

Cal Foods Logistics

Financial Statements
and Single Audit Reports and Schedules

June 30, 2022
(With Comparative Totals for 2021)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Cal Foods Logistics
Pleasant Hill, California

Opinion

We have audited the accompanying financial statements of Cal Foods Logistics (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cal Foods Logistics as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis 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 Cal Foods Logistics 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 Cal Foods Logistics' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



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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 Cal Foods Logistics' 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 Cal Foods Logistics' 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 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 31, 2022, on our consideration of the Organization'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 the Organization'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 the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Cal Foods Logistics' 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

March 29, 2023

Cal Foods Logistics
Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
ASSETS		
Current assets		
Cash	\$ 35,996,373	\$ 14,653,268
Contracts and grants receivable	1,369,759	617,642
Inventory	5,481,370	5,632,755
Prepaid expenses and other current assets	454,880	250,515
Total current assets	43,302,382	21,154,180
Property and equipment, net	2,363,756	1,475,347
Total assets	\$ 45,666,138	\$ 22,629,527
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,703,857	\$ 2,590,245
Accrued expenses	193,707	163,019
Deferred revenue	14,899,947	2,407,988
Refundable advances	-	1,075,950
Total current liabilities	16,797,511	6,237,202
Deferred rent	62,440	28,343
Total liabilities	16,859,951	6,265,545
Net assets		
Without donor restrictions		
Undesignated	3,040,972	1,240,915
Board designated - operating reserves	5,717,136	2,250,343
Board designated - building fund	6,697,015	2,734,965
Board designated - disaster recovery	4,465,664	2,484,639
Board designated - capital replacement	1,040,274	545,018
Inventory	5,481,370	5,632,755
Net investment in property and equipment	2,363,756	1,475,347
Total without donor restrictions	28,806,187	16,363,982
Total net assets	28,806,187	16,363,982
Total liabilities and net assets	\$ 45,666,138	\$ 22,629,527

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

Cal Foods Logistics
Statement of Activities
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022 Total</u>	<u>2021 Total</u>
Support and revenue				
Government contracts - Federally and State funded	\$ 77,552,464	\$ -	\$ 77,552,464	\$ 71,270,585
Government assistance - Federally and State funded	5,302,318	-	5,302,318	3,752,750
Government assistance - donated food	15,286,889	-	15,286,889	13,047,110
Program service revenue	<u>1,977,022</u>	<u>-</u>	<u>1,977,022</u>	<u>701,297</u>
Total support and revenue	<u>100,118,693</u>	<u>-</u>	<u>100,118,693</u>	<u>88,771,742</u>
Functional expenses				
Program services	<u>86,529,157</u>	<u>-</u>	<u>86,529,157</u>	<u>71,960,458</u>
Support services				
Management and general	998,214	-	998,214	388,265
Fundraising	<u>149,117</u>	<u>-</u>	<u>149,117</u>	<u>59,037</u>
Total support services	<u>1,147,331</u>	<u>-</u>	<u>1,147,331</u>	<u>447,302</u>
Total functional expenses	<u>87,676,488</u>	<u>-</u>	<u>87,676,488</u>	<u>72,407,760</u>
Change in net assets (Note 2)	12,442,205	-	12,442,205	16,363,982
Net assets, beginning of year	<u>16,363,982</u>	<u>-</u>	<u>16,363,982</u>	<u>-</u>
Net assets, end of year	<u>\$ 28,806,187</u>	<u>\$ -</u>	<u>\$ 28,806,187</u>	<u>\$ 16,363,982</u>

