

**SECOND HARVEST FOOD BANK  
OF EAST TENNESSEE**

**Financial Statements and Other Financial Information**

**June 30, 2019 and 2018**

**(With Independent Auditors' Report Thereon)**



# SECOND HARVEST FOOD BANK OF EAST TENNESSEE

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**Second Harvest Food Bank of East Tennessee  
Roster of Board of Directors and Executive Staff  
As of June 30, 2019**

**Board of Directors**

<b>Jacob Ogle</b>	<b>President</b>
<b>Lori Hickok</b>	<b>Secretary/Treasurer</b>
<b>Patrick Birmingham</b>	<b>Vice President</b>
<b>Drew Everett</b>	<b>Member</b>
<b>Megan Flynn</b>	<b>Member</b>
<b>Mike Hatcher</b>	<b>Member</b>
<b>Shannon Johnson</b>	<b>Member</b>
<b>David Keim</b>	<b>Member</b>
<b>David Reynolds</b>	<b>Member</b>
<b>Tim McLemore</b>	<b>Member</b>
<b>Dean John Ross</b>	<b>Member</b>
<b>Bob Haralson</b>	<b>Member</b>

**Executive Staff**

<b>Elaine Streno</b>	<b>Chief Executive Officer</b>
<b>Carole Folta</b>	<b>Chief Financial Officer</b>

## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
Second Harvest Food Bank of East Tennessee:

### Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of East Tennessee (a non-profit organization) (the "Organization"), 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.

#### *Auditors' 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of East Tennessee 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**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and State Awards and Related Notes on pages 21 through 23, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*LBMC, PC*

Knoxville, Tennessee  
December 16, 2019

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Statements of Financial Position**

**June 30, 2019 and 2018**

	<u>Assets</u>	
	<u>2019</u>	<u>2018</u>
<b>Current assets:</b>		
Cash	\$ 1,354,028	\$ 1,635,493
Accounts and other receivables	252,425	189,100
Grants receivable	95,751	20,940
Current portion of pledges receivable	100,000	100,000
Prepaid expenses	117,243	124,741
Products held for distribution	<u>2,141,932</u>	<u>1,576,260</u>
<b>Total current assets</b>	<b>4,061,379</b>	<b>3,646,534</b>
Long-term pledges receivable, net of current portion and present value discount	94,260	191,753
<b>Property and equipment, net:</b>		
Land	441,600	441,600
Building	3,981,482	3,951,327
Warehouse equipment	402,878	399,710
Automobiles and trucks	1,082,775	1,094,645
Cold storage equipment	1,946,249	1,946,249
Office furniture and equipment	<u>325,328</u>	<u>237,732</u>
	8,180,312	8,071,263
Accumulated depreciation	<u>2,426,472</u>	<u>2,224,981</u>
<b>Property and equipment, net</b>	<b>5,753,840</b>	<b>5,846,282</b>
Beneficial interest in assets held by others	5,000	5,000
Deposits	<u>1,570</u>	<u>1,570</u>
	<u>\$ 9,916,049</u>	<u>\$ 9,691,139</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Financial Position

June 30, 2019 and 2018

Liabilities and Net Assets

	<u>2019</u>	<u>2018</u>
<b>Current liabilities:</b>		
Current installments of long-term debt	\$ -	\$ 200,000
Trade accounts and other payables	204,630	213,084
Accrued compensation	148,233	98,773
Deferred grant revenue	100,000	-
Deferred event revenue	<u>151,042</u>	<u>79,000</u>
<b>Total current liabilities</b>	<u>603,905</u>	<u>590,857</u>
<b>Net assets:</b>		
Without donor restrictions	7,528,831	7,606,282
With donor restrictions	<u>1,783,313</u>	<u>1,494,000</u>
<b>Total net assets</b>	<u>9,312,144</u>	<u>9,100,282</u>
	<u>\$ 9,916,049</u>	<u>\$ 9,691,139</u>

See accompanying notes to the financial statements.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Statement of Activities

