

**SECOND HARVEST FOOD BANK
OF EAST TENNESSEE**

Financial Statements and Other Financial Information

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)



SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Table of Contents

	<u>Page</u>
Roster of Board of Directors and Executive Staff	1
Independent Auditors' Report	2 - 3
Financial Statements:	
Statements of Financial Position	4 - 5
Statement of Activities and Changes in Net Assets for 2021	6
Statement of Activities and Changes in Net Assets for 2020	7
Statements of Cash Flows	8
Statement of Functional Expenses for 2021	9
Statement of Functional Expenses for 2020	10
Notes to the Financial Statements	11 - 19
Other Financial Information:	
Schedule of Expenditures of Federal and State Awards	21 - 22
Notes to the Schedule of Expenditures of Federal and State Awards	23
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 <i>Government Auditing Standards</i>	24 - 25
Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	26 - 27
Schedule of Findings and Questioned Costs	28
Summary Schedule of Prior Audit Findings	29

**Second Harvest Food Bank of East Tennessee
Roster of Board of Directors and Executive Staff
As of June 30, 2021**

Board of Directors

Jacob Ogle	President
Lori Hickok	Secretary/Treasurer
Patrick Birmingham	Vice President
Drew Everett	Member
Shannon Johnson	Member
David Keim	Member
David Reynolds	Member
Tim McLemore	Member
Dean John Ross	Member
Bob Haralson	Member
David Owens	Member

Executive Staff

Elaine Streno	Chief Executive Officer
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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 (the "Organization") (a non-profit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities and changes in net assets, 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, 2021 and 2020, 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 audits were 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 schedule of expenditures of federal and state awards and related notes is fairly stated, in all material respects, in relation to the financial statements as a whole.

The roster of board of directors and executive staff on Page 1, as required by the Tennessee Audit Manual issued by the State of Tennessee Comptroller of the Treasury, is presented for purposes of additional analysis and is not a required part of the financial statements and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on that information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2021, 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, 2021

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Financial Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets:		
Cash	\$ 20,249,184	\$ 5,756,746
Accounts and other receivables	35,668	116,040
Grants receivable	128,405	236,814
Current portion of pledges receivable	-	100,000
Investments	405,902	-
Prepaid expenses	66,123	60,417
Products held for distribution	<u>2,743,300</u>	<u>1,704,175</u>
Total current assets	23,628,582	7,974,192
Property and equipment, net:		
Land	441,600	441,600
Building	4,050,338	3,993,148
Warehouse equipment	620,995	532,964
Automobiles and trucks	1,681,268	1,385,491
Cold storage equipment	2,019,541	1,972,078
Office furniture and equipment	366,413	342,745
Construction in progress	<u>-</u>	<u>4,400</u>
	9,180,155	8,672,426
Accumulated depreciation	<u>3,073,439</u>	<u>2,730,824</u>
Property and equipment, net	6,106,716	5,941,602
Beneficial interest in assets held by others	3,949	3,949
Deposits	<u>1,570</u>	<u>3,320</u>
	<u>\$ 29,740,817</u>	<u>\$ 13,923,063</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Financial Position

