

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2023 AND 2022

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2023 AND 2022

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Board of Directors 2022-2023**

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDITS OF THE FINANCIAL STATEMENTS

OPINION

We have audited the 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, 2023 and 2022, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2023 and 2022, 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.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 the Food Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 the Food Bank's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, internal omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement 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 the Food Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Food Bank's ability to continue as a going concern for a reasonable period of time.

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

REPORT ON SUPPLEMENTARY INFORMATION

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 pages 28-29, 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), and the schedule of expenditures of state financial assistance on page 30, as required by the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee, and the related notes to the schedule of expenditures of federal awards and state financial assistance on page 31 are presented for purposes of additional analysis and are 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 on pages 28-31 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 and schedule of expenditures of state financial assistance are fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER INFORMATION

Management is responsible for the other information included in the financial statements. The other information comprises the board of directors listing on page i but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2024, 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 the Food Bank'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 Food Bank's internal control over financial reporting and compliance.

Kraft+CPAs PLLC

Nashville, Tennessee
March 25, 2024

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 5,606,096	\$ 6,892,232
Cash - restricted debt reserve	140,000	140,000
Accounts receivable, net	3,355,150	3,002,454
Grants receivable	3,523,842	1,062,016
Pledges receivable, net	851,048	846,141
Inventories	7,625,267	6,441,535
Prepaid expenses and other current assets	57,964	513,537
Investments	32,924,888	27,352,317
Right-to-use lease asset	512,652	-
Property and equipment, net	<u>17,189,032</u>	<u>17,295,384</u>
TOTAL ASSETS	<u>\$ 71,785,939</u>	<u>\$ 63,545,616</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,629,643	\$ 4,133,224
Deferred revenue	1,161,143	961,838
Lease liability	539,129	-
Long-term debt	<u>2,608,063</u>	<u>2,654,057</u>
TOTAL LIABILITIES	<u>7,937,978</u>	<u>7,749,119</u>
NET ASSETS		
Without donor restrictions:		
Designated:		
Donated food inventory	2,116,150	1,783,434
Property and equipment, less related debt	14,580,969	14,641,327
Board designated for endowment	14,553,146	13,098,672
Board designated for repairs and maintenance	6,427,200	6,036,537
Undesignated	<u>22,660,816</u>	<u>17,940,796</u>
Total without donor restrictions	60,338,281	53,500,766
With donor restrictions	<u>3,509,680</u>	<u>2,295,731</u>
TOTAL NET ASSETS	<u>63,847,961</u>	<u>55,796,497</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 71,785,939</u>	<u>\$ 63,545,616</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

	<u>Without Donor</u>	<u>With Donor</u>	<u>Totals</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 55,156,076	\$ -	\$ 55,156,076
Contributions of cash and financial assets	14,676,728	3,551,481	18,228,209
Contributions of non-financial assets	22,402	-	22,402
Government grants - cash	4,898,698	-	4,898,698
Government grants - commodities	9,798,902	-	9,798,902
Special events and activities	418,481	-	418,481
Less: direct benefits to donors	(43,808)	-	(43,808)
Investment income, net	2,170,788	-	2,170,788
Agency transportation reimbursement and other income	333,653	-	333,653
Net assets released in satisfaction of program restrictions	<u>2,337,532</u>	<u>(2,337,532)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>89,769,452</u>	<u>1,213,949</u>	<u>90,983,401</u>
REVENUE - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	53,095,985	-	53,095,985
Sales to local agencies	4,303,195	-	4,303,195
Donated food	<u>286,662</u>	<u>-</u>	<u>286,662</u>
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	<u>57,685,842</u>	<u>-</u>	<u>57,685,842</u>
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	<u>(51,468,400)</u>	<u>-</u>	<u>(51,468,400)</u>
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	<u>6,217,442</u>	<u>-</u>	<u>6,217,442</u>
TOTAL SUPPORT AND REVENUE	<u>95,986,894</u>	<u>1,213,949</u>	<u>97,200,843</u>
EXPENSES			
Program services:			
Emergency Food Box	3,205,115	-	3,205,115
Community Food Partners	68,677,675	-	68,677,675
Children's Feeding Programs	2,740,724	-	2,740,724
Mobile Pantry	<u>8,971,015</u>	<u>-</u>	<u>8,971,015</u>
Total Program Services	<u>83,594,529</u>	<u>-</u>	<u>83,594,529</u>
Supporting services:			
Management and general	1,620,941	-	1,620,941
Fundraising	<u>3,933,909</u>	<u>-</u>	<u>3,933,909</u>
Total Supporting Services	<u>5,554,850</u>	<u>-</u>	<u>5,554,850</u>
TOTAL EXPENSES	<u>89,149,379</u>	<u>-</u>	<u>89,149,379</u>
CHANGE IN NET ASSETS	6,837,515	1,213,949	8,051,464
NET ASSETS - BEGINNING OF YEAR	<u>53,500,766</u>	<u>2,295,731</u>	<u>55,796,497</u>
NET ASSETS - END OF YEAR	<u>\$ 60,338,281</u>	<u>\$ 3,509,680</u>	<u>\$ 63,847,961</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