Year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and revenue:</b>			
Contributed product	\$ -	\$ 23,326,086	\$ 23,326,086
Other contributions	3,063,223	380,143	3,443,366
Government grants	218,784	296,175	514,959
United Way	196,579	-	196,579
Distribution fees	2,438,117	-	2,438,117
In kind donations	137,142	-	137,142
Capital campaign	-	2,507	2,507
Event revenue, net of expenses of \$385,341	<u>747,991</u>	<u>-</u>	<u>747,991</u>
<b>Total support and revenue</b>	<b>6,801,836</b>	<b>24,004,911</b>	<b>30,806,747</b>
Net assets released from restrictions	<u>23,715,598</u>	<u>(23,715,598)</u>	<u>-</u>
<b>Total revenue, gains and other support</b>	<b><u>30,517,434</u></b>	<b><u>289,313</u></b>	<b><u>30,806,747</u></b>
<b>Expenses:</b>			
Food distribution program	29,091,216	-	29,091,216
Fundraising	1,033,633	-	1,033,633
Management and general	<u>474,871</u>	<u>-</u>	<u>474,871</u>
<b>Total expenses</b>	<b><u>30,599,720</u></b>	<b><u>-</u></b>	<b><u>30,599,720</u></b>
<b>Other changes in net assets</b>			
Interest income	774	-	774
Other	6,040	-	6,040
Loss on disposal of equipment	<u>(1,979)</u>	<u>-</u>	<u>(1,979)</u>
<b>Total other changes</b>	<b><u>4,835</u></b>	<b><u>-</u></b>	<b><u>4,835</u></b>
<b>Change in net assets</b>	<b>(77,451)</b>	<b>289,313</b>	<b>211,862</b>
Net assets at beginning of year	<u>7,606,282</u>	<u>1,494,000</u>	<u>9,100,282</u>
Net assets at end of year	<b><u>\$ 7,528,831</u></b>	<b><u>\$ 1,783,313</u></b>	<b><u>\$ 9,312,144</u></b>

See accompanying notes to the financial statements.

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Statement of Activities**

**Year ended June 30, 2018**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and revenue:</b>			
Contributed product	\$ -	\$ 23,182,508	\$ 23,182,508
Other contributions	2,754,361	339,570	3,093,931
Government grants	245,833	115,630	361,463
United Way	258,219	-	258,219
Distribution fees	2,390,338	-	2,390,338
In kind donations	49,606	-	49,606
Capital campaign	-	6,520	6,520
Event revenue, net of expenses of \$493,638	<u>643,959</u>	<u>-</u>	<u>643,959</u>
<b>Total support and revenue</b>	<b>6,342,316</b>	<b>23,644,228</b>	<b>29,986,544</b>
<b>Net assets released from restrictions</b>	<u>23,208,857</u>	<u>(23,208,857)</u>	<u>-</u>
<b>Total revenue, gains and other support</b>	<u>29,551,173</u>	<u>435,371</u>	<u>29,986,544</u>
<b>Expenses:</b>			
Food distribution program	28,024,574	-	28,024,574
Fundraising	969,870	-	969,870
Management and general	<u>331,231</u>	<u>-</u>	<u>331,231</u>
<b>Total expenses</b>	<u>29,325,675</u>	<u>-</u>	<u>29,325,675</u>
<b>Other changes in net assets</b>			
Interest income	434	-	434
Other	15,345	-	15,345
Gain on disposal of equipment	<u>5,946</u>	<u>-</u>	<u>5,946</u>
<b>Total other changes</b>	<u>21,725</u>	<u>-</u>	<u>21,725</u>
<b>Change in net assets</b>	<b>247,223</b>	<b>435,371</b>	<b>682,594</b>
<b>Net assets at beginning of year</b>	<u>7,359,059</u>	<u>1,058,629</u>	<u>8,417,688</u>
<b>Net assets at end of year</b>	<u>\$ 7,606,282</u>	<u>\$ 1,494,000</u>	<u>\$ 9,100,282</u>

See accompanying notes to the financial statements.