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

Cal Foods Logistics
Statement of Functional Expenses
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Program Services	Management and General	Fundraising	2022 Total	2021 Total
Personnel expenses					
Salaries and wages	\$ 823,585	\$ 375,405	\$ 68,843	\$ 1,267,833	\$ 628,798
Employee benefits	235,694	107,434	19,702	362,830	135,362
Payroll taxes	<u>63,260</u>	<u>28,835</u>	<u>5,288</u>	<u>97,383</u>	<u>49,881</u>
Total personnel expenses	1,122,539	511,674	93,833	1,728,046	814,041
Purchased food and supplies distributed	60,478,602	-	-	60,478,602	58,406,931
Donated food and supplies distributed	14,793,139	-	-	14,793,139	8,202,403
Program incentives paid to food banks	5,718,379	-	-	5,718,379	3,140,601
Freight	1,875,521	-	-	1,875,521	654,749
Rent	833,467	66,279	5,704	905,450	530,769
Food bank infrastructure	777,925	-	-	777,925	303,917
Meal Kit assembly and food storage	380,974	-	-	380,974	-
Depreciation and amortization	213,644	104,243	19,143	337,030	60,642
Licenses and fees	164,798	80,410	14,767	259,975	32,798
Small equipment	49,174	23,993	4,749	77,916	70,868
Contract labor	-	65,500	-	65,500	82,622
Repairs and maintenance	38,245	18,661	3,427	60,333	12,690
Nonprofit capacity building	-	47,236	-	47,236	-
Office supplies	28,544	13,927	2,558	45,029	23,418
Insurance	17,429	8,504	1,562	27,495	10,840
Postage and printing	-	17,938	-	17,938	2,145
Bank charges	-	14,423	-	14,423	8,965
Telephone	8,314	4,057	745	13,116	8,724
Equipment rental	5,763	2,812	517	9,092	16,084
Miscellaneous	5,646	2,755	585	8,986	-
Labor infrastructure projects	4,976	2,428	446	7,850	17,054
Staff development	4,603	2,246	411	7,260	100
Meals and entertainment	4,079	1,990	366	6,435	1,895
Travel	3,281	1,601	294	5,176	3,751
Taxes and licenses	-	3,185	-	3,185	634
Advertising	-	3,000	-	3,000	-
Membership and subscription	-	1,296	-	1,296	-
Recruiting	<u>115</u>	<u>56</u>	<u>10</u>	<u>181</u>	<u>1,119</u>
	<u>\$ 86,529,157</u>	<u>\$ 998,214</u>	<u>\$ 149,117</u>	<u>\$ 87,676,488</u>	<u>\$ 72,407,760</u>
Percentage of total	<u>98.7 %</u>	<u>1.1 %</u>	<u>0.2 %</u>	<u>100.0 %</u>	

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

Cal Foods Logistics
Statement of Cash Flows
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
Cash flows from operating activities		
Change in net assets	\$ 12,442,205	\$ 16,363,982
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	337,030	60,642
Changes in operating assets and liabilities		
Contracts and grants receivable	(752,117)	(617,642)
Inventory	151,385	(5,632,755)
Prepaid expenses and other current assets	(204,365)	(250,515)
Accounts payable	(886,388)	2,590,245
Accrued expenses	30,688	163,019
Deferred revenue	12,491,959	2,407,988
Refundable advances	(1,075,950)	1,075,950
Deferred rent	34,097	28,343
Net cash provided by operating activities	22,568,544	16,189,257
Cash flows from investing activities		
Purchase of property and equipment	(1,225,439)	(1,535,989)
Net cash used in investing activities	(1,225,439)	(1,535,989)
Net increase in cash	21,343,105	14,653,268
Cash, beginning of year	14,653,268	-
Cash, end of year	\$ 35,996,373	\$ 14,653,268

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

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

1. NATURE OF OPERATIONS

Cal Foods Logistics (the "Organization") is a 501(c)(3) nonprofit incorporated on June 29, 2020. The Organization was selected by the California Department of Social Services (CDSS) as the new logistics intermediary for The Emergency Food Assistance Program (TEFAP), effective January 1, 2021, providing United States Department of Agriculture (USDA) food commodities to food banks who then distribute to eligible individuals and households within 58 counties in California.

During Cal Foods Logistics first two months, the Organization delivered directly to 23 satellite food banks in more rural areas of California, covering 30 counties and hundreds of miles. In addition, the Organization monitors direct deliveries from the USDA to the remaining food banks serving the other 28 counties in California. All in all, TEFAP providers are helping approximately 1.7 million people every month.

In mid-2021, COVID-19 continued to hamper the economy. Inflation grew and wages have not kept pace. The Food Box Program has been instrumental in keeping up with the increase in demand from Food Banks across the state. This was especially important because of the increased need, particularly among first time food bank visitors.

Lack of volunteers continued to be a problem. The solution was to send 20 pound boxes of food in coordinated meal kits to allow low-touch, safe distribution. The food boxes, delivered through the Food Box Program have been an efficient way to deliver the necessary volume of food without further burdening the volunteer base.

In total, during years ended June 30, 2022 and 2021, Cal Foods Logistics shipped over 60 million and 73 million pounds of food to California food banks.

