

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2019 AND 2018

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR’S REPORTS

JUNE 30, 2019 AND 2018

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**Second Harvest Food Bank of Middle Tennessee, Inc.
Board of Directors 2018 - 2019**

Greg Allen	Lucia Folk <i>Board Vice Chair</i>
Drew Berg	Dave Fulmer
Scott Bowers	Lisa Gardi
Brian Bowman	Dennis Georgatos
David Bradley	Amy Johnston-Little
Susanne Buchanan	David Johnson
John Bumpus	Gabriela Lira <i>Board Secretary</i>
Dr. Jim Burton	Lyn Plantinga
Lee Cunningham	Sharon W. Reynolds
Jayne Day, Ad Hoc <i>President & CEO</i>	Sylvia Roberts, Ad Hoc
Troy Edwards	Tony Rose
Bruce Esworthy	Derek Schraw
Melissa Eads	Laquita Stribling
Jonathan Flack <i>Board Chair</i>	Ken Watkins
Andy Flatt	Shawn Williams <i>Board Treasurer</i>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Second Harvest Food Bank of Middle Tennessee, Inc.
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Food Bank taken as a whole. The schedule of expenditures of federal awards on page 27-28, as required by Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), 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 schedule of expenditures of federal awards 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 16, 2019, on our consideration of the Food Bank'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 solely 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 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 Food Bank's internal control over financial reporting and compliance.



Nashville, Tennessee
December 16, 2019

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 162,091	\$ 2,063,968
Cash - restricted debt reserve	140,000	-
Accounts receivable, net	1,779,611	1,592,610
Grants receivable	810,168	465,313
Pledges receivable, net	1,887,782	1,214,800
Inventories	5,769,169	3,443,667
Prepaid expenses and other current assets	311,144	243,182
Investments	2,140,345	2,036,574
Capital campaign:		
Cash	301,062	930,696
Pledges receivable, net	2,110,761	2,183,731
Property and equipment, net	<u>19,158,186</u>	<u>12,227,304</u>
TOTAL ASSETS	<u>\$ 34,570,319</u>	<u>\$ 26,401,845</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,052,100	\$ 2,875,159
Deferred revenue	1,374,488	247,974
Lines of credit	2,503,244	628,300
Long-term debt	<u>2,745,041</u>	<u>1,049,387</u>
TOTAL LIABILITIES	<u>9,674,873</u>	<u>4,800,820</u>
NET ASSETS		
Without donor restrictions:		
Designated:		
Donated food inventory	2,144,554	1,727,593
Property and equipment, less related debt	15,663,145	11,177,917
Board designated	300,000	300,000
Undesignated	<u>3,983,536</u>	<u>4,389,534</u>
Total without donor restrictions	22,091,235	17,595,044
With donor restrictions	<u>2,804,211</u>	<u>4,005,981</u>
TOTAL NET ASSETS	<u>24,895,446</u>	<u>21,601,025</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 34,570,319</u>	<u>\$ 26,401,845</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	Without Donor	With Donor	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>Totals</u>
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 38,818,624	\$ -	\$ 38,818,624
Contributions	7,641,633	5,360,389	13,002,022
Government grants	6,950,864	-	6,950,864
Shared maintenance fees	354,810	-	354,810
Culinary arts center	-	-	-
Special events and activities	788,737	-	788,737
Less: direct benefits to donors	(139,814)	-	(139,814)
Investment income, net	94,574	-	94,574
Agency transportation reimbursement	215,783	-	215,783
Other income (loss)	(16,120)	-	(16,120)
Net assets released in satisfaction of program restrictions	<u>6,562,159</u>	<u>(6,562,159)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>61,271,250</u>	<u>(1,201,770)</u>	<u>60,069,480</u>
REVENUE - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	30,425,418	-	30,425,418
Sales to local agencies	2,252,229	-	2,252,229
Donated food and services	<u>210,048</u>	<u>-</u>	<u>210,048</u>
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	32,887,695	-	32,887,695
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	<u>(31,008,266)</u>	<u>-</u>	<u>(31,008,266)</u>
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	<u>1,879,429</u>	<u>-</u>	<u>1,879,429</u>
TOTAL SUPPORT AND REVENUE	<u>63,150,679</u>	<u>(1,201,770)</u>	<u>61,948,909</u>
EXPENSES			
Program services:			
Emergency Food Box	4,222,631	-	4,222,631
Community Food Partners	48,408,716	-	48,408,716
Children's Programs	2,133,669	-	2,133,669
Culinary Arts Center	<u>-</u>	<u>-</u>	<u>-</u>
Total Program Services	<u>54,765,016</u>	<u>-</u>	<u>54,765,016</u>
Supporting services:			
Management and general	925,991	-	925,991
Fundraising	<u>2,963,481</u>	<u>-</u>	<u>2,963,481</u>
Total Supporting Services	<u>3,889,472</u>	<u>-</u>	<u>3,889,472</u>
TOTAL EXPENSES	<u>58,654,488</u>	<u>-</u>	<u>58,654,488</u>
CHANGE IN NET ASSETS	4,496,191	(1,201,770)	3,294,421
NET ASSETS - BEGINNING OF YEAR, AS RESTATED	<u>17,595,044</u>	<u>4,005,981</u>	<u>21,601,025</u>
NET ASSETS - END OF YEAR	<u>\$ 22,091,235</u>	<u>\$ 2,804,211</u>	<u>\$ 24,895,446</u>

See accompanying notes to financial statements.