	<u>Without Donor</u>	<u>With Donor</u>	<u>Totals</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 52,191,656	\$ -	\$ 52,191,656
Contributions of cash and financial assets	14,862,617	2,733,041	17,595,658
Contributions of non-financial assets	79,049	-	79,049
Government grants - cash	2,387,125	-	2,387,125
Government grants - commodities	14,517,558	-	14,517,558
Special events and activities	413,680	-	413,680
Less: direct benefits to donors	(67,908)	-	(67,908)
Investment loss, net	(3,695,919)	-	(3,695,919)
Agency transportation reimbursement	226,379	-	226,379
Net assets released in satisfaction of program restrictions	1,984,561	(1,984,561)	-
TOTAL PUBLIC SUPPORT AND REVENUE	<u>82,898,798</u>	<u>748,480</u>	<u>83,647,278</u>
REVENUE - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	43,241,309	-	43,241,309
Sales to local agencies	2,719,483	-	2,719,483
Donated food	167,466	-	167,466
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	46,128,258	-	46,128,258
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	<u>(41,181,152)</u>	<u>-</u>	<u>(41,181,152)</u>
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	<u>4,947,106</u>	<u>-</u>	<u>4,947,106</u>
TOTAL SUPPORT AND REVENUE	<u>87,845,904</u>	<u>748,480</u>	<u>88,594,384</u>
EXPENSES			
Program services:			
Emergency Food Box	2,576,345	-	2,576,345
Community Food Partners	62,224,710	-	62,224,710
Children's Feeding Programs	2,092,384	-	2,092,384
Mobile Pantry	14,449,633	-	14,449,633
Total Program Services	<u>81,343,072</u>	<u>-</u>	<u>81,343,072</u>
Supporting services:			
Management and general	1,292,115	-	1,292,115
Fundraising	3,414,936	-	3,414,936
Total Supporting Services	<u>4,707,051</u>	<u>-</u>	<u>4,707,051</u>
TOTAL EXPENSES	<u>86,050,123</u>	<u>-</u>	<u>86,050,123</u>
CHANGE IN NET ASSETS	1,795,781	748,480	2,544,261
NET ASSETS - BEGINNING OF YEAR	<u>51,704,985</u>	<u>1,547,251</u>	<u>53,252,236</u>
NET ASSETS - END OF YEAR	<u>\$ 53,500,766</u>	<u>\$ 2,295,731</u>	<u>\$ 55,796,497</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,051,464	\$ 2,544,261
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,394,694	1,253,343
Realized and unrealized (gains) losses on investments	(1,246,830)	4,185,124
(Increase) decrease in:		
Accounts receivable	(352,696)	(547,008)
Grants receivable	(2,461,826)	(194,326)
Pledges receivable	(4,907)	(83,438)
Inventories	(984,427)	2,020,492
Prepaid expenses and other current assets	455,573	(384,473)
Right-to-use lease asset	555,946	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(503,581)	186,616
Lease liability	(529,469)	-
TOTAL ADJUSTMENTS	<u>(3,677,523)</u>	<u>6,436,330</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,373,941</u>	<u>8,980,591</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	4,218,348	4,203,405
Purchases of investments	(8,544,089)	(22,702,674)
Additions to property and equipment	(1,288,342)	(350,479)
NET CASH USED IN INVESTING ACTIVITIES	<u>(5,614,083)</u>	<u>(18,849,748)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(45,994)	(44,243)
NET CASH USED IN FINANCING ACTIVITIES	<u>(45,994)</u>	<u>(44,243)</u>
NET CHANGE IN CASH	(1,286,136)	(9,913,400)
CASH - BEGINNING OF YEAR	<u>7,032,232</u>	<u>16,945,632</u>
CASH - END OF YEAR	<u>\$ 5,746,096</u>	<u>\$ 7,032,232</u>
Operating cash	\$ 5,606,096	\$ 6,892,232
Restricted cash - debt reserve	140,000	140,000
TOTAL CASH	<u>\$ 5,746,096</u>	<u>\$ 7,032,232</u>
OTHER CASH FLOW DISCLOSURES:		
Right-of-use assets obtained with lease liabilities	\$ 1,068,598	\$ -
Cash paid for interest	\$ 87,327	\$ 93,897