The Organization is dedicated to helping feed Californians 365 days a year. The Cal Foods Logistics team has decades of expertise in food banking and its most critical components, such as logistical planning, warehousing, food procurement, customer service, and building community partnerships.

2. CHANGE IN NET ASSETS

Due to the extreme need for increased volumes of food and supplies required by California food banks to meet the needs of their communities, the Organization engaged with the California Department of Social Services to supplement the normal flow of USDA commodities to the food banks. During the year ended June 30, 2022, the Food Box Program was implemented. This \$110 million fixed contract will continue through June 2023.

During the year ended June 30, 2021, the Coronavirus Relief Fund contract was a \$50 million program to supply pallets of food and diapers. The Food and Diaper contract was a \$35 million program to supply food boxes and diapers. The significant positive change in net assets for the year ended June 30, 2021 is largely due to the net income earned on these fixed-price contracts.

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of the Organization 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, the Organization 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 the Organization. Under this category, the Organization maintains any net assets designated by the Board for specific purposes, inventory on hand, net investment in property and equipment, and undesignated funds available for ongoing operations.
- *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. There are no net assets with donor restrictions as of June 30, 2022 and 2021.

Adoption of new accounting standard

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

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

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements made 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.

Cash and cash equivalents

The Organization considers financial instruments with original maturities of 90 days or less to be cash equivalents. There were no cash equivalents at June 30, 2022 and 2021.

Contracts and grants receivable

The Organization carries its contracts and grants receivable at invoiced amounts less allowances for discounts. The Organization considers all contracts and grants receivable to be fully collectible, accordingly, no allowance for doubtful accounts is considered necessary.

Concentration of risk

Occasionally the Organization's cash balances exceed FDIC insured limits. The Organization has not experienced and does not anticipate any losses related to these balances.

For the year ended June 30, 2022, three grantors and contractors comprised of 78% of total support and revenue and 75% of the Organization's contracts and grants receivable as of June 30, 2022.

For the year ended June 30, 2021, three grantors and contractors comprised of 96% of total support and revenue and 50% of the Organization's contracts and grants receivable as of June 30, 2021.

For the years ended June 30, 2022 and 2021, three vendors comprised of 89% and 75% of the Organization's purchases.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Eligible purchases over \$5,000 are capitalized.

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Furniture, fixtures and equipment	5 - 10 years
Vehicles	10 years
Computer software	5 years
Leasehold improvements	Shorter of useful life or lease term

Impairment of long lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Organization during the year.

Inventory

Inventory consists of donated food and nonfood items, purchased food, and United States Department of Agriculture (USDA) commodities received from the government. Donated government food was valued based on USDA published food commodity values for the years ended June 30, 2022 and 2021. Purchased food is based on actual cost and is valued utilizing first in, first out (FIFO) method.

Government assistance

The Organization receives a significant amount of government cash and in-kind food assistance through 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 accounting principles generally accepted in the United States of America for nonprofit organizations as they contain barriers related to the incurrence of qualifying expenditures and a right of return or release. The Organization 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, the Organizations records such amounts as refundable advances until the barriers have been met.

Revenue from government contracts

Revenue from contracts with customers is recognized using the following five steps:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from government contracts (continued)

- Determine the contract price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the Organization satisfies a performance obligation.

The Organization derives its revenue primarily from fixed-price contracts awarded under the federal acquisition regulations. Advance receipts are recorded as deferred revenue with revenue recognized as the services are provided and/or contractual obligations are met.

Functional expenses

Management estimates the Organization'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.

Income tax status

The Organization 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 the Organization in its federal and state exempt organization tax returns are more-likely-than-not to be sustained upon examination.

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2022	2021
Leasehold improvements	\$ 925,061	\$ 278,393
Furniture, fixtures and equipment	916,438	880,276
Vehicles	890,554	347,945
Computer software	29,375	29,375
	2,761,428	1,535,989
Accumulated depreciation and amortization	(397,672)	(60,642)
	\$ 2,363,756	\$ 1,475,347

Depreciation and amortization expense for property and equipment totaled \$337,030 and \$60,642 for the years ended June 30, 2022 and 2021.

5. COMMITMENTS

Operating leases

The Organization leases an office facility in Pleasant Hill, California and a warehouse facility in Woodland, California. These leases mature through November 2025. Rent expense totaled \$905,450 and \$530,769 for the years ended June 30, 2022 and 2021.

