable

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

Inventory

Inventory consists of donated food and non-food items, purchased food, and United States Department of Agriculture ("USDA") commodities received from the government. Donated non-government products were valued at \$1.93 and \$1.92 per pound for the years ended June 30, 2023 and 2022, respectively. Donated government food was valued at \$1.57 and \$1.53 per pound for the years ended June 30, 2023 and 2022, 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. Realized and 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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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

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

Land, buildings, and equipment

Land, buildings, and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 30 years. Land, building, and 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, 2023 and 2022. The maximum FTO that can be accrued and carried over to the next year is between 240 and 372 hours for non-exempt employees, and 300 to 408 hours for exempt employees. The accrual hours are based on the employee's years of service. The accrued FTO balance as of June 30, 2023 and 2022 was \$2,137,835 and \$1,612,134, respectively, and is included in accrued expenses.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

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

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

Contributions in-kind

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

Functional expense allocation

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status

Second Harvest 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.

GAAP provides 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, 2023 and 2022 totaled \$1,132,812 and \$871,232, respectively. Of these costs, \$353,340 and \$274,993 were from in-kind contributions for the years ended June 30, 2023 and 2022, 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, 2023 for potential recognition or disclosure in the financial statements. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 19, 2023. There were no subsequent events requiring disclosure.

4. PLEDGES RECEIVABLE

For pledges receivable expected to be collected in more than one year, a present value discount is estimated based on the risk-free rate (appropriate U.S. Treasury Bond Rate) at the time of the grant as adjusted for credit and other donor specific risks. The risk-adjusted discount rate on pledges receivable as June 30, 2023 and 2022 ranged from 2.6% to 5.8% and 2.6% to 5.3%, respectively.

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4. PLEDGES RECEIVABLE (continued)

Pledges receivable consisted of the following:

	2023	2022
Pledges receivable in less than one year	\$ 12,435,028	\$ 10,803,536
Pledges receivable in one to five years	19,993,500	27,040,528
	32,428,528	37,844,064
Less discounts to net present value	(2,930,553)	(3,720,227)
	\$ 29,497,975	\$ 34,123,837

5. INVENTORY

Inventory consists of donated food and non-food items, purchased food, and USDA commodities received from the government. Donated non-government products were valued at \$1.93 and \$1.92 per pound for the years ended June 30, 2023 and 2022, respectively. Donated government food was valued at \$1.57 and \$1.53 per pound for the years ended June 30, 2023 and 2022, 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:

	2023	2022
Donated non-government food and non-food supplies	\$ 2,375,572	\$ 4,178,791
Purchased food	1,027,232	2,302,433
USDA food commodities	268,576	292,154
Mixed box	37,937	122,763
Purchased non-food supplies	42,015	109,992
FEMA food commodities	-	2,387
	\$ 3,751,332	\$ 7,008,520

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6. INVESTMENTS

Investments consisted of the following:

	<u>2023</u>	<u>2022</u>
Investments	\$ 87,392,248	\$ 89,407,769
Investments - board designated endowment (Notes 14 and 15)	<u>16,175,336</u>	<u>17,065,005</u>
	<u>\$ 103,567,584</u>	<u>\$ 106,472,774</u>

Net investment income (loss) consisted of the following:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 3,095,245	\$ 3,407,239
Net realized and unrealized gains (losses)	<u>6,785,465</u>	<u>(16,082,913)</u>
	9,880,710	(12,675,674)
Investment fees	<u>(642,791)</u>	<u>(851,676)</u>
	<u>\$ 9,237,919</u>	<u>\$ (13,527,350)</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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Equity investments	\$ 54,595,494	\$ -	\$ -	\$ 54,595,494
Corporate bonds and notes	-	45,941,997	-	45,941,997
Real estate investment trusts	-	<u>3,030,093</u>	-	<u>3,030,093</u>
	<u>\$ 54,595,494</u>	<u>\$ 48,972,090</u>	<u>\$ -</u>	<u>\$ 103,567,584</u>

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7. FAIR VALUE MEASUREMENTS (continued)