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTALS
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S FEEDING PROGRAMS	MOBILE PANTRY	MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries	\$ 1,360,080	\$ 228,311	\$ 3,467,064	\$ 424,006	\$ 472,930	\$ 570,306	\$ 1,630,792	\$ 8,153,489
Contract labor	107,183	6,840	132,587	6,023	17,202	21,543	2,651	294,029
Payroll taxes and benefits	386,173	65,095	1,005,851	120,811	134,518	162,782	458,175	2,333,405
TOTAL SALARIES AND RELATED EXPENSES	1,853,436	300,246	4,605,502	550,840	624,650	754,631	2,091,618	10,780,923
Food supplies and distribution	50,110,500	63,695	2,796,095	3,738	-	53,839	8,382	53,036,249
Donated food distributed in programs	286,662	1,020,126	46,470,189	57,729	7,275,398	-	-	55,110,104
Non-cash food commodities distributed in programs	-	269,847	9,529,055	-	-	-	-	9,798,902
Internal food purchases and/or reimbursement	(3,967,824)	844,320	835,307	1,794,148	494,049	-	-	-
Product transportation	2,251,402	197,506	2,217,822	97,350	291,026	54	4,201	5,059,361
Office and administration	70,434	18,222	256,341	23,026	31,303	331,548	683,528	1,414,402
Occupancy	520,972	141,901	926,605	81,706	120,272	230,941	178,280	2,200,677
Depreciation	161,111	286,392	690,108	81,566	90,557	40,232	44,728	1,394,694
Communication expense	20,045	13,243	12,997	16,974	1,706	12,161	726,184	803,310
Travel and conferences	44,093	-	11,077	-	1,453	15,453	26,162	98,238
National network dues	-	-	-	-	-	26,256	-	26,256
Professional fees	31,689	7,099	135,116	12,388	15,477	136,376	55,188	393,333
Other special event costs	-	-	-	-	-	-	137,187	137,187
Insurance	85,880	42,518	191,461	21,259	25,124	19,450	22,259	407,951
TOTAL EXPENSES	51,468,400	3,205,115	68,677,675	2,740,724	8,971,015	1,620,941	3,977,717	140,661,587
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(43,808)	(43,808)
Direct costs and expenses of Project Preserve® program	(51,468,400)	-	-	-	-	-	-	(51,468,400)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 3,205,115	\$ 68,677,675	\$ 2,740,724	\$ 8,971,015	\$ 1,620,941	\$ 3,933,909	\$ 89,149,379

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	PROGRAM SERVICES					SUPPORTING SERVICES		TOTALS
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S FEEDING PROGRAMS	MOBILE PANTRY	MANAGEMENT AND GENERAL	FUNDRAISING	
Salaries	\$ 1,174,843	\$ 211,303	\$ 2,896,255	\$ 352,170	\$ 507,127	\$ 493,040	\$ 1,408,685	\$ 7,043,423
Contract labor	125,972	9,199	262,901	9,632	44,165	69,806	4,055	525,730
Payroll taxes and benefits	364,309	65,597	914,195	109,490	157,491	154,826	437,628	2,203,536
TOTAL SALARIES AND RELATED EXPENSES	1,665,124	286,099	4,073,351	471,292	708,783	717,672	1,850,368	9,772,689
Food supplies and distribution	39,213,955	86,050	126,177	69,819	-	16,774	4,921	39,517,696
Donated food distributed in programs	167,466	845,643	39,031,066	120,343	12,532,990	-	-	52,697,508
Noncash food commodities distributed in programs	-	344,619	14,172,939	-	-	-	-	14,517,558
Internal food purchases and/or reimbursement	(3,573,591)	388,342	1,535,250	1,129,873	520,126	-	-	-
Product transportation	2,757,217	162,553	1,204,344	81,275	225,779	8,953	3,871	4,443,992
Office and administration	84,895	14,720	220,665	18,557	76,451	297,672	581,859	1,294,819
Occupancy	511,527	126,202	911,376	69,550	180,990	48,483	167,007	2,015,135
Depreciation	148,756	256,719	588,683	72,985	110,465	35,424	40,311	1,253,343
Communication expense	24,257	14,347	23,427	21,323	4,049	(5,406)	629,058	711,055
Travel and conferences	40,425	-	4,500	-	844	5,083	8,376	59,228
National network dues	-	-	-	-	-	26,256	-	26,256
Professional fees	57,346	9,163	138,950	16,423	52,756	120,248	82,463	477,349
Other special event costs	-	-	-	-	-	-	93,666	93,666
Insurance	83,775	41,888	193,982	20,944	36,400	20,956	20,944	418,889
TOTAL EXPENSES	41,181,152	2,576,345	62,224,710	2,092,384	14,449,633	1,292,115	3,482,844	127,299,183
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(67,908)	(67,908)
Direct costs and expenses of Project Preserve® program	(41,181,152)	-	-	-	-	-	-	(41,181,152)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 2,576,345	\$ 62,224,710	\$ 2,092,384	\$ 14,449,633	\$ 1,292,115	\$ 3,414,936	\$ 86,050,123

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

NOTE 1 - GENERAL

Second Harvest Food Bank of Middle Tennessee, Inc. (the “Food Bank” or “Second Harvest”) was founded in 1978. Its mission is to provide food to people facing hunger and work to advance hunger solutions. The Food Bank is one of over 200 certified members of Feeding America[®], the Nation’s Food Bank Network (the “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.

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 were perpetual in nature as of June 30, 2023 or 2022.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Grants

Contributions are recognized when cash, other financial assets or unconditional promises to give are received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Grants awarded by various federal, state and local agencies are generally considered nonreciprocal transactions restricted by sponsors for certain purposes. Grant revenue is recognized when the conditions upon which it depends are substantially met, which primarily is when qualifying expenses occur. Payments received in advance of conditions being met and the value of undistributed food commodities are recorded as deferred revenue on the Statements of Financial Position.

Contributions of Non-Financial Assets

Any gifts of equipment, facilities or materials are reported as net assets without donor restrictions 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 net assets with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

The Food Bank receives significant contributions of donated food products, both in the form of unrestricted contributions and conditional commodities grant distribution programs. These items are utilized in the Food Bank's programs. Valuation of these items are discussed in the inventories note below.