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

<u>Year ending June 30,</u>	
2023	\$ 880,398
2024	901,724
2025	923,657
2026	390,776
2027	50,397
	\$ 3,146,952

In September 2021 the office lease was replaced with a new office lease that matures November 2026.

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

5. COMMITMENTS (continued)

Grants and contracts

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose of such audits is to determine whether program funds were used in accordance with their respective guidelines and regulations. While management believes program funds were utilized in accordance with program guidelines, it is possible that funded program costs could ultimately be disallowed. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Organization has recorded no additional provisions for the possible disallowance of program costs on its financial statements.

6. RETIREMENT PLAN

The Organization maintains a 401(k) Retirement Savings Plan (the "Plan") to provide retirement benefits for all eligible employees. The Plan provides for Organization discretionary matching and nonelective contributions of eligible employee compensation. There are no service requirement and contributions vest immediately. The Organization contributed \$62,129 and \$19,672 for the years ended June 30, 2022 and 2021. All of the Plan's administration costs were paid for by the Plan.

7. BOARD DESIGNATED NET ASSETS

As part of the Organization's annual review of designated assets, the Board adopted specific guidelines for establishing the level of each designation as follows:

Operating reserves - These reserves are commonly setup by nonprofit organizations and food banks for unexpected events. The reserved amount is sufficient to maintain ongoing operations and programs - allowing the Organization to continue with some interruption to state program services. It is important for the Organization to maintain services delivering food to California's most vulnerable. Having a reserve will ensure that the Organization will maintain a continuity of services even if funding is delayed.

Building fund - The Organization currently leases it's 129,000+ square foot location in addition to upgrading and improving the site for efficiency. Leasing also poses some limitations with landlord agreements and beneficial improvements. Management believes that it may be prudent for the Organization to construct its own building to allow flexibility for upgrades and or capacity expansion as the Organization's operations and distribution demands increase in the future.

Disaster recovery - The Organization is still experiencing unprecedented challenges with COVID-19 and now Omicron. Management believes it is critical that the Organization has disaster recovery funds so it can continue to provide food in case of unforeseen emergencies effecting Californians. The state is predicting another challenging fire season as climate change continues to be a challenge and stretch resources. These funds will assist those communities that may fall short of food and/or other assistance when a disaster strikes.

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

7. BOARD DESIGNATED NET ASSETS (continued)

Capital replacement - This fund will prepare the Organization for the future when its current capital equipment starts to malfunction or requires replacement. Due to current supply chain challenges resulting from COVID-19, new infrastructure items have become more difficult to source and in some cases could require a one to two year waiting period. The fund amount is based on a portion of the current market value of the Organization's capital equipment as of June 30, 2022. This fund will also allow the Organization to purchase additional items as the Organization increases and scales its operations during expansion periods as necessary.

Board designated net assets consisted of the following:

	2022	2021
Operating reserves	\$ 5,717,136	\$ 2,250,343
Building fund	6,697,015	2,734,965
Disaster recovery	4,465,664	2,484,639
Capital replacement	1,040,274	545,018
	\$ 17,920,089	\$ 8,014,965

8. LIQUIDITY AND FUNDS AVAILABLE

As part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. To meet liquidity needs, the Organization has cash available. Additionally, contracts and grants receivable consist primarily of amounts due from third parties that have been historically collected within 60 days of the month end.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2022 and 2021 to fund general expenditures and other obligations when they become due:

	2022	2021
Cash	\$ 35,996,373	\$ 14,653,268
Contracts and grants receivable	1,369,759	617,642
	37,366,132	15,270,910
Board designated net assets	(17,920,089)	(8,014,965)
	\$ 19,446,043	\$ 7,255,945

Cal Foods Logistics
Notes to Financial Statements
June 30, 2022
(With Comparative Totals for 2021)

9. COVID-19 RESPONSE AND RISK AND UNCERTAINTIES

COVID-19 response

Although the significant global disruption of COVID-19 is beginning to taper, we see new variants and continued health challenges that directly affect food banks. The Organization assisted food banks by providing over 60 million pounds of products, resulting in shelf-stable food and diapers for Californians during these uncertain times.

In addition to scheduled commodities being delivered via pallets, the Organization quickly accessed the needs of the food banks and pivoted by creating the Food Box Program, placing a mix of products in a 20 pound box allowing low touch, safe distribution to food banks that no longer had volunteers while still feeding Californians. These boxes continue to be available to any food bank that needs additional food commodity support at no charge to them. They were a game-changer to the food bank industry.