2018 - RESTATED

<u>Without Donor</u>	<u>With Donor</u>	<u>Totals</u>
<u>Restrictions</u>	<u>Restrictions</u>	
\$ 37,977,725	\$ -	\$ 37,977,725
7,560,566	3,264,356	10,824,922
3,498,184	-	3,498,184
561,619	-	561,619
89,713	-	89,713
858,231	-	858,231
(180,914)	-	(180,914)
209,363	-	209,363
223,547	-	223,547
193,164	-	193,164
<u>6,452,037</u>	<u>(6,452,037)</u>	<u>-</u>
<u>57,443,235</u>	<u>(3,187,681)</u>	<u>54,255,554</u>
35,149,157	-	35,149,157
2,112,717	-	2,112,717
<u>225,114</u>	<u>-</u>	<u>225,114</u>
37,486,988	-	37,486,988
<u>(35,569,338)</u>	<u>-</u>	<u>(35,569,338)</u>
<u>1,917,650</u>	<u>-</u>	<u>1,917,650</u>
<u>59,360,885</u>	<u>(3,187,681)</u>	<u>56,173,204</u>
4,442,578	-	4,442,578
43,333,967	-	43,333,967
2,015,446	-	2,015,446
<u>338,785</u>	<u>-</u>	<u>338,785</u>
<u>50,130,776</u>	<u>-</u>	<u>50,130,776</u>
940,252	-	940,252
<u>2,639,327</u>	<u>-</u>	<u>2,639,327</u>
<u>3,579,579</u>	<u>-</u>	<u>3,579,579</u>
<u>53,710,355</u>	<u>-</u>	<u>53,710,355</u>
5,650,530	(3,187,681)	2,462,849
<u>11,944,514</u>	<u>7,193,662</u>	<u>19,138,176</u>
<u>\$ 17,595,044</u>	<u>\$ 4,005,981</u>	<u>\$ 21,601,025</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,294,421	\$ 2,462,849
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	957,943	628,994
Loss on sale of equipment	53,605	66,411
Capital campaign contributions	(3,365,751)	(1,520,684)
Noncash contribution of property and equipment	(22,205)	(80,000)
Noncash contribution of investments	(349,947)	(88,977)
Realized and unrealized gains on investments	(91,697)	(180,029)
(Increase) decrease in:		
Accounts receivable	(187,001)	(165,700)
Grants receivable	(344,855)	94,873
Pledges receivable	(672,982)	(228,037)
Inventories	(2,325,502)	289,626
Prepaid expenses	(67,962)	(50,717)
Increase (decrease) in:		
Accounts payable and accrued expenses	635,267	558,068
Deferred revenue	<u>1,126,514</u>	<u>(36,530)</u>
TOTAL ADJUSTMENTS	<u>(4,654,573)</u>	<u>(712,702)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(1,360,152)</u>	<u>1,750,147</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	350,053	89,475
Purchases of investments	(12,180)	(33,627)
Proceeds from sale of equipment	31,231	50,498
Additions to property and equipment	<u>(8,409,782)</u>	<u>(4,708,996)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,040,678)</u>	<u>(4,602,650)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws on USDA loan	1,699,750	1,042,621
Capital campaign collections	3,438,721	1,527,200
Net draws (repayments) on lines of credit	1,874,944	(309,283)
Payments on long-term debt	<u>(4,096)</u>	<u>(3,940)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>7,009,319</u>	<u>2,256,598</u>
NET DECREASE IN CASH	(2,391,511)	(595,905)
CASH - BEGINNING OF YEAR	<u>2,994,664</u>	<u>3,590,569</u>
CASH - END OF YEAR	<u>\$ 603,153</u>	<u>\$ 2,994,664</u>
Operating cash	\$ 162,091	\$ 2,063,968
Restricted cash - debt reserve	140,000	-
Capital campaign cash	<u>301,062</u>	<u>930,696</u>
TOTAL CASH	<u>\$ 603,153</u>	<u>\$ 2,994,664</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	\$ 118,649	\$ 24,160
Accounts payable for construction in progress	<u>\$ 371,504</u>	<u>\$ 829,830</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTALS
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY		CULINARY	MANAGEMENT	FUND RAISING	
			FOOD PARTNERS	CHILDREN'S PROGRAMS	ARTS CENTER	AND GENERAL		
Salaries	\$ 1,194,054	\$ 514,021	\$ 2,382,665	\$ 573,090	\$ -	\$ 359,734	\$ 1,314,471	\$ 6,338,035
Contract labor	41,449	22,745	116,499	17,132	-	-	82,213	280,038
Payroll taxes and benefits	341,625	202,272	844,710	183,038	-	61,355	396,059	2,029,059
TOTAL SALARIES AND RELATED EXPENSES	1,577,128	739,038	3,343,874	773,260	-	421,089	1,792,743	8,647,132
Food supplies and distribution	28,966,055	72,767	54,113	4,049	-	7,594	13,716	29,118,294
Donated food	210,048	2,113,824	36,133,620	154,219	-	-	-	38,611,711
USDA commodities distributed	-	214,089	4,999,967	-	-	-	-	5,214,056
Internal food purchases and/or reimbursement	(2,137,134)	514,907	690,281	931,946	-	-	-	-
Product transportation	1,540,634	155,703	943,931	77,852	-	75	760	2,718,955
Office and administration	66,691	37,551	341,561	23,887	-	257,580	422,116	1,149,386
Occupancy	535,473	148,474	1,139,102	76,267	-	27,214	106,813	2,033,343
Depreciation	131,039	184,606	534,758	58,224	-	24,407	24,909	957,943
Communication expense	16,459	12,748	28,475	16,435	-	12,967	551,815	638,899
Travel and conferences	39,173	11	15,889	1,459	-	25,651	25,903	108,086
National network dues	-	-	-	-	-	26,256	-	26,256
Professional fees	11,332	3,229	27,433	3,229	-	117,728	4,001	166,952
Other special event costs	-	-	-	-	-	-	152,619	152,619
Insurance	51,368	25,684	155,712	12,842	-	5,430	7,900	258,936
TOTAL EXPENSES	31,008,266	4,222,631	48,408,716	2,133,669	-	925,991	3,103,295	89,802,568
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(139,814)	(139,814)
Direct costs and expenses of Project Preserve® program	(31,008,266)	-	-	-	-	-	-	(31,008,266)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 4,222,631	\$ 48,408,716	\$ 2,133,669	\$ -	\$ 925,991	\$ 2,963,481	\$ 58,654,488