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

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

8. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following:

	<u>2023</u>	<u>2022</u>
Land - Alviso	\$ 38,878,355	\$ 38,702,824
Buildings and improvements	29,994,410	29,167,950
Equipment	23,802,968	20,443,463
Land	3,865,858	3,865,858
Construction-in-progress	1,977,472	1,638,102
Construction-in-process - Alviso	<u>1,805,781</u>	<u>1,060,518</u>
	100,324,844	94,878,715
Accumulated depreciation	<u>(26,562,841)</u>	<u>(23,242,450)</u>
	<u>\$ 73,762,003</u>	<u>\$ 71,636,265</u>

Depreciation expense for the years ended June 30, 2023 and 2022 totaled \$3,450,537 and \$3,349,614, respectively.

In April 2022, Second Harvest purchased land in the Alviso neighborhood of North San Jose, California, for a total price (including closing costs) of approximately \$38,700,000 for the purpose of creating a new warehouse site to unify its operations in Santa Clara County. During fiscal years 2022 and 2023, Second Harvest incurred additional costs related to the land use entitlement. The purchase of the Alviso property is a major step for Second Harvest to improve and expand on its ability to deliver a nutritious mix of food to its clients and ensure food security for the community for the long-term. While the new site will support both counties, Second Harvest will continue to maintain a location in San Mateo County to continue meeting the needs of the Peninsula community. To facilitate the purchase of the land and the construction of the new warehouse, Second Harvest has entered into a Liquidity Access Line agreement (see Note 10), as well as funds raised from donors through its Capital Campaign (see Note 16).

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9. 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, 2023 and 2022 were limited to a maximum of \$4,000,000. Interest on outstanding funds is payable monthly at the bank's prime rate, which was 8.25% as of June 30, 2023. The maturity date is November 10, 2023. 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, 2023 and 2022.

10. LIQUIDITY ACCESS LINE

In April 2022, Second Harvest entered in to a Liquidity Access Line agreement (the "LAL") with Morgan Stanley. The LAL is a form of line of credit, and is collateralized by certain Second Harvest cash and investment accounts (see note 14 for Board of Directors designations in support of the LAL). Borrowings under the LAL are limited to a maximum of \$56,000,000 as of June 30, 2023. There is no specified maturity date for the LAL; the LAL is callable by Morgan Stanley at any time.

Second Harvest uses the LAL as a financing bridge for its facility expansion plans. In FY22, Second Harvest used the proceeds from the LAL to purchase a land parcel in San Jose, California (see Note 8). During the year ended June 30, 2023, Second Harvest used proceeds received from Capital Campaign contributions to make principal payments on the LAL totaling \$25,412,968. As of June 30, 2023 and 2022, total borrowings under the LAL were \$10,719,792 and \$36,132,760, respectively. The LAL carries a variable interest rate. The effective rate as of June 30, 2023 and 2022 was 6.17% and 2.14%, respectively, and accrued interest on the LAL was \$55,100 and \$57,206 as of June 30, 2023 and 2022, respectively. These amounts are included in the accompanying financial statements as a component of accrued expenses. Second Harvest plans to use proceeds generated by its Capital Campaign to pay down the LAL. Subsequent to June 30, 2023, Second Harvest has fully repaid all outstanding amounts under the line of using Capital Campaign funds received to date (see Note 16).

11. 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.

In July 2020, Second Harvest signed a lease agreement for 91,202 square feet of warehouse space. The term of the lease was from September 30, 2020 to June 30, 2021. In June 2021, the lease was extended through August 31, 2024.