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, and are valued at fair market value of similar items if purchased. These non-financial assets are utilized in the Food Bank's programs or as part of fundraising activities.

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

Revenues are recognized when control of the product is transferred to customers, in an amount that reflects the consideration the Food Bank expects to be entitled to for those products. The nature of the Food Bank's business does not give rise to variable consideration.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Project Preserve[®] Revenue Recognition (Continued)

Project Preserve[®] sales are reported net of allowances for discounts and returns. 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.

Another component of Project Preserve[®] is to provide disaster relief. In 2023, Project Preserve[®] was able to respond to the needs of Feeding America Network food banks for Hurricane Ian response by providing nearly 300,000 assembled food boxes to Florida and other impacted states for a total of nearly \$6 million in sales.

Cash

Cash consists principally of checking and deposit 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 month in which the promise is received (4.0% and 3.0% as of June 30, 2023 and 2022). Amortization of the discount, if any, is recognized on the interest method over the term of the gift and included in contribution revenue.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable (Continued)

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 \$13,100 at June 30, 2023 and 2022.

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed commodities (United States Department of Agriculture ("USDA") and Tennessee Emergency Management Agency ("TEMA")). Donated food received from food drives, food companies, grocery stores and Feeding America[®] is valued at the estimated average market value at the date of gift for all noncash donations, based on a study commissioned by Feeding America[®], which amounted to \$1.93 per pound in 2023 (\$1.92 per pound in 2022). Commodity inventory (USDA and TEMA) is valued at the Feeding America[®] rate for food-only donations of \$1.57 in 2023 (\$1.53 per pound in 2022) and is recognized as both grant revenue and program service expense when distributed. Purchased inventory is reported at average cost, which approximates the lower of cost or net realizable value.

Investments

Investments consist of money market accounts, certificates of deposit, equities and mutual funds (including equity funds, fixed income and other funds). Money market accounts and certificates of deposit are carried at cash value plus accrued interest. Equities and mutual 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 Statements of Activities.

Property and Equipment

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Investments - Equities and mutual 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[®], and is classified as Level 2. 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.

Commodities - The value of federal and state commodities is based on the poundage times the standard rate determined by Feeding America[®] noted above. For all commodities, the Food Bank utilizes the 'food only' rate determined in the calculation.

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

The methods 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 methods are 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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Food Bank made an accounting policy election available under Topic 842 not to recognize right-of-use (“ROU”) assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Food Bank used the discount rate implicit in the lease agreement, if readily determinable. For leases in which the rate implicit in the lease agreement is not readily determinable, the Food Bank made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the Food Bank’s operating leases of \$1,068,598 at July 1, 2022. The adoption of the new lease standard did not materially impact changes in net assets or cash flows and did not result in a cumulative-effect adjustment to opening net assets.

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 those facing hunger in Middle and West Tennessee. Program services are the major purpose of the organization. The Food Bank distributes food to people in need in 46 Middle and West Tennessee counties through the following programs:

Community Food Partners - Our work includes activities conducted to fulfill Second Harvest’s mission, resulting in services that provide food to people facing hunger in Middle and West Tennessee and activities that work to advance hunger solutions. Second Harvest works in 46 counties throughout Middle and West Tennessee. Specific programs within this category include:

Partner Agencies - Second Harvest provided nearly 43 million pounds of food during the year ended June 30, 2023 (or more than 35 million meals) to approximately 450 not-for-profit agencies, including food pantries, congregate meal sites and emergency food programs. Nearly 41 million pounds of food was distributed in 2022 (or 33 million meals). These partners work throughout their respective communities to assist food insecure families.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Grocery Rescue - This program collects perishable and non-perishable food from over 280 retail partners for distribution to Partner Agencies and program sites. Products rescued and distributed include meat, produce, dairy, bread, bakery items, and dry products. During the year ended June 30, 2023, Second Harvest picked up directly or facilitated pickup by partner agencies over 11.6 million pounds of food (equivalent to more than 9.6 million meals) and collected 11 million pounds of food in 2022.

SNAP Outreach - Second Harvest offers SNAP Outreach through our Emergency Food Box Sites, Mobile Pantry distributions and Partner Agencies. SNAP, previously known as Food Stamps, assists low-income individuals and families by providing monthly assistance to purchase food. Second Harvest's Client Outreach staff shares information about the nutrition benefits of SNAP, pre-screens participants and helps individuals complete the SNAP Application. Counselors assisted in completing approximately 1,000 applications during the year ended June 30, 2023 (1,100 applications in 2022).

Commodity Supplemental Food Program (CSFP) - Second Harvest operates CSFP 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 the year ended June 30, 2023, nearly 23,000 boxes were distributed to qualified seniors in Davidson County (more than 22,000 boxes in 2022).

Emergency Food Box - The longest-operating program of Second Harvest provided just over one million meals during the years ended June 30, 2023 and 2022. Emergency staples, as well as produce, meat, and dairy, are provided to families in need through its eleven satellite centers in Davidson County.