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTALS
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS CENTER	MANAGEMENT AND GENERAL	FUND RAISING	
Salaries	\$ 1,117,402	\$ 515,722	\$ 1,885,254	\$ 515,723	\$ 148,987	\$ 401,117	\$ 1,146,051	\$ 5,730,256
Contract labor	24,447	20,385	83,039	11,828	12,607	5,652	50,468	208,426
Payroll taxes and benefits	327,214	221,328	671,839	166,140	53,573	83,372	356,094	1,879,560
TOTAL SALARIES AND RELATED EXPENSES	1,469,063	757,435	2,640,132	693,691	215,167	490,141	1,552,613	7,818,242
Food supplies and distribution	33,543,451	59,441	13,012	46,823	29,817	19,699	7,583	33,719,826
Donated food	225,114	2,398,603	35,475,885	154,897	-	-	-	38,254,499
USDA commodities distribution	-	150,292	2,193,011	-	-	-	-	2,343,303
Internal food purchases and/or reimbursement	(2,088,243)	531,754	681,662	874,826	(6,740)	6,727	14	-
Product transportation	1,708,414	145,421	857,909	72,710	2,774	6,856	3,583	2,797,667
Office and administration	39,783	49,988	271,917	18,704	7,226	191,433	379,608	958,659
Occupancy	422,547	176,075	692,031	89,411	42,194	43,247	96,743	1,562,248
Depreciation	76,145	130,210	321,991	33,568	27,064	21,639	18,377	628,994
Communication expense	21,402	13,694	22,922	15,246	4,888	14,035	529,515	621,702
Travel and conferences	36,844	225	16,978	545	-	34,048	4,979	93,619
National network dues	-	-	-	-	-	25,492	-	25,492
Professional fees	66,914	5,488	9,147	3,049	610	74,587	9,906	169,701
Other special event costs	-	-	-	-	-	-	205,172	205,172
Insurance	47,904	23,952	137,370	11,976	15,785	12,348	12,148	261,483
TOTAL EXPENSES	35,569,338	4,442,578	43,333,967	2,015,446	338,785	940,252	2,820,241	89,460,607
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(180,914)	(180,914)
Direct costs and expenses of Project Preserve® program	(35,569,338)	-	-	-	-	-	-	(35,569,338)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 4,442,578	\$ 43,333,967	\$ 2,015,446	\$ 338,785	\$ 940,252	\$ 2,639,327	\$ 53,710,355

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 - GENERAL

Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") was founded in 1978. Its mission is to feed hungry people and to work to solve hunger issues in the community. The Food Bank is one of over 200 certified members of Feeding America[®], the Nation's Food Bank Network.

The Food Bank also operates the Project Preserve[®] program which distributes purchased products and internally manufactured food items to local agencies and other Feeding America[®] affiliates throughout the country. The gross profit from these sales is used to supplement the Food Bank's efforts within its own local service area. During 2019 and 2018, the program contributed approximately \$1.9 million per year to the Food Bank's mission to feed hungry people.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Food Bank have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the Food Bank to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Food Bank's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Food Bank or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Food bank did not have any net assets with donor restrictions that are perpetual in nature as of June 30, 2019 or 2018.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statements of Activities.

Revenue and Support

The Food Bank receives grant revenue from various federal, state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support (Continued)

The Food Bank reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Services

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Food Bank.