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Statements of Cash Flows**

**Years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash provided by operating activities:</b>		
Change in net assets	\$ <u>211,862</u>	\$ <u>682,594</u>
<b>Adjustments to reconcile change in net assets to cash provided by operating activities:</b>		
Depreciation	304,158	302,333
Loss (gain) on disposal of equipment	1,979	(5,946)
Capital campaign pledges restricted for facility acquisition	(2,507)	(6,520)
(Increase) decrease in:		
Accounts and other receivables	(63,325)	(44,014)
Grants receivable	(74,811)	65,270
Prepaid expenses	7,498	(109,567)
Product held for distribution	(565,672)	(548,254)
Increase (decrease) in:		
Trade accounts and other payables	(8,454)	(23,897)
Accrued compensation	49,460	(12,155)
Deferred grant revenue	100,000	-
Deferred event revenue	<u>72,042</u>	<u>79,000</u>
<b>Total adjustments</b>	<u>(179,632)</u>	<u>(303,750)</u>
<b>Net cash provided by operating activities</b>	<u>32,230</u>	<u>378,844</u>
<b>Cash used by investing activities:</b>		
Purchases of property and equipment	(241,048)	(39,625)
Proceeds from disposal of equipment	<u>27,353</u>	<u>5,946</u>
<b>Net cash used by investing activities</b>	<u>(213,695)</u>	<u>(33,679)</u>
<b>Cash used by financing activities:</b>		
Cash received from pledges restricted for facility acquisition	100,000	100,000
Payments on long-term debt	<u>(200,000)</u>	<u>(338,208)</u>
<b>Net cash used by financing activities</b>	<u>(100,000)</u>	<u>(238,208)</u>
(Decrease) increase in cash and cash equivalents	(281,465)	106,957
Cash at beginning of year	<u>1,635,493</u>	<u>1,528,536</u>
Cash at end of year	\$ <u>1,354,028</u>	\$ <u>1,635,493</u>

See accompanying notes to the financial statements.

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Statement of Functional Expenses**

**Year ended June 30, 2019**

	<u>Food Distribution Program</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Totals</u>
Product distribution	\$ 26,440,241	\$ -	\$ -	\$ 26,440,241
Salaries and wages	1,082,136	490,463	248,718	1,821,317
Payroll taxes	81,988	37,160	18,844	137,992
Health insurance	121,690	55,155	27,969	204,814
Retirement contributions	22,430	10,166	5,155	37,751
Other employee benefits	43,140	19,552	9,915	72,607
Depreciation	273,743	18,249	12,166	304,158
Printing and publications	2,577	16,203	2,062	20,842
Direct mail	-	329,680	-	329,680
Postage	2,732	546	2,186	5,464
Office supplies	3,204	641	2,563	6,408
Office equipment lease	26,272	697	2,787	29,756
Telephone	12,774	2,555	10,219	25,548
Utilities	76,866	5,124	3,416	85,406
Insurance	61,974	5,912	3,110	70,996
Fuel and vehicle registration	130,094	-	-	130,094
Repairs and maintenance	287,215	14,075	36,371	337,661
Conferences and travel	23,051	3,842	11,526	38,419
Dues and licenses	12,652	-	19,223	31,875
Professional services	-	-	56,940	56,940
Agency grants	258,657	-	-	258,657
Agency expenses	7,460	-	-	7,460
Warehouse and program expenses	117,808	-	-	117,808
Credit card processing fees	-	23,424	-	23,424
Other	2,512	189	-	2,701
Interest expense	-	-	1,701	1,701
	<u>\$ 29,091,216</u>	<u>\$ 1,033,633</u>	<u>\$ 474,871</u>	<u>\$ 30,599,720</u>

See accompanying notes to the financial statements.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Statement of Functional Expenses

Year ended June 30, 2018

	<u>Food Distribution Program</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Totals</u>
Product distribution	\$ 25,660,898	\$ -	\$ -	\$ 25,660,898
Salaries and wages	990,599	497,342	147,580	1,635,521
Payroll taxes	71,798	36,048	10,697	118,543
Health insurance	127,417	63,972	18,983	210,372
Retirement contributions	21,124	10,606	3,147	34,877
Other employee benefits	30,362	15,246	4,524	50,132
Depreciation	272,100	18,140	12,093	302,333
Printing and publications	1,774	36,064	374	38,212
Direct mail	-	237,249	-	237,249
Postage	2,642	2,114	528	5,284
Office supplies	2,465	1,972	493	4,930
Office equipment lease	3,791	2,447	612	6,850
Telephone	16,374	8,222	2,440	27,036
Utilities	80,254	5,350	3,567	89,171
Insurance	63,932	9,793	3,388	77,113
Fuel and vehicle registration	121,181	-	-	121,181
Repairs and maintenance	249,083	8,183	5,889	263,155
Conferences and travel	12,558	6,305	1,871	20,734
Dues and licenses	18,373	9,225	2,737	30,335
Professional services	-	-	46,360	46,360
Agency grants	195,505	-	-	195,505
Agency expenses	11,045	-	-	11,045
Warehouse and program expenses	59,087	-	-	59,087
Bank charges	-	-	28,244	28,244
Other	-	778	37,161	37,939
Interest expense	12,212	814	543	13,569
	<u>\$ 28,024,574</u>	<u>\$ 969,870</u>	<u>\$ 331,231</u>	<u>\$ 29,325,675</u>