Children's Feeding Programs - Second Harvest's children's feeding programs includes Kids Café[®], At Risk After School Program, Summer Food Service Program, School Pantry program, and Backpack program. Kids Café[®], At Risk After School Program, and Summer Food Service Program operates a weekly feeding program for children at risk of hunger in several area community centers and provided over 83,000 nutritious meals to children during 2023 (78,000 meals in 2022). The Backpack program meets 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 the year ended June 30, 2023, Second Harvest distributed over 303,000 backpacks to hungry children (216,000 backpacks in 2022). The School Pantry program is designed to increase food access for families in need. Fifty sites were operated during each of the 2023 and 2022 fiscal years, providing more than 300,000 meals.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Mobile Pantry - The Mobile Pantry program reaches nearly all of Second Harvest's 46 counties and is a large-scale, one-day distribution of perishable and non-perishable food to families in need. During the year ended June 30, 2023, more than 4.5 million pounds of food was distributed through this program's 222 events (6.1 million pounds at 239 events in 2022).

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. Some expenses, such as contract labor and office and administration are allocated based on time and effort of the people working in the program, and other expenses are allocated based on the number of pounds of food distributed by the program or square footage, including depreciation, occupancy and insurance.

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 Statements of Functional Expenses, which is reported as a direct cost and expense of the Project Preserve[®] program in the Statements of Activities.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 prior year information has been reclassified to conform with the current year presentation. These reclassifications have no effect on net assets or changes in net assets for the year ended June 30, 2022.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2023 and March 25, 2024, 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, 2023 AND 2022

NOTE 3 - AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor and other restrictions limiting their use, within one year of June 30, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash	\$ 5,606,096	\$ 6,892,232
Accounts receivable, net	3,355,150	3,002,454
Grants receivable	3,523,842	1,062,016
Pledges receivable, net	851,048	846,141
Investments	<u>32,924,888</u>	<u>27,352,317</u>
Total financial assets	<u>46,261,024</u>	<u>39,155,160</u>
Less amounts not available to be used within one year:		
Net assets with donor-imposed restrictions	3,509,680	2,295,731
Board designated for long-term purposes	14,553,146	13,098,672
Board designated for repairs and maintenance	6,427,200	6,036,537
Unrestricted pledge amounts to be collected in greater than one year	<u>32,800</u>	<u>76,038</u>
	<u>24,522,826</u>	<u>21,506,978</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 21,738,198</u>	<u>\$ 17,648,182</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 \$2,500,000 that can be used if needed. At June 30, 2023 and 2022, the line had a \$0 balance.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable consisted for the following as of June 30:

	<u>2023</u>	<u>2022</u>
Due in less than one year	\$ 788,641	\$ 771,069
Due in one to five years	125,422	119,413
Due in greater than five years	<u>13,000</u>	<u>10,000</u>
	927,063	900,482
Less: Allowance for uncollectible pledges	(45,409)	(45,409)
Less: Discount to present value	<u>(30,606)</u>	<u>(8,932)</u>
	<u>\$ 851,048</u>	<u>\$ 846,141</u>

NOTE 5 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Donated food	\$ 2,116,150	\$ 1,783,434
USDA commodities inventory	1,161,143	915,237
TEMA commodities inventory	-	46,601
Cook/chill manufactured inventory	254,866	106,910
Purchased inventory	<u>4,093,108</u>	<u>3,589,353</u>
	<u>\$ 7,625,267</u>	<u>\$ 6,441,535</u>

NOTE 6 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Liquid money market funds	\$ 11,940,119	\$ 8,169,340
Certificates of deposit	58,194	122,310
Equities	6,630,423	5,521,030
Mutual funds		
Equity funds	6,327,839	5,394,581
Fixed income funds	6,909,808	6,976,326
Other funds	<u>1,058,505</u>	<u>1,168,730</u>
	<u>\$ 32,924,888</u>	<u>\$ 27,352,317</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

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:

	2023			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Equities:				
U.S. equities	\$ 6,630,423	\$ 6,630,423	\$ -	\$ -
Mutual funds:				
Equity funds	6,327,839	6,327,839	-	-
Fixed income funds	6,909,808	6,909,808	-	-
Other funds	1,058,505	1,058,505	-	-
	<u>14,296,152</u>	<u>14,296,152</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>20,926,575</u>	<u>20,926,575</u>	<u>-</u>	<u>-</u>
Inventories:				
Commodities	1,161,143	-	1,161,143	-
Donated inventory	2,116,150	-	2,116,150	-
Total	<u>\$ 24,203,868</u>	<u>\$ 20,926,575</u>	<u>\$ 3,277,293</u>	<u>\$ -</u>
	2022			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Equities:				
U.S. equities	\$ 5,521,030	\$ 5,521,030	\$ -	\$ -
Mutual funds:				
Equity funds	5,394,581	5,394,581	-	-
Fixed income funds	6,976,326	6,976,326	-	-
Other funds	1,168,730	1,168,730	-	-
	<u>13,539,637</u>	<u>13,539,637</u>	<u>-</u>	<u>-</u>
Total investments at fair value	<u>19,060,667</u>	<u>19,060,667</u>	<u>-</u>	<u>-</u>
Inventories:				
Commodities	961,838	-	961,838	-
Donated inventory	1,783,434	-	1,783,434	-
Total	<u>\$ 21,805,939</u>	<u>\$ 19,060,667</u>	<u>\$ 2,745,272</u>	<u>\$ -</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Land	\$ 1,414,586	\$ 1,414,586
Building and improvements	19,660,293	18,953,613
Office and warehouse furniture and equipment	4,799,398	4,538,429
Transportation equipment	2,470,023	2,170,729
Cook/chill equipment	743,373	721,974
	<u>29,087,673</u>	<u>27,799,331</u>
Less accumulated depreciation	<u>11,898,641</u>	<u>10,503,947</u>
	<u>\$ 17,189,032</u>	<u>\$ 17,295,384</u>