A substantial number of unpaid volunteers have contributed their time to the Food Bank's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

Project Preserve[®] Revenue Recognition

Project Preserve[®] sales are reported net of allowances for discounts and returns. Revenue is recognized when the product is shipped to the customer. Project Preserve[®] sells products primarily to out-of-area agencies in the Feeding America[®] network, but also sells to partner agencies within the Food Bank's local area. In addition to selling purchased product, the program also operates a cook/chill operation, which is a method of food manufacturing that involves heating food, pumping the product into form-fill plastic bags that are heat sealed, then super cooled for approximately 45 minutes prior to freezing the product. It has utilized large amounts of donated ingredients that would have otherwise been wasted. Additionally, this operation produces tray pack meals for children's feeding, senior nutrition and partner agencies that do direct home distribution to clients in need. In 2017, an innovative solution to produce shelf-stable spaghetti sauce from donated tomatoes began. Project Preserve[®] was able to produce nearly 140,000 13 oz pouches of this highly nutritious and desirable product during 2019.

Another component of Project Preserve is to provide disaster relief. During 2019, Project Preserve provided over \$1 million in purchased food either in case-lot or assembled food boxes to affected Feeding America network food banks. In addition, Project Preserve provided nearly 42 million pounds of quality first line purchased food items to the Feeding America network of foodbanks.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash consists principally of checking account balances.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (1.76% for the year ended June 30, 2019 and 2.73% for the year ended June 30, 2018). Amortization of the discount, if any, is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Pledges deemed to be uncollectible are charged off against the allowance in the period of determination.

Accounts Receivable

The Food Bank sells purchased food and supplies to other not-for-profit agencies under the Project Preserve[®] program. Accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Food Bank extends trade credit based on evaluation of those agencies' financial condition and, generally, does not require collateral. The Food Bank does not charge interest on past due accounts.

The Food Bank estimates an allowance for doubtful accounts on trade accounts receivable, which may not be fully collectible, based on its knowledge of customers' individual credit circumstances, the Food Bank's historical loss experience and current economic conditions. Accounts determined to be uncollectible are charged off against the allowance in the period of determination. Subsequent recoveries of previously charged off accounts are credited to the allowance in the period received.

Management estimated the allowance for doubtful accounts to be approximately \$10,700 at June 30, 2019 and 2018.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed USDA commodities. Donated food received from food drives, food companies, grocery stores and Feeding America[®] is valued at \$1.62 per pound in 2019 (\$1.68 per pound in 2018), the estimated average market value at the date of gift, based on a study commissioned by Feeding America[®]. Purchased inventory is reported at average cost, which approximates the lower of cost or net realizable value. USDA inventory is valued at the most recent USDA established market value per pound amount, and is recognized as program services expense when distributed.

Investments

Investments consist of money market accounts, certificates of deposit, equity funds and taxable bond funds. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. Equity funds and taxable bond funds are carried at their quoted market value on the last business day of the reporting period. Interest and dividends, as well as changes in unrealized gains and losses, are recognized currently in the Statement of Activities.

Property and Equipment and Depreciation

Property and equipment are reported at cost at the date of purchase or at estimated fair value at the date of gift to the Food Bank. The Food Bank's policy is to capitalize purchases with a cost of \$5,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows: five to thirty-nine years for building and improvements, two to fifteen years for equipment, three to five years for furniture and three to seven years for transportation equipment.

Board Designated Net Assets

The Board of Directors has designated \$300,000 of net assets to be invested, with the income used to support current operations of the Food Bank. Designations may be reversed at the discretion of the Board of Directors.

Fair Value Measurements

The Food Bank classifies its assets and liabilities measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - Equity funds and taxable bond funds are classified within Level 1 where quoted market prices are available in an active market for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted prices of investments with similar characteristics, and the investments are classified within Level 2.

Donated inventory - The value of donated food is based on poundage times a standard rate. The donated food rate is updated annually based on a study commissioned by Feeding America®, which is classified as Level 3. The inputs used in the valuation include twenty-nine product types calculating a weighted-average value for the year based on actual donated pounds by type on a national level.

There have been no changes in the valuation methodologies since the prior year.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Food Bank believes its valuation method is appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services - include activities carried out to fulfill the Food Bank's mission, resulting in services provided to feed the hungry in Middle and West Tennessee. Program services are the major purpose of the organization. The Food Bank distributes food to needy persons in forty-six Middle and West Tennessee counties through the following programs:

Emergency Food Box - provided approximately 2,400,000 pounds of food during 2019 in emergency staples to families in need through its sixteen satellite centers in Davidson County.

Additionally, The Produce Truck was launched in March 2018 to supplement the Emergency Food Box network with weekly deliveries of fruits and vegetables. The Produce Truck delivers to 8 locations in Davidson County, including senior towers and safety net clinics, during the months of March through October. The Produce Truck average distribution is nearly 20,000 pounds per week to approximately 50 households per week in Davidson County.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Community Food Partners - provided nearly 25,000,000 pounds of food during 2019 (23,000,000 pounds of food in 2018) to nearly 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs.

Grocery Rescue - collects perishable and non-perishable food from more than 280 food donors, such as grocery stores, retailers, wholesalers and bakeries, and is then distributed to community food partners and programs. These products include meats, produce, dairy, bread, bakery items and dry products. During 2019, the Food Bank distributed over 12,800,000 pounds of food (equivalent to more than 10.6 million meals) under this program. The Food Bank distributed over 12,600,000 pounds of food during 2018.

Mobile Pantry - Mobile Pantry travels to the forty-six-county service area and delivers large boxes of perishable and non-perishable food and supplies that are distributed to people in need. During 2019 nearly 6,200,000 pounds of food (4,200,000 pounds of food in 2018) were distributed through this program.