See accompanying notes to the financial statements.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Notes to the Financial Statements

June 30, 2019 and 2018

(1) Nature of activities

Second Harvest Food Bank of East Tennessee ("Second Harvest"), was incorporated in July 1981 and is certified as a member of Feeding America.

Second Harvest, located in Maryville, Tennessee, is a non-profit service organization dedicated to alleviating hunger in the community. Its primary commitment to the surrounding eighteen counties of East Tennessee is to provide and distribute food to those agencies who feed the hungry. Second Harvest receives contributions of surplus or salvage food from national and local food producers and United States Department of Agriculture ("USDA") food products from the Tennessee Department of Agriculture, and distributes these products to certified charitable organizations such as church sponsored pantries that provide emergency food baskets, programs for disadvantaged children, programs for the handicapped, low income day care centers, and homeless shelters. Second Harvest also operates a Food Rescue program where donated food is picked up from area grocery stores and restaurants and distributed to local distribution programs.

(2) Summary of significant accounting policies

(a) Adopted accounting pronouncements

In August 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*. This standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (with donor restrictions and without donor restrictions), reporting of underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, requiring enhanced disclosures about how a not-for-profit entity manages its liquidity and requiring reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. This standard is effective for fiscal years beginning after December 15, 2017 and has been adopted by the Organization for fiscal year 2019. There were no restatements or reclassifications of net assets as a result of adopting this guidance.

(b) Basis of presentation

The Organization reports information regarding its financial position and activities based on the existence or absence of donor or grantor imposed restrictions. Net assets of the Organization are presented as follows:

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor or grantor imposed restrictions.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Notes to the Financial Statements

June 30, 2019 and 2018

*Net Assets With Donor Restrictions* - Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions.

(c) Accounts receivable

Second Harvest sells purchased food and supplies to their partner agencies at cost. Accounts receivable are reported at gross sales price less any applicable payments or adjustments. Second Harvest extends trade credit based on evaluation of those agencies' financial condition and, generally, does not require collateral. Second Harvest does not charge interest on past due accounts.

Second Harvest estimates an allowance for doubtful accounts on trade accounts receivable, which may not be fully collectible, based on its knowledge of partner agencies' individual credit circumstances, the 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. There were no charge offs for the years ended June 30, 2019 or 2018.

Accounts receivable are deemed to be fully collectible by management, and no allowance for doubtful accounts is considered necessary at June 30, 2019 or 2018.

(d) Pledges receivable

Unconditional pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flow. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contributions. Conditional promises to give are not recorded as support until such times as the conditions are substantially met.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Notes to the Financial Statements

June 30, 2019 and 2018

(e) Products held for distribution

Product held for distribution includes donated inventory, purchased inventory, program inventory, and undistributed USDA commodities and consists primarily of assorted food, beverages, and condiments ("food"). Donated food received from food drives, food companies, grocery stores and Feeding America is valued at \$1.68 per pound for 2019 and 2018, which represents the estimated average market value of the food at the date of the gift based on a study commissioned by Feeding America. Purchased and program inventory is reported at cost. USDA inventory is valued at the most recent USDA established market value per pound.

(f) Property and equipment

Property and equipment are reported at cost or, in the case of contributed property, at the estimated fair value at the date of receipt. It is Second Harvest's policy to capitalize property and equipment expenditures with a useful life of greater than one year and a cost in excess of \$1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years.