NOTE 9 - LINE OF CREDIT

The Food Bank has a \$2,500,000 line of credit to a financial institution, subject to a borrowing base calculated on eligible accounts and inventory. The line is scheduled to mature May 2024. Interest is payable monthly at a rate of one-month LIBOR plus 2.60% (6.73% at June 30, 2023) and had no outstanding balance at June 30, 2023 or 2022.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 10 - LONG TERM DEBT

Notes payable consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
\$2,200,000 USDA Rural Development Loan requiring principal and interest payments (at 3.5%) of \$8,734. The loan matures on June 11, 2058.	\$ 1,928,381 ⁽¹⁾	\$ 1,963,051
\$700,000 USDA Rural Development Loan requiring principal and interest payments (at 3.5%) of \$2,779. The loan matures on June 11, 2058.	<u>679,682</u> ⁽¹⁾	<u>691,006</u>
Total long-term debt	<u>\$ 2,608,063</u>	<u>\$ 2,654,057</u>

(1) The USDA loans are collectively secured by property in Camden, Tennessee and Nashville, Tennessee with carrying values totaling \$6,107,233 (building only) at June 30, 2023. Additionally, the loans require a debt service reserve which is listed on the Statements of Financial Position as restricted cash.

Total interest expense incurred by the Food Bank amounted to \$87,327 and \$93,816 during the years ended June 30, 2023 and 2022, respectively. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

Maturities on the notes payable at June 30, 2023 are as follows:

2024	\$ 47,115
2025	48,790
2026	50,526
2027	52,323
2028	54,184
Thereafter	<u>2,355,125</u>
	<u>\$ 2,608,063</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

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 in June 2024. Additionally, the Food Bank leases other space and transportation equipment on a short-term basis, which is not included in the calculated lease liability or right-of-use asset below.

The components of lease expense are as follows for the year ended June 30, 2023:

Operating lease cost	\$	536,700
Short-term lease cost		<u>465,210</u>
Total lease cost	\$	<u>1,001,910</u>

Total lease expense for the year ended June 30, 2022 was \$549,635.

Additional information related to leases is as follows as of June 30, 2023:

Weighted-average remaining lease term:

Operating leases	.97 years
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Weighted-average discount rate:

Operating leases	2.84%
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Future undiscounted cash flows and a reconciliation to the lease liability recognized on the Statement of Financial Position is as follows as of June 30, 2023:

Years ending June 30:

2024	\$	546,197
Less imputed interest		<u>(7,068)</u>
Total present value of lease liabilities	\$	<u>539,129</u>

Future minimum lease payments required under the lease were as follows at June 30, 2022:

For year ended June 30:

2023	\$	553,498
2024		<u>564,749</u>
Total	\$	<u>1,118,247</u>

On December 14, 2023, the Food Bank signed a new warehouse lease, which will result in a new R-O-U asset and lease liability of approximately \$3,400,000 on July 1, 2024.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 12 - BOARD-DESIGNATED ENDOWMENT

In connection with the March 2022 investment policy adoption, the Board of Directors designated its long-term investment portfolio as a general endowment fund to support the long-term goals of the Food Bank. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

The portfolio's goal is to generate long-term growth to support the current and future spending needs of the Food Bank. While no near-term cash outflows are expected from this portfolio, the Food Bank may initiate annual distributions at any time. If distributions are made, the Food Bank intends to withdraw up to 4% of the long-term investment portfolio based on the rolling average of the fund's year-end market values over the past three years. The Board may modify the spending policy in response to extraordinary changes in the Food Bank's financial condition or in the economic and investment environments. Disbursements require Board approval. Accordingly, over the long term, the Food Bank expects the current spending policy to allow its general endowment fund to grow at an average of 4% annually. This is consistent with the objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

To achieve that objective, the Food Bank has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. The objective of this portfolio is to balance the goals of maximizing total return (capital appreciation and income) while limiting the probability of a significant decline in principal. Over rolling 5-year periods, this portfolio seeks to earn a total net return that exceeds inflation (CPI) by 4%. The Food Bank recognizes that short-term market fluctuations may result in loss of capital, but the asset value of the portfolio (without any contributions or withdrawals) should grow over time if it avoids excessive risk. Actual returns in any given year may vary from this amount.