SNAP Outreach - The Food Bank offers SNAP Outreach through our Emergency Food Box Sites, Mobile Pantry Distributions, and partner agencies. SNAP, also known as Food Stamps, is for people and families with low incomes, including working people, households with children, seniors, unemployed people, immigrant families, and people with disabilities. SNAP helps them buy the food they need for good health. Second Harvest's Benefits Outreach Counselor shares information about the nutrition benefits of SNAP, pre-screens potential participants, and helps people fill out the SNAP Application. Counselors assisted in completing approximately 800 applications during fiscal year 2019.

In October 2018, the Food Bank began operating CSFP (Commodity Supplemental Food Program) which works to improve the health of low-income persons at least 60 years of age by supplementing their diets with nutritious USDA foods. In 2019, 16,989 boxes were distributed to qualified seniors in Davidson County.

Children's Programs - includes Kids Café®, At Risk After School Program and the Backpack Program. Kids Café® and At Risk After School Program operates a weekly feeding program for children at risk of hunger at several area community centers and provided over 200,000 meals during 2019 (154,000 meals during 2018). The mission of the Backpack Program is to meet the needs of hungry children by providing them with nutritious and easy to prepare food to take home on weekends when other resources are not available. During both 2019 and 2018, the Food Bank distributed over 250,000 backpacks to hungry children.

The School Food Pantry program is designed to increase food access for families in need and may have a permanent residence within a school or may operate through a mobile pantry distribution where food is brought to the school campus and distributed once a month. Twenty-nine sites were operated during 2019 and 2018, providing over 150,000 pounds of food each year for families in need.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Culinary Arts Center - prior to its closing in December 2017 to allow for the construction of the Volunteer Engagement Center, the Culinary Arts Center was used to educate the public on issues related to nutrition and food preparation. The Center was used for food handling safety classes, food product testing and demonstrations, nutrition training and catering for the Food Bank's partner agencies, supporters and clients. The Culinary Arts Center also offered a lunch opportunity twice a week that was open to the public

Supporting Services

Management and General - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or with fundraising but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

Shipping and Handling

Shipping and handling charges billed to customers through the Project Preserve[®] program are included in sales to out of area network agencies. Associated costs are included in product transportation expense in the Statement of Functional Expenses, which is reported as a direct cost and expense of the Project Preserve[®] program in the Statement of Activities.

Income Taxes

The Food Bank qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). Accordingly, income taxes are not provided.

The Food Bank files a U.S. Federal Form 990 for organizations exempt from income tax.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Food Bank's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

Use of Estimates in the Preparation of Financial Statements

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on prior year's change in net assets.

Adoption of New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit organizations to present expenses by their natural and functional expense classifications. The Food Bank has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Food Bank does not anticipate this ASU will have a material effect on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In October 2019, the FASB voted to delay the effective date of the standard to fiscal years beginning after December 15, 2020, including interim periods within those financial years. The Food Bank is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020. The Food Bank is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2018 and December 16, 2019, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 3 - LIQUIDITY

Financial assets available for general expenditure, that is, without donor and other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash	\$ 162,091
Accounts receivable	1,779,611
Grants receivable	810,168
Pledges receivable, net	1,887,782
Investments	<u>2,140,345</u>
Total financial assets	<u>6,779,997</u>
Less amounts not available to be used within one year:	
Net assets with donor imposed restrictions	2,804,211
Board designations	<u>300,000</u>
	<u>3,104,211</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 3,675,786</u>

As part of the liquidity management plan, the Food Bank invests cash in excess of normal requirements in short-term investments, certificates of deposit and money market funds. Additionally, the Food Bank has an operating line of credit in the amount of \$2.5 million that can be used if needed. At June 30, 2019, approximately \$750,000 was unused on that line.

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable for operations consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 1,036,089	\$ 752,709
Due in one to five years	<u>890,417</u>	<u>467,500</u>
	1,926,506	1,220,209
Less: Allowance for uncollectible pledges	(5,409)	(5,409)
Less: Discount to present value	<u>(33,315)</u>	<u>-</u>
	<u>\$ 1,887,782</u>	<u>\$ 1,214,800</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 5 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Donated food	\$ 2,144,554	\$ 1,727,593
USDA commodities inventory	1,374,488	247,974
Cook/chill manufactured inventory	124,183	103,652
Purchased inventory	<u>2,125,944</u>	<u>1,364,448</u>
	<u>\$ 5,769,169</u>	<u>\$ 3,443,667</u>

NOTE 6 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Liquid money market funds	\$ 139,455	\$ 120,577
Certificates of deposit	121,888	120,840
Equity funds	1,127,841	1,075,522
Taxable bond funds	<u>751,161</u>	<u>719,635</u>
	<u>\$ 2,140,345</u>	<u>\$ 2,036,574</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 7 - FAIR VALUE MEASUREMENTS

The following table sets forth the Food Bank's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30:

	2019			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equity funds:				
Large value	\$ 673,433	\$ 673,433	\$ -	\$ -
Small cap	93,300	93,300	-	-
International	361,108	361,108	-	-
Total equity funds	1,127,841	1,127,841	-	-
Taxable bond funds:				
Intermediate term	751,161	751,161	-	-
Total investments at fair value	1,879,002	1,879,002	-	-
Donated inventory	2,144,554	-	-	2,144,554
Total	<u>\$ 4,023,556</u>	<u>\$ 1,879,002</u>	<u>\$ -</u>	<u>\$ 2,144,554</u>
	2018			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equity funds:				
Large value	\$ 626,482	\$ 626,482	\$ -	\$ -
Small cap	98,262	98,262	-	-
International	350,778	350,778	-	-
Total equity funds	1,075,522	1,075,522	-	-
Taxable bond funds:				
Intermediate term	719,635	719,635	-	-
Total investments at fair value	1,795,157	1,795,157	-	-
Donated inventory	1,727,593	-	-	1,727,593
Total	<u>\$ 3,522,750</u>	<u>\$ 1,795,157</u>	<u>\$ -</u>	<u>\$ 1,727,593</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 7 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Beginning of year	\$ 1,727,593	\$ 1,776,783
Donated food received	39,028,672	38,205,309
Donated food distributed	<u>(38,611,711)</u>	<u>(38,254,499)</u>
End of year	<u>\$ 2,144,554</u>	<u>\$ 1,727,593</u>

NOTE 8 - CAPITAL CAMPAIGN

During 2014, the Food Bank began soliciting donations for a capital campaign *Setting the Table for the Future*, for expansion and improvements to more effectively distribute food to the 46-county service area. During 2018, the Food Bank broke ground on a 25,800 square foot western branch in Benton County and began construction on a 13,000 square foot freezer addition to the Nashville facility. The Food Bank also expanded into Rutherford County by leasing 86,000 square feet of warehouse space that houses the Project Preserve Program and serves as the operations facility for a 15-county area. Other projects at the Nashville facility included the creation of a volunteer engagement center, the expansion of the market for agency shopping and other functional and aesthetic improvements. Both the Benton and Rutherford County facilities opened for business during the 2019 fiscal year, and the final improvements to the main Nashville facility were completed in July 2019.

As the purpose restriction for funds raised as part of the capital campaign were completed and placed in service prior to June 30, 2019, all net assets related to the capital campaign have been released at year end. However, due to timing of payments, pledges receivable for this campaign remain outstanding and are expected to be received (and used to pay down the related debt) as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 1,300,005	\$ 1,360,314
Due in one to five years	850,000	842,931
Due in greater than five years	<u>20,000</u>	<u>24,000</u>
	2,170,005	2,227,245
Less: Discount to present value	<u>(59,244)</u>	<u>(43,514)</u>
	<u>\$ 2,110,761</u>	<u>\$ 2,183,731</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,414,586	\$ 1,414,586
Building and improvements	16,524,528	7,193,831
Office and warehouse furniture and equipment	3,955,363	2,813,000
Transportation equipment	1,822,972	1,718,003
Cook/chill equipment	721,969	687,122
Construction in progress	<u>1,613,073</u>	<u>4,881,623</u>
	26,052,491	18,708,165
Less accumulated depreciation	<u>6,894,305</u>	<u>6,480,861</u>
	<u>\$ 19,158,186</u>	<u>\$ 12,227,304</u>

Construction in progress at June 30, 2019 includes main Nashville warehouse renovations which were completed in July 2019.

NOTE 10 - LONG TERM DEBT

Long-term debt consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
<u>Lines of Credit</u>		
\$2,500,000 line of credit to a financial institution, subject to a borrowing base calculated on eligible accounts and inventory. The line has been extended through May 2020. It is management's intent to extend or renew the line of credit upon maturity. Interest is payable monthly at a rate of one-month LIBOR plus 2.25% (4.62% at June 30, 2019).	\$ 1,753,244	\$ 628,300
\$5,500,000 line of credit agreement for capital improvements requiring monthly interest-only payments at a rate of 5.05% per year through September 11, 2024 at which time all outstanding principal and interest are due. The agreement is subject to certain financial covenants and is secured by a second deed of trust on the Nashville facility.	<u>750,000</u>	<u>-</u>
Total lines of credit	<u>\$ 2,503,244</u>	<u>\$ 628,300</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 10 - LONG TERM DEBT (CONTINUED)

	<u>2019</u>	<u>2018</u>
<u>Notes Payable</u>		
\$2,200,000 USDA Rural Development Loan requiring interest only payments of 3.5% through June 11, 2020. At June 30, 2018, the loan was only partially drawn. The loan matures in 480 monthly payments of principal and interest in the amount of \$8,734. The loan is secured by the real property in Camden, Tennessee.	\$ 2,042,304	\$ 342,621
\$700,000 USDA Rural Development Loan requiring interest only payments of 3.5% through June 11, 2020. The loan matures in 480 monthly payments of principal and interest in the amount of \$2,779. The loan is secured by a deed of trust on the Camden and Nashville, Tennessee facilities.	700,000	700,000
<u>Lease Obligation</u>		
\$12,000 lease obligation to a financial institution to finance the purchase of forklift machinery. Lease is payable in monthly principal and interest payments of \$345, with interest at a fixed rate of 2.246%. Lease matures March 1, 2020 with a \$1 purchase option at maturity.	<u>2,737</u>	<u>6,766</u>
Total long-term debt	<u>\$ 5,248,285</u>	<u>\$ 1,677,687</u>