(g) Contributions and support

Contributions are recorded as support when cash or other assets are received. Contributed food and other products for distribution are recorded as support at their estimated average market value on the date of receipt. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

In kind contributions are recorded based on their estimated fair value at the date of donation.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Notes to the Financial Statements

June 30, 2019 and 2018

(h) Functional expense allocation

The costs to provide programs and services are summarized on a functional basis in the accompanying financial statements. Accordingly, certain expenses have been allocated among the program and supporting services benefited. Costs directly related to a specific function are charged to that function. Salaries and benefits are allocated based on an analysis of employee time spent on program services and other activities. Occupancy costs are allocated based on the use of the space. Other costs are allocated based on management's best estimates.

(i) Income taxes

Second Harvest qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code as a public charity. As such, no accrual for income taxes has been made in the accompanying financial statements.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Organization has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of June 30, 2019 and 2018.

As of June 30, 2019 and 2018, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The Organization files a U.S. Federal informational tax return annually. The Organization is subject to routine audits under the Internal Revenue Service, and there are no audits currently in process.

(j) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from those estimates.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Notes to the Financial Statements

June 30, 2019 and 2018

(k) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(l) New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09 ("ASU 2014-09") *Revenue from Contracts with Customers (Topic 606)*, resulting in a comprehensive new revenue recognition standard that supercedes most existing revenue recognition guidance under GAAP.

ASU 2014-09's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 prescribes a five-step process to accomplish this core principle, including:

- Identification of the contract with the customer;
- Identification of the performance obligation(s) under the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the identified performance obligation(s), and
- Recognition of revenue as (or when) an entity satisfies the identified performance obligation(s).

ASU 2014-09, as amended, is effective for the Organization's fiscal year beginning July 1, 2019, and management expects no significant impact from adoption of the ASU 2014-09 on its financial statements and disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting applicable to reporting periods beginning after December 15, 2020. A lessee will be required to recognize on the statement of financial position the assets and liabilities for leases with lease terms of more than 12 months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

(m) Events occurring after reporting date

Second Harvest has evaluated events and transactions that occurred between June 30, 2019 and December 16, 2019 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. There have been no events since June 30, 2019 that require additional disclosure.

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

**(3) Liquidity**

A summary of the Organization's financial assets as of June 30, 2019 available to meet cash needs for general expenditures within one year of the statement of financial position date is as follows:

Cash	1,354,028
Accounts and other receivables	252,425
Grants receivable	95,751
Pledges receivable	194,260
Beneficial interest in assets held by others	<u>5,000</u>
Financial assets at end of year	1,901,464
Less assets unavailable for general expenditures within one year:	
Financial assets subject to donor restrictions	<u>(295,011)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,606,453</u>

Additionally as described in Note (6), the Organization has a bank line of credit that could be made available for operations, if necessary.

**(4) Pledges receivable**

Pledges receivable for a capital campaign are recorded at the present value of estimated future cash flows at the time the pledge is received using a discount rate ranging from 1.7% to 2.50%. Unconditional pledges receivable at June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Amounts due in:		
Less than one year	\$ <u>100,000</u>	\$ <u>100,000</u>
One to five years	100,000	200,000
Present value discount	<u>(5,740)</u>	<u>(8,247)</u>
	<u>94,260</u>	<u>191,753</u>
Net pledges receivable	<u>\$ 194,260</u>	<u>\$ 291,753</u>

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2019 and 2018

(5) Products held for distribution

Products held for distribution consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Donated food	\$ 711,160	\$ 915,326
USDA inventory	465,309	68,270
Purchased inventory	814,908	460,513
Program inventory	<u>150,555</u>	<u>132,151</u>
	<u>\$ 2,141,932</u>	<u>\$ 1,576,260</u>

(6) Line of credit

Second Harvest has a bank line of credit, secured by the building, property and products held for distribution, in the amount of \$325,000 with a variable rate of interest (5.25% at June 30, 2019). The line of credit expires December 7, 2020. There was no interest incurred for the years ended June 30, 2019 and June 30, 2018. There was no outstanding balance as of June 30, 2019 and 2018.

(7) Long-term debt

Second Harvest had a note payable to a bank with a fixed interest rate of 4%. Interest was due in monthly installments, with all principal and remaining accrued interest due in full on January 27, 2019. Interest incurred for the year ended June 30, 2019 and 2018 was \$1,889 and \$13,569, respectively. There was no penalty for early payment. The note payable was secured by property. The note was paid in full, and there was no outstanding balance as of June 30, 2019.