Risk and uncertainties

As COVID-19 and the Delta and Omicron variants continue to be a global concern, Cal Foods Logistics will continue to serve and adjust to the needs of the state. At the same time, the Organization is mindful of the daily challenges of their food bank partners. Millions of Californians depend on food banks now more than ever for supplemental nutritional needs and other support. The Organization will continue to communicate with its food bank partners to alleviate any further stress or concerns of food commodities supply chain and distribution uncertainties.

Food banks have reduced their volunteer base because lack of vaccinations is still a challenge in many communities, and COVID-19 is still a health concern. Food banks are avoiding further distribution risks by using a drive-through distribution method, embracing virtual annual fundraisers, and no longer accepting food donations directly but preferring financial donation methods instead.

Additional concerns for the smaller satellite food banks were lack of additional funds for critical infrastructure needs. Cal Foods Logistics has been able to further support these smaller locations using infrastructure funds. Some locations needed larger refrigeration systems to safely store their additional food commodities.

10. SUBSEQUENT EVENTS

The Organization has evaluated events subsequent to June 30, 2022, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 31, 2022, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.

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*

To the Board of Directors of
Cal Foods Logistics
Pleasant Hill, 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 Cal Foods Logistics (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 31, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the Organization'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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
San Jose, California

March 29, 2023

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

To the Board of Directors of
Cal Foods Logistics
Pleasant Hill, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Cal Foods Logistics (a California nonprofit corporation) (the "Organization")'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 the Organization's major federal programs for the year ended June 30, 2022. The Organization'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, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the Organization 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 the Organization'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 the Organization'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 the Organization'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 the Organization'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 the Organization'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 the Organization'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 the Organization'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

March 29, 2023

Cal Foods Logistics
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<u>Expenditures of Federal Awards</u>				
U.S. Department of Agriculture				
Passed through California Department of Social Services				
Emergency Food Assistance Program (Administrative Costs)	10.568	MOU-20-6030	\$ 3,600,494	\$ 510,690
Emergency Food Assistance Program (Food Commodities)	10.569	MOU-20-6030	14,752,977	14,752,977
Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178	MOU-20-6030	<u>34,663</u>	<u>34,663</u>
Total U.S. Department of Agriculture			<u>18,388,134</u>	<u>15,298,330</u>
Total Expenditures of Federal Awards			<u>\$ 18,388,134</u>	<u>\$ 15,298,330</u>

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

Cal Foods Logistics
Notes to Schedule of Expenditures of Federal Awards
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Cal Foods Logistics (a California nonprofit corporation) (the "Organization") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported 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. Pass-through entity identifying numbers are presented where available and applicable.

3. FOOD DISTRIBUTION

Nonmonetary assistance for commodities received are reported in the Schedule based on USDA published food commodity values for the year ended June 30, 2022. At June 30, 2022 the Organization had USDA food commodities totaling \$5,231,583 in inventory.

4. INDIRECT COST RATE

The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance. The Organization's indirect cost rate for a given program is calculated by applying that program's proportional direct expenses to the overall pool of indirect expenses.

5. FIXED-PRICE CONTRACTS AWARDED UNDER THE FEDERAL ACQUISITION REGULATIONS

During the years ended June 30, 2022 and 2021 the Organization entered into three fixed-price contracts with the California Department of Social Services. The first fixed-price contract was entered into in October 2020 in the total amount of \$50,000,000 for the purpose of food and diaper distribution services under the Federal Coronavirus Relief Funds program. The second fixed-price contract was entered into in April 2021 in the amount of \$35,000,000 for the purpose of food and diaper distribution services under the Food and Diaper Program. The third fixed-price contract was entered into in September 2021 in the amount of \$110,000,000 for the ongoing Food Box Program. As the Organization satisfied performance obligations identified in those agreements the Organization recognized total revenue of \$77,552,464 and \$71,270,585 for the fixed-price contracts for the years ended June 30, 2022 and 2021. In accordance with instructions received from the California Department of Social Services, those agreements are Fixed-Price Contracts awarded under the Federal Acquisition Regulations and based on CFR § 200.101 were not subject to the Single Audit.

Cal Foods Logistics
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
Food Distribution Cluster	10.568 - 10.569
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

Cal Foods Logistics
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Cal Foods Logistics
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

There were no prior year findings.