Total interest expense incurred by the Food Bank was \$118,649 in 2019 and \$24,160 in 2018. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

Maturities on the lines of credit and notes payable at June 30, 2019 are as follows:

For the year ending June 30:

2020	\$ 1,753,244
2021	42,438
2022	43,947
2023	45,510
2024	47,129
Thereafter	<u>3,313,280</u>
	<u>\$ 5,245,548</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 10 - LONG TERM DEBT (CONTINUED)

Maturities on the lease obligation at June 30, 2019 are as follows:

For the year ending June 30, 2020	\$ 3,105
Less: amount representing interest	<u>(368)</u>
	<u>\$ 2,737</u>

NOTE 11 - LEASES

The Food Bank leases 86,000 square feet of warehouse space that houses its Rutherford County operations facility under a seventy-five-month non-cancelable lease which expires June 2024. Rent expense is recognized on a straight-line basis over the term of the lease.

Future minimum lease payments required under the lease is as follows at June 30, 2019:

For year ended June 30:

2020	\$ 521,364
2021	531,812
2022	542,521
2023	553,498
2024	<u>564,749</u>
Total	<u>\$ 2,713,944</u>

Lease expense under this agreement and other cancellable or short-term leases amounted to \$530,919 and \$323,058 during years ended June 30, 2019 and 2018, respectively.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u> (Restated)
<u>Net Assets with Time Restrictions</u>		
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 106,654	\$ 100,000
Other pledges for future years' operations	1,806,076	1,328,502
<u>Net assets with Purpose Restrictions</u>		
Donations for Children's programs (backpacks and summer feeding programs)	179,628	39,893
Donations for <i>Setting the Table for the Future</i> capital campaign	-	2,077,490
Donations for mobile pantries and agency equipment	683,996	363,175
Donations for emergency food box program	-	47,460
Donations for other equipment purchases	27,857	49,461
	<u>\$ 2,804,211</u>	<u>\$ 4,005,981</u>

NOTE 13 - IN-KIND DONATIONS

Excluding donated food inventory items, other in-kind donations of goods and services recognized by the Food Bank as contributions revenue for the years ended June 30 are as follows:

	<u>2019</u>	<u>2018</u>
Special events goods and services	\$ 4,960	\$ 43,883
Food supplies and distribution	970	2,295
Equipment and warehouse supplies	108,014	8,200
Office and administration:		
Marketing	15,748	10,133
Furniture	-	24,235
Other	1,226	16,846
Land	-	80,000
	<u>\$ 130,918</u>	<u>\$ 185,592</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

The Food Bank maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to statutory limits. The Food Bank’s cash balance, from time to time, may exceed statutory limits. The Food Bank has not experienced any losses in such accounts and considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Food Bank’s securities is covered by the Securities Investor Protection Corporation (“SIPC”), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

At June 30, 2019 and 2018, pledges receivable from two donors amounted to \$1,265,000 and \$1,100,000, respectively, or approximately 32% of total pledges receivable in each year.

NOTE 15 - EMPLOYEE BENEFIT PLAN

The Food Bank sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowed under the Internal Revenue Code (“IRC”). In addition, the plan requires the Food Bank to contribute 5% of each participant’s compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Food Bank contributions to the plan for the year ended June 30, 2019, amounted to \$414,242 (\$343,638 for 2018).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 16 - RESTATEMENT

Net assets with and without donor restrictions have been restated as of July 1, 2017 and 2018, and the breakout of contributions between with and without donor restrictions and net assets released from restrictions for the year ended June 30, 2018 have been adjusted to properly reflect certain time restricted donor contributions as net assets with donor restrictions. The restatement for the year ended June 30, 2018 is as follows:

	<u>Net Assets Without Donor Restriction</u>	<u>Net Assets With Donor Restriction</u>	<u>Total</u>
Net assets, beginning of year, previously presented	\$ 12,681,264	\$ 6,456,912	\$ 19,138,176
Reclassification of opening balances for time restricted pledges receivable	<u>(736,750)</u>	<u>736,750</u>	<u>-</u>
Net assets, beginning of year, as restated	11,944,514	7,193,662	19,138,176
Change in net assets, previously presented	6,242,282	(3,779,433)	2,462,849
Net increase (decrease) for year ended June 30, 2018	<u>(591,752)</u>	<u>591,752</u>	<u>-</u>
Net assets, end of year, as restated	<u>\$ 17,595,044</u>	<u>\$ 4,005,981</u>	<u>\$ 21,601,025</u>