Included in the opening balance below are amounts formerly designated for long-term purposes in the Statement of Financial Position at June 30, 2021. Changes in the board-designated endowment net assets for the year ended June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Beginning of year	\$ 13,098,672	\$ 6,811,366
Contributions	-	8,991,032
Investment income	362,903	304,265
Net appreciation (depreciation) in value	<u>1,091,571</u>	<u>(3,007,991)</u>
End of year	<u>\$ 14,553,146</u>	<u>\$ 13,098,672</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 13 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2023</u>	<u>2022</u>
<u>Net Assets with Time Restrictions</u>		
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ -	\$ 3,000
Other pledges for future years' operations	397,088	310,699
<u>Net assets with Purpose Restrictions</u>		
Donations for Children's programs (backpacks and summer feeding programs)	1,240,962	507,861
Donations for mobile pantries and agency equipment	1,320,696	432,879
Donations for emergency food box program	20,000	282,394
Donations for equipment purchases and other operational projects	530,934	758,898
	<u>\$ 3,509,680</u>	<u>\$ 2,295,731</u>

NOTE 14 - CONTRIBUTIONS OF NON-FINANCIAL ASSETS

Excluding donated food and commodity items broken out separately in the Statements of Activities and Statements of Functional Expenses, other in-kind donations of goods and services recognized by the Food Bank as contributions revenue and related expenses for the years ended June 30 consisted of the following:

	<u>2023</u>	<u>2022</u>
Special events goods and services	\$ 127	\$ -
Food supplies and distribution	5,704	60,906
Equipment and warehouse supplies	5,734	-
Office and administration:		
Marketing and promotional	-	3,500
Truck parking	-	10,500
Office supplies	444	243
Other	10,393	3,900
	<u>\$ 22,402</u>	<u>\$ 79,049</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

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, 2023 amounted to \$442,038 (\$448,283 for 2022).

NOTE 16 - 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, 2023, pledges receivable from two donors amounted to \$400,000 or approximately 43% of total pledges receivable. At June 30, 2022, pledges receivable from four donors amounted to \$488,482, or approximately 48% of total pledges receivable.

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2023

	FEDERAL ALN NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED)	7/1/22- 6/30/23		(ACCRUED)
					DEFERRED REVENUE 7/1/2022	RECEIPTS	EXPENDITURES	DEFERRED REVENUE 6/30/2023
EXPENDITURES OF FEDERAL AWARDS								
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through Tennessee Department of Human Services								
Child and Adult Care Food Program (CACFP)	10.558	N/A	*	*	\$ (9,376)	\$ 154,253	\$ 144,877	\$ -
Summer Food Service Program (SFSP)	10.559	N/A	5/1/22 - 9/30/22	*	(13,058)	22,767	9,709	-
Summer Food Service Program (SFSP)	10.559	N/A	5/1/23 - 9/30/23	*	-	114	18,612	(18,498)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	1/1/22 - 6/30/22	\$ 17,971	(8,012)	8,012	-	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	7/1/22 - 9/30/22	\$ 8,985	-	7,166	7,166	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	1/1/23 - 6/30/23	\$ 44,908	-	25,047	28,487	(3,440)
Total - Tennessee Department of Human Services					(30,446)	217,359	208,851	(21,938)
Passed Through Tennessee Department of Agriculture								
Local Food Purchase Assistance	10.182	32506-02423	11/15/22-8/15/24	\$ 3,280,000	-	59,737	351,403	(291,666)
Storage and Distribution of Commodity Credit Corporation	10.187	71304000	10/1/22 - 6/30/23	\$ 78,635	-	-	78,635	(78,635)
Emergency Food Assistance Program - Administrative Costs	10.568 (1)	GR-32501-00	10/1/21 - 9/30/22	\$ 1,440,000	(771,340)	960,642	189,302	-
Emergency Food Assistance Program - Administrative Costs	10.568 (1)	GR-32501-00	10/1/22 - 9/30/23	\$ 1,065,000	-	399,999	800,415	(400,416)
Emergency Food Assistance Program - Commodities	10.569 (1)	GR-32501-00	10/1/21 - 9/30/22	*	687,389	2,074,392	2,761,781	-
Emergency Food Assistance Program - Commodities	10.569 (1)	GR-32501-00	10/1/22 - 9/30/23	*	-	6,646,220	5,808,944	837,276
Total - Tennessee Department of Agriculture					(83,951)	10,140,990	9,990,480	66,559
Passed Through Tennessee Department of Health								
Commodity Supplemental Food Program (CSFP) Administrative Costs	10.565 (1)	GR-19-60182	10/1/21 - 9/30/22	\$ 168,590	(35,936)	46,576	10,640	-
Commodity Supplemental Food Program (CSFP) Administrative Costs	10.565 (1)	GR-22-72126	10/1/22 - 9/30/23	\$ 184,200	-	155,600	182,200	(26,600)
Commodity Supplemental Food Program (CSFP) Commodities	10.565 (1)	GR-19-60182	10/1/21 - 9/30/22	*	227,848	407,253	635,101	-
Commodity Supplemental Food Program (CSFP) Commodities	10.565 (1)	GR-22-72126	10/1/22 - 9/30/23	*	-	870,229	546,363	323,866
Total - Tennessee Department of Health					191,912	1,479,658	1,374,304	297,266