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11. LEASES (continued)

The components of lease cost as of June 30, 2023 were as follows:

Lease cost	
Operating lease cost	\$ 1,146,041
Variable lease cost	<u>210,729</u>
 Total lease cost	 <u>\$ 1,356,770</u>
 Right-of-use asset obtained in exchange for operating lease liability	 \$ 2,410,471
Weighted average remaining lease term	1.17 years
Weighted average discount rate	2.84 %

Future minimum lease payments under non-cancelable leases as of June 30, 2023 were as follows:

<u>Year ending June 30,</u>	
2024	\$ 1,161,215
2025	<u>194,480</u>
	1,355,695
Less: imputed interest	<u>(20,690)</u>
	<u>\$ 1,335,005</u>

Future minimum lease payments under non-cancelable leases as of June 30, 2022 were as follows:

<u>Year ending June 30,</u>	
2023	\$ 1,262,666
2024	1,297,018
2025	<u>217,114</u>
	<u>\$ 2,776,798</u>

12. CONTINGENCIES

Grants and contracts awarded to Second Harvest 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, 2023.

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13. RETIREMENT PLAN

Second Harvest maintains a tax deferred 403(b) retirement plan (the "Plan") to provide retirement benefits for all eligible employees. The Plan provides for Second Harvest contributions of 5% of eligible employee compensation. Vesting is based on years of service, with 100% vesting of employer matching contributions upon eligibility. Second Harvest contributions for the years ended June 30, 2023 and 2022 totaled \$1,224,523 and \$975,382, respectively. All of the Plan's administration costs were paid for by the Plan.

14. BOARD DESIGNATED NET ASSETS

As part of Second Harvest's annual review of designated assets, the Board of Directors adopted specific guidelines for establishing the level of each designation. Operating reserves include approximately three to six months of the coming year's annual budget. The 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, 2023 and 2022.

Board designated net assets consisted of the following:

	<u>2023</u>	<u>2022</u>
Board designated for operating reserves	\$ 43,985,577	\$ 43,389,883
Board designated pandemic recovery fund reserve	28,017,708	29,222,303
Board designated endowment fund (investment)	16,175,336	17,065,005
Board designated facility expansion reserve	15,000,000	15,000,000
Board designated for capital replacement	6,551,711	6,350,741
Board designated for inventory	<u>3,751,332</u>	<u>7,008,520</u>
	<u>\$ 113,481,664</u>	<u>\$ 118,036,452</u>

In connection with Second Harvest's current LAL as described in Note 9, the Board of Directors has authorized Second Harvest to draw the entire line of credit facility as required in support of its facility expansion project. The line of credit is collateralized by Second Harvest's cash and investments and, as such, should the line of credit require immediate repayment, the Board of Directors has authorized such requirement to replace the designations of net assets outlined above in support of repayment the line of credit.

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15. BOARD DESIGNATED ENDOWMENT FUND

Second Harvest'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. The Board of Directors authorizes the endowment funds to be a part of the collateral for the outstanding line of credit.

Return objectives and risk parameters

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

Strategies employed for achieving objectives

The Board of Directors has determined that the assets of the Fund will be professionally managed in a moderately conservative manner. Management of the Fund's portfolio focuses 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 consists 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% are invested in international equity and/or international equity mutual funds (foreign securities traded in the United States). It is expected that 30% to 60% of the Fund will be invested in fixed income securities. It is expected that no more than 5% of the Fund will be invested in alternative investments with no more than 3% in real estate and 2% in commodities.

Spending policy and how investment objectives relate to spending policy

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

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15. BOARD DESIGNATED ENDOWMENT FUND (continued)

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

The amount of funds allocated for expenditure ("Spending Allocation") is calculated in April of each year and is based on the rolling prior 12-quarter average. If fewer than 12 quarters are available, then the available quarters will be used. The Spending Allocation is 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, 2023 and 2022, the Board of Directors approved spending allocations of \$2,900,000 and \$0, respectively; \$688,426 of the accumulated spending allocation amount (since the Fund policy's established date of November 18, 2018) is available for use without the Board of Directors' additional approval.