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2018	7/1/18 - 6/30/19		(ACCRUED) DEFERRED REVENUE 6/30/2019	PASSED THROUGH TO SUBRECIPIENTS	
					RECEIPTS	EXPENDITURES			
EXPENDITURES OF FEDERAL AWARDS									
U.S. DEPARTMENT OF AGRICULTURE									
Community Facilities Loans and Grants	10.766	N/A	N/A	N/A	\$ -	\$ 1,699,683	\$ 1,699,683	-	\$ -
Passed Through Tennessee Department of Human Services									
Child and Adult Care Food Program (CACFP)	10.558	N/A	*	*	(14,314)	186,512	208,999	(36,801)	-
Summer Food Service Program (SFSP)	10.559	N/A	05/01/18 - 09/30/18	*	(32,696)	68,174	35,478	-	-
Summer Food Service Program (SFSP)	10.559	N/A	05/01/19 - 09/30/19	*	-	20,000	60,828	(40,828)	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	10/01/17-06/30/18	\$ 33,696	(7,684)	7,684	-	-	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	07/01/18-09/30/18	\$ 11,232	-	7,233	7,233	-	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	10/01/18 - 06/30/19	\$ 33,839	-	21,841	30,311	(8,470)	-
Total - Tennessee Department of Human Services					(54,694)	311,444	342,849	(86,099)	-
Passed Through Tennessee Department of Agriculture									
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-32501-00	10/01/17 - 9/30/18	\$ 329,500	(43,950)	176,115	132,165	-
Emergency Food Assistance Program - Commodities	10.569	(1)	GR-32501-00	10/01/17 - 9/30/18	*	247,974	502,276	750,250	-
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-32501-00	10/01/18 - 9/30/19	\$ 444,000	-	164,749	444,000	(279,251)
Emergency Food Assistance Program - Commodities	10.569	(1)	GR-32501-00	10/01/18 - 9/30/19	*	-	5,750,281	4,475,426	1,274,855
Total - Tennessee Department of Agriculture					204,024	6,593,421	5,801,841	995,604	5,225,676
Passed Through Tennessee Department of Health									
Commodity Supplemental Food Program (CSFP) Administrative Costs	10.565	(1)	GR-1960182	8/15/18 - 9/30/18	\$ 8,000	-	8,000	8,000	-
Commodity Supplemental Food Program (CSFP) Administrative Costs	10.565	(1)	GR-1960182	10/1/18 - 9/30/19	\$ 204,800	-	104,923	178,073	(73,150)
Commodity Supplemental Food Program (CSFP) Commodities	10.565	(1)	GR-1960182	8/15/18 - 9/30/18	*	-	239,516	239,516	-
Commodity Supplemental Food Program (CSFP) Commodities	10.565	(1)	GR-19-060182	10/1/18 - 9/30/19	*	-	281,261	181,628	99,633
Total - Tennessee Department of Health					-	633,700	607,217	26,483	-
TOTAL U.S. DEPT OF AGRICULTURE					149,330	9,238,248	8,451,590	935,988	5,225,676

(continued on following page)

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED)	7/1/18 - 6/30/19		(ACCRUED)	PASSED THROUGH TO SUBRECIPIENTS
					DEFERRED REVENUE 7/1/2018	RECEIPTS	EXPENDITURES	DEFERRED REVENUE 6/30/2019	
DELTA REGIONAL AUTHORITY									
Passed through the Northwest Tennessee Development District									
Delta Regional Development	90.200	TN-50478	N/A	\$ 144,500	\$ (144,500)	\$ 144,500	\$ -	\$ -	\$ -
TOTAL DELTA REGIONAL AUTHORITY					(144,500)	144,500	-	-	-
DEPARTMENT OF HOMELAND SECURITY									
Passed Through United Way of Middle Tennessee:									
Emergency Management Food and Shelter Program	97.024	765200-002	2/1/18 - 1/31/19	\$ 54,166	-	54,166	54,166	-	-
Emergency Management Food and Shelter Program	97.024	781800-002	2/1/18 - 1/31/19	\$ 16,055	-	16,055	16,055	-	-
TOTAL DEPARTMENT OF HOMELAND SECURITY					-	70,221	70,221	-	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ 4,830	\$ 9,452,969	\$ 8,521,811	\$ 935,988	\$ 5,225,676

Total Expenditures by CFDA Number (Cluster):

10.766	\$ 1,699,683
10.558	208,999
10.559	96,306
10.561	37,544
10.565, 10.568 & 10.569	6,409,058
97.024	70,221
	<u>\$ 8,521,811</u>

* Not specified.

(1) Denotes a major program

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations 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 Food Bank, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Food Bank.

NOTE 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 are limited as to reimbursement. The Food Bank has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - LOAN BALANCES

The outstanding balance on the Community Facilities Rural Development Loans at June 30, 2019 are as follows:

97-01	\$ 2,042,304
97-02	<u>700,000</u>
	<u>\$ 2,742,304</u>

OTHER REPORTS

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 Food Bank of Middle Tennessee, Inc.
Nashville, Tennessee

We have audited, 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, the financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the “Food Bank”), a Tennessee not-for-profit corporation, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Food Bank’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank’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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Food Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Food Bank'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Knight CPAs PLLC

Nashville, Tennessee
December 16, 2019

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Second Harvest Food Bank of Middle Tennessee, Inc.
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Second Harvest Food Bank of Middle Tennessee, Inc.’s (the “Food Bank”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Food Bank’s major federal programs for the year ended June 30, 2019. The Food Bank’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT’S RESPONSIBILITY

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITOR’S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Food Bank’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Food Bank’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Food Bank’s compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Second Harvest Food Bank of Middle Tennessee, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Kraft CPAs PLLC

Nashville, Tennessee
December 16, 2019

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditors' 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)?

_____ yes X no

Identification of major programs:

CFDA Number(s) **Name of Federal Program or Cluster**

10.565, 10.568 and 10.569 Food Distribution Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes _____ no

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

Part II - Financial Statement Findings

There were no audit findings in the prior year or current year.