(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, 2023

	FEDERAL ALN NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED)	7/1/22 - 6/30/23		(ACCRUED)
					DEFERRED REVENUE 7/1/2022	RECEIPTS	EXPENDITURES	DEFERRED REVENUE 6/30/2023
U.S. DEPARTMENT OF AGRICULTURE (CONTINUED)								
Passed Through USDA Rural Healthcare:								
Emergency Rural Healthcare Track One: Recovery Grant	10.766	n/a	3/31/20 - 9/30/23	\$ 346,200	\$ (112,380)	\$ -	\$ 219,450	\$ (331,830)
Total - USDA Rural Healthcare					(112,380)	-	219,450	(331,830)
TOTAL U.S. DEPARTMENT OF AGRICULTURE					(34,865)	11,838,007	11,793,085	10,057
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
Passed Through the Tennessee Dept of Economic and Community Development								
Community Development Block Grant	14.228 (1)	33004-33823	11/1/22 - 10/31/23	\$ 6,000,000	-	-	2,370,294	(2,370,294)
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					-	-	2,370,294	(2,370,294)
CENTERS FOR DISEASE CONTROL								
Passed Through the Tennessee Department of Health								
National Institutes to Address COVID-19 Health Disparities Among Populations at High Risk and Underserved	93.391	n/a	6/1/21 - 5/31/23	\$ 113,482	(111,913)	113,482	1,569	-
TOTAL U.S. CENTERS FOR DISEASE CONTROL					(111,913)	113,482	1,569	-
DEPARTMENT OF HOMELAND SECURITY								
Passed Through United Way of Middle Tennessee:								
Emergency Management Food and Shelter Program	97.024	765200-002	11/1/21 - 12/31/22	\$ 52,507	-	52,507	52,507	-
Emergency Management Food and Shelter Program	97.024	765200-002	11/1/22 - 12/31/23	\$ 70,000	-	70,000	70,000	-
TOTAL DEPARTMENT OF HOMELAND SECURITY					-	122,507	122,507	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ (146,778)	\$ 12,073,996	\$ 14,287,455	\$ (2,360,237)

* Not specified.

(1) Denotes a major program

Total Expenditures by ALN Number (Cluster):

10.182	\$ 351,403
10.187	78,635
10.558	144,877
10.559	28,321
10.561	35,653
10.565, 10.568 & 10.569	10,934,746
10.766	219,450
14.228	2,370,294
93.391	1,569
97.024	122,507
	<u>\$ 14,287,455</u>

See Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2023

	<u>GRANTOR'S NUMBER</u>	<u>GRANT PERIOD</u>	<u>GRANT AMOUNT</u>	<u>(ACCRUED) DEFERRED REVENUE 7/1/2022</u>	<u>7/1/22 - 6/30/23</u>		<u>(ACCRUED) DEFERRED REVENUE 6/30/2023</u>
					<u>RECEIPTS</u>	<u>EXPENDITURES</u>	
EXPENDITURES OF STATE FINANCIAL ASSISTANCE							
TENNESSEE DEPARTMENT OF ENVIRONMENT & CONSERVATION							
Division of Solid Waste Management Organics Management Grant	2018-3681	1/5/2018 - 1/4/2023	\$ 1,098,091	\$ -	\$ 12,433	\$ 12,433	\$ -
TOTAL TENNESSEE DEPARTMENT OF ENVIRONMENT & CONSERVATION				<u>-</u>	<u>12,433</u>	<u>12,433</u>	<u>-</u>
TENNESSEE DEPARTMENT OF EMERGENCY MANAGEMENT							
Tennessee Emergency Management Agency (TEMA) Commodities	*	4/14/2020 - 09/30/2021	*	<u>46,601</u>	<u>-</u>	<u>46,601</u>	<u>-</u>
TOTAL TENNESSEE DEPARTMENT OF EMERGENCY MANAGEMENT				<u>46,601</u>	<u>-</u>	<u>46,601</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE				<u>\$ 46,601</u>	<u>\$ 12,433</u>	<u>\$ 59,034</u>	<u>\$ -</u>

* Not specified.

See Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2023

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and schedule of expenditures of state financial assistance (the "Schedules") includes the federal and state award activity of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") under programs of the federal government and the State of Tennessee for the year ended June 30, 2023. The information in these Schedules 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) and the State of Tennessee Audit Manual. 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 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, 2023 are as follows:

97-01	\$	1,928,381
97-02		<u>679,682</u>
	\$	<u><u>2,608,063</u></u>

NOTE 4 - SUBRECIPIENTS

The Food Bank has not distributed federal grant funds to subrecipients.

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, 2023, 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 March 25, 2024.

REPORT ON 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) as a basis for designing 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 or significant deficiencies may exist that were not 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 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 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.

A handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
March 25, 2024

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

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

OPINION ON 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 identified as subject to audit 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, 2023. 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.

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

BASIS FOR OPINION ON EACH MAJOR FEDERAL PROGRAM

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 *U.S Code of Federal Regulation* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement 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 Food Bank 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 Food Bank’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 Food Bank'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 Food Bank'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 GAAS, *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 Food Bank's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 Food Bank'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 Food Bank'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 Food Bank'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.

Kraft+CPAs PLLC

Nashville, Tennessee
March 25, 2024

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2023

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ 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? _____ yes X 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)?

_____ yes X no

Identification of major programs:

ALN(s)	Name of Federal Program or Cluster
10.565, 10.568 and 10.569	Food Distribution Cluster
14.228	Community Development Block Grant

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, 2023

Part II - Financial Statement Findings

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

Part III - Federal Award Findings and Questioned Costs

There were no current or prior year findings.