Endowment composition

Changes in Board designated endowment net assets are as follows:

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 17,065,005	\$ 18,650,394
Appropriation of Board Designated Endowment fund assets for expenditure	(2,900,000)	-
Transfers to Board Designated Endowment fund	843,317	755,100
Investment income (loss), net	1,288,141	(2,193,537)
Investment fees	<u>(121,127)</u>	<u>(146,952)</u>
Balance, end of year	<u>\$ 16,175,336</u>	<u>\$ 17,065,005</u>

16. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2023</u>	<u>2022</u>
Capital Campaign	\$ 63,161,497	\$ 39,408,895
Time restrictions	8,245,609	11,727,517
Purpose restrictions	<u>784,352</u>	<u>1,434,544</u>
	<u>\$ 72,191,458</u>	<u>\$ 52,570,956</u>

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16. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year ended June 30, 2023 were as follows:

Time restrictions	\$ 3,307,449
Purpose restrictions	<u>994,384</u>
	<u>\$ 4,301,833</u>

17. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, gift certificates, property and equipment, advertising, supplies, expert services, freight, and warehouse space received are recorded as contributions. Donated non-government products were valued at \$1.93 and \$1.92 per pound for the years ended June 30, 2023 and 2022, respectively. Donated government food was valued at \$1.57 and \$1.53 per pound for the years ended June 30, 2023 and 2022, respectively. This valuation is based on a cost study conducted for Feeding America. The value of donated freight costs is estimated based on the actual cost for freight that Second Harvest pays for comparable freight services. The value of donated warehouse space is estimated based on the cost per square foot price Second Harvest pays for comparable warehouse space. The value of donated software, supplies, and minor equipment is based on online research of current prices for comparable supplies and minor equipment, and or the actual prices paid for recent purchases of similar supplies and minor equipment. Donated advertising and media, utilities, legal services, and event space are valued at the estimated fair value of current rates for similar professional services. Donated vehicles and equipment are valued based on online research of prices for similar vehicles and equipment. Donated gift certificates are valued based on the face value of the gift certificates received. All donated goods and services are utilized and not re-sold or other monetized by Second Harvest for program services, management and general, and fundraising purposes.

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17. CONTRIBUTIONS IN-KIND (continued)

Contributions in-kind received during the year were as follows:

	2023	2022
Contributions in-kind - non government		
Food and non-food inventory	\$ 162,892,035	\$ 155,210,998
Advertising and media	353,340	274,993
Freight	152,738	170,480
Utilities	123,982	125,604
Software	72,479	-
Supplies and minor equipment	69,630	50,399
Vehicles and major equipment	42,836	46,625
Gift certificates	13,192	17,831
Legal services	12,456	-
Event space	900	-
	163,733,588	155,896,930
 Government assistance - in-kind		
Food - government	10,734,612	13,009,217
	\$ 174,468,200	\$ 168,906,147

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, 2023 and 2022, the estimated value of these services, based on the estimated dollar value of volunteer time calculated by average rate by job category, totaled \$9,478,347 and \$10,276,491, respectively. The value of these services are not reflected in the financial statements.

18. PAYMENTS TO AFFILIATES

In accordance with the affiliation agreement between Feeding America and Second Harvest, Second Harvest pays fees based on total poundage of food received from Feeding America. Affiliation payments for the years ended June 30, 2023 and 2022 were \$18,764 and \$9,383, respectively.

19. CONFLICT OF INTEREST POLICY

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

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20. LIQUIDITY AND AVAILABILITY OF RESOURCES

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

Long-term investments include endowment funds consisting of Board Designated Endowments. As described in Note 15, the Fund has a spending rate of between 4% and 5.75% (with a desired optimal target of 5%). Accordingly, \$688,426 of appropriations from the Fund 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, 2023. 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, 2023 to fund general expenditures and other obligations when they become due:

Available financial assets consisted of the following:

Cash and cash equivalents	\$ 27,772,059
Accounts receivable	20,893
Grants receivable	1,848,572
Pledges receivable, net of discount	29,497,975
Investments	87,392,248
Investments - Board Designated Endowment	<u>16,175,336</u>
	<u>162,707,083</u>

Less amounts unavailable for general expenditure within one year:

Investments - board designated endowment (less anticipated appropriations)	(15,486,910)
Net assets restricted for Capital Campaign	(63,161,497)
Net assets restricted to specific purposes	(784,352)
Net assets restricted to a passage of time	(3,062,273)
Board designated for capital replacement	(6,551,711)
Board designated facility expansion reserve	<u>(15,000,000)</u>
	<u>(104,046,743)</u>