(8) Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Product distribution	\$ 1,327,024	\$ 1,115,747
Equipment acquisition	172,965	-
Pledges receivable restricted for facility acquisition	194,260	291,753
Other	<u>89,064</u>	<u>86,500</u>
	<u>\$ 1,783,313</u>	<u>\$ 1,494,000</u>

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Notes to the Financial Statements

June 30, 2019 and 2018

(9) Employee benefits

Second Harvest has a simplified employee pension plan that covers all full-time employees who earn at least \$5,000 during any preceding years and worked at least 1,000 hours. Employee contributions to the plan are matched 100% up to 3% of each eligible employee's compensation. Retirement contribution expense was \$37,751 and \$34,877 the years ended June 30, 2019 and 2018, respectively.

(10) Donated materials and services

Second Harvest receives contributions of food from individuals, private companies, government agencies, stores, restaurants, churches, and other food banks and not-for-profit organizations for distribution. Second Harvest received \$23,326,086 and \$23,182,508 during the years ended June 30, 2019 and 2018, respectively, in contributions of food and distributed \$29,091,216 and \$28,024,574 of food (including purchased food) during the years ended June 30, 2019 and 2018, respectively.

Second Harvest received in kind donations valued at \$137,142 and \$49,606 during the years ended June 30, 2019 and 2018, respectively. The amounts are recorded in property and equipment, event revenue, contributions, and program services based on their intended use.

(11) Credit risk and other concentrations

The Organization generally maintains cash on deposit at a bank in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

Financial instruments that potentially subject Second Harvest to concentrations of credit risk consist primarily of pledges receivable. Unconditional promises to give at June 30, 2019 and 2018 are due from one contributor, who has made payments as scheduled.

(12) Beneficial interest in assets held by others

An endowment held by the East Tennessee Foundation (the "Foundation") for the benefit of Second Harvest is administered by the Foundation.

## SECOND HARVEST FOOD BANK OF EAST TENNESSEE

### Notes to the Financial Statements

June 30, 2019 and 2018

Endowment income is distributed to Second Harvest based on a spending policy. Additional disbursements may be made with seventy-five percent vote of approval from Second Harvest's Board of Directors. Second Harvest has granted the Foundation variance power, which is defined as the power to modify any restriction or condition on the distribution of funds for the specified charitable purposes or to be a specified organization if, in the sole judgment of the Foundation's board, such restrictions or conditions become, in effect unnecessary, undesirable, impracticable, incapable of fulfillment, or inconsistent with the charitable needs of the community served. Assets held by the Foundation for the benefit of Second Harvest are recorded as an asset in the accompanying statements of financial position.

(13) Supplemental disclosures of cash flow statement information

	<u>2019</u>	<u>2018</u>
Interest paid	\$ <u>1,889</u>	\$ <u>13,569</u>

**OTHER FINANCIAL INFORMATION**

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Schedule of Expenditures of Federal and State Awards**

**Year ended June 30, 2019**

CFDA Number	Name of Program	Contracting Agency	Amount Expended	Products Balance July 1, 2018	OTHER INFORMATION				
					Balance July 1, 2018 Receivable	Contract Funds Received	Amount Earned (Adjusted)	Balance June 30, 2019 Receivable	Products Balance June 30, 2019
<b>FEDERAL AWARDS</b>									
<b>Emergency Food Assistance Cluster</b>									
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 66695	\$ 96,175	\$ -	\$ 20,940	\$ 117,115	\$ 96,175	\$ -	\$ -
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 70700	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>104,249</u>	<u>200,000</u>	<u>95,751</u>	<u>-</u>
	<b>Total CFDA 10.568</b>		<u>296,175</u>	<u>-</u>	<u>20,940</u>	<u>221,364</u>	<u>296,175</u>	<u>95,751</u>	<u>-</u>
10.569	Emergency Food Assistance Program - Commodities	US Dept of Agriculture Pass through Tennessee Dept of Agriculture (noncash)	467,919	68,270	-	399,649	467,919	-	-
10.569	Emergency Food Assistance Program - Commodities	US Dept of Agriculture Pass through Tennessee Dept of Agriculture (noncash)	<u>2,555,822</u>	<u>-</u>	<u>-</u>	<u>3,021,131</u>	<u>2,555,822</u>	<u>-</u>	<u>465,309</u>
	<b>Total CFDA 10.569 (noncash)</b>		<u>3,023,741</u>	<u>68,270</u>	<u>-</u>	<u>3,420,780</u>	<u>3,023,741</u>	<u>-</u>	<u>465,309</u>
	<b>Total US Dept of Agriculture</b>		<u>3,319,916</u>	<u>68,270</u>	<u>20,940</u>	<u>3,642,144</u>	<u>3,319,916</u>	<u>95,751</u>	<u>465,309</u>
	<b>Total Federal Awards</b>		<u>3,319,916</u>	<u>68,270</u>	<u>20,940</u>	<u>3,642,144</u>	<u>3,319,916</u>	<u>95,751</u>	<u>465,309</u>

See accompanying Notes to Schedule of Expenditures of Federal and State Awards.  
See accompanying independent auditors' report.

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Schedule of Expenditures of Federal and State Awards, continued**

**Year ended June 30, 2019**

<u>CFDA Number</u>	<u>Name of Program</u>	<u>Contracting Agency</u>	<u>Amount Expended</u>	<u>Products Balance July 1, 2018</u>	<u>OTHER INFORMATION</u>				
					<u>Balance July 1, 2018 Receivable</u>	<u>Contract Funds Received</u>	<u>Amount Earned (Adjusted)</u>	<u>Balance June 30, 2019 Receivable</u>	<u>Products Balance June 30, 2019</u>
<b>STATE AWARDS</b>									
N/A	Direct Appropriation Grant - Purchase of Food	Tennessee Department of Human Services	\$ <u>200,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>200,000</u>	\$ <u>200,000</u>	\$ <u>-</u>	\$ <u>-</u>
		<b>Total State Awards</b>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
	<b>Total Federal and State Awards</b>		<u>\$ 3,519,916</u>	<u>\$ 68,270</u>	<u>\$ 20,940</u>	<u>\$ 3,842,144</u>	<u>\$3,519,916</u>	<u>\$ 95,751</u>	<u>\$ 465,309</u>

See accompanying Notes to Schedule of Expenditures of Federal and State Awards.  
See accompanying independent auditors' report.

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Notes to the Schedule of Expenditures of Federal and State Awards**

**Year ended June 30, 2019**

**(1) Basis of presentation**

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes award activity of Second Harvest Food Bank of East Tennessee under programs of the federal and state governments for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**(2) Summary of significant accounting policies for federal expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. The expenditures reported in the Schedule follow the cost principles contained in the Uniform Guidance.

**(3) Indirect cost rate**

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**(4) Passed through to subrecipients**

There were no awards passed through to subrecipients.



**INDEPENDENT AUDITORS' 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***

The Board of Directors of  
Second Harvest Food Bank of East 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 East Tennessee (the "Organization"), 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 Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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.

INDEPENDENT AUDITORS' 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* - Continued

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Organization'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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

*LBMC, PC*

Knoxville, Tennessee  
December 16, 2019



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

The Board of Directors of  
Second Harvest Food Bank of East Tennessee:

**Report on Compliance for Each Major Federal Program**

We have audited Second Harvest Food Bank of East Tennessee's (the "Organization") 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 Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditors' 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (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 Organization'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 Organization's compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE - Continued**

***Opinion on Each Major Federal Program***

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

**Report on Internal Control Over Compliance**

Management of the Organization 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 Organization'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 Organization'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.

*LBMCP, PC*

Knoxville, Tennessee  
December 16, 2019

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	<u>Unmodified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported	
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported	

Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Identification of Major Programs:

Emergency Food Assistance Cluster: CFDA Number - 10.568, 10.569	<u>U.S. Department of Agriculture, Passed through Tennessee Department of Agriculture - Emergency Food Assistance Program - Administrative cost and Commodities</u>
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Dollar threshold used to distinguish between type A and type B programs:	<u>\$750,000</u>
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Auditee qualified as low risk auditee	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

**SECOND HARVEST FOOD BANK OF EAST TENNESSEE**

**Summary Schedule of Prior Audit Findings**

**June 30, 2019**

**There were no findings or questioned costs relative to federal and state awards reported in the financial statements audit of Second Harvest Food Bank of East Tennessee as of and for the year ended June 30, 2018.**