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

\$ 58,660,340

SINGLE AUDIT REPORTS AND SCHEDULES



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest of Silicon Valley ("Second Harvest"), which comprise the statement of financial position as of June 30, 2023, 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 19, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Second Harvest's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
San Jose, California

December 19, 2023



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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Second Harvest of Silicon Valley ("Second Harvest")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Second Harvest's major federal programs for the year ended June 30, 2023. Second Harvest's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Second Harvest complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Second Harvest's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Second Harvest's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

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

Armanino^{LLP}
San Jose, California

December 19, 2023

Second Harvest of Silicon Valley
Schedule of Expenditures of Federal and Other Governmental Awards
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Expenditures
EXPENDITURES OF FEDERAL AWARDS			
<u>U.S. Department of Agriculture</u>			
Passed through:			
California Department of Social Services			
Food Distribution Cluster			
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	\$ 10,297,758
California Association of Food Bank (Emergency Boxes)	10.569	N/A	436,853
Emergency Food Assistance Program (Administrative Costs)	10.568	N/A	540,674
Emergency Food Assistance Program (Supplemental)	10.568	N/A	<u>161,930</u>
Total Food Distribution Cluster			<u>11,437,215</u>
Passed through:			
California Association of Food Banks			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	<u>216,987</u>
Total U.S. Department of Agriculture			<u>11,654,202</u>
<u>Federal Emergency Management Agency</u>			
Direct Program:			
Emergency Food and Shelter National Board Program			
Santa Clara County Phase 39 and ARPA-R	97.024	N/A	500,000
San Mateo County Phase 39	97.024	N/A	<u>114,088</u>
Total Federal Emergency Management Agency			<u>614,088</u>
<u>U.S. Department of Treasury</u>			
Coronavirus State and Local Fiscal Recovery Funds			
Passed through:			
Valley Medical Center Foundation	21.027	N/A	<u>150,000</u>
Coronavirus Relief Fund			
Passed through:			
San Mateo County - American Rescue Plan	21.019	N/A	<u>4,162,226</u>
Total U.S. Department of Treasury			<u>4,312,226</u>
Total Expenditures of Federal Awards			<u>16,580,516</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, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Expenditures
<u>Other Governmental Awards</u>			
Santa Clara County - Department of Social Services	N/A	N/A	839,843
State Emergency Food Assistance Program (Cal Foods Logistics - CRF Incentives)	N/A	N/A	33,000
Emergency Food Assistance Program (Tax Check Off)	N/A	MOU #10-6060	33,797
California Recycle (Truck Purchase and Driver Salary)	N/A	15-MOU-00142	(8,790)
Santa Clara County - Strengthening Summer Meals	N/A	N/A	47,673
San Mateo County - Food Assistance	N/A	N/A	78,452
San Mateo County - Summer Meals	N/A	N/A	29,306
San Mateo County - Measure K	N/A	N/A	163,907
San Mateo County - Peninsula Healthcare District	N/A	N/A	50,000
San Mateo County - Sequoia Healthcare District	N/A	N/A	240,000
PG&E Distributed Boxes to Santa Clara County and San Mateo County	N/A	N/A	51,960
Emergency Food Assistance Program (CALFOOD)	N/A	N/A	299,598
Emergency Food Assistance Program (CALFOOD ONE TIME)	N/A	N/A	4,657,837
Total Other Governmental Awards			<u>6,516,583</u>
Total Expenditures of Federal and Other Government Awards			<u>\$ 23,097,099</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, 2023

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, 2023. 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 provided federal awards to Subrecipients as follows:

<u>Federal Assistance Listing Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.569	Emergency Food Assistance Program (Food Commodities)	\$10,734,612

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, 2023, Second Harvest had food commodities totaling \$268,576 in inventory.

5. INDIRECT COST RATE

Second Harvest 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, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

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

Second Harvest of Silicon Valley
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

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, 2023

There were no prior year findings.