June 30, 2021 and 2020

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current liabilities:		
Current installments of long-term debt	\$ 409,301	\$ 179,998
Trade accounts and other payables	294,445	381,857
Accrued compensation	110,670	148,280
Deferred event revenue	<u>305,679</u>	<u>39,742</u>
Total current liabilities	1,120,095	749,877
 Long-term debt, excluding current installments	<u>-</u>	<u>229,303</u>
Total liabilities	<u>1,120,095</u>	<u>979,180</u>
 Net assets:		
Without donor restrictions	26,950,625	11,509,380
With donor restrictions	<u>1,670,097</u>	<u>1,434,503</u>
Total net assets	<u>28,620,722</u>	<u>12,943,883</u>
	<u>\$ 29,740,817</u>	<u>\$ 13,923,063</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributed product	\$ -	\$ 29,314,683	\$ 29,314,683
Other contributions	16,172,597	1,725,068	17,897,665
Government grants	736,151	309,162	1,045,313
United Way	286,586	-	286,586
Distribution fees	2,092,683	-	2,092,683
In kind donations	226,618	-	226,618
Event revenue, net of expenses of \$115,569	<u>1,989,857</u>	<u>-</u>	<u>1,989,857</u>
Total support and revenue	21,504,492	31,348,913	52,853,405
 Net assets released from restrictions	 <u>31,113,319</u>	 <u>(31,113,319)</u>	 <u>-</u>
Total revenue, gains and other support	<u>52,617,811</u>	<u>235,594</u>	<u>52,853,405</u>
 Expenses:			
Food distribution program	35,955,779	-	35,955,779
Fundraising	1,034,828	-	1,034,828
Management and general	<u>338,581</u>	<u>-</u>	<u>338,581</u>
Total expenses	<u>37,329,188</u>	<u>-</u>	<u>37,329,188</u>
 Other changes in net assets			
Interest income	69,949	-	69,949
Investment return	78,110	-	78,110
Other	932	-	932
Gain on disposal of equipment	<u>3,631</u>	<u>-</u>	<u>3,631</u>
Total other changes	<u>152,622</u>	<u>-</u>	<u>152,622</u>
Change in net assets	15,441,245	235,594	15,676,839
Net assets at beginning of year	<u>11,509,380</u>	<u>1,434,503</u>	<u>12,943,883</u>
Net assets at end of year	<u>\$ 26,950,625</u>	<u>\$ 1,670,097</u>	<u>\$ 28,620,722</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Activities and Changes in Net Assets

Year ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Contributed product	\$ -	\$ 24,405,657	\$ 24,405,657
Other contributions	5,830,591	1,944,679	7,775,270
Government grants	335,500	445,629	781,129
United Way	221,987	-	221,987
Distribution fees	2,569,872	-	2,569,872
In kind donations	136,675	-	136,675
Event revenue, net of expenses of \$340,349	<u>1,182,260</u>	<u>-</u>	<u>1,182,260</u>
Total support and revenue	10,276,885	26,795,965	37,072,850
Net assets released from restrictions	<u>27,144,775</u>	<u>(27,144,775)</u>	<u>-</u>
Total revenue, gains and other support	<u>37,421,660</u>	<u>(348,810)</u>	<u>37,072,850</u>
Expenses:			
Food distribution program	32,060,018	-	32,060,018
Fundraising	1,068,084	-	1,068,084
Management and general	<u>332,982</u>	<u>-</u>	<u>332,982</u>
Total expenses	<u>33,461,084</u>	<u>-</u>	<u>33,461,084</u>
Other changes in net assets			
Interest income	16,072	-	16,072
Other	901	-	901
Gain on disposal of equipment	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total other changes	<u>19,973</u>	<u>-</u>	<u>19,973</u>
Change in net assets	3,980,549	(348,810)	3,631,739
Net assets at beginning of year	<u>7,528,831</u>	<u>1,783,313</u>	<u>9,312,144</u>
Net assets at end of year	<u>\$ 11,509,380</u>	<u>\$ 1,434,503</u>	<u>\$ 12,943,883</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash provided by operating activities:		
Change in net assets	\$ <u>15,676,839</u>	\$ <u>3,631,739</u>
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	394,826	328,999
Gain on disposal of equipment	(3,631)	(3,000)
Capital campaign pledges restricted for facility acquisition	-	(5,740)
Non-cash contribution of investments	(327,792)	-
Unrealized gains on investments	(78,110)	-
(Increase) decrease in:		
Accounts and other receivables	180,372	136,385
Grants receivable	108,409	(141,063)
Prepaid expenses	(5,706)	56,826
Product held for distribution	(1,039,125)	437,757
Beneficial interest in assets held by others	-	1,051
Deposits	1,750	(1,750)
Increase (decrease) in:		
Trade accounts and other payables	(87,412)	177,227
Accrued compensation	(37,610)	47
Deferred grant revenue	-	(100,000)
Deferred event revenue	<u>265,937</u>	<u>(111,300)</u>
Total adjustments	<u>(628,092)</u>	<u>775,439</u>
Net cash provided by operating activities	<u>15,048,747</u>	<u>4,407,178</u>
Cash used by investing activities:		
Purchases of property and equipment	(565,689)	(516,761)
Proceeds from disposal of equipment	<u>9,380</u>	<u>3,000</u>
Net cash used by investing activities	<u>(556,309)</u>	<u>(513,761)</u>
Cash used by financing activities:		
Cash received from pledges restricted for facility acquisition	-	100,000
Proceeds from long-term debt	<u>-</u>	<u>409,301</u>
Net cash provided by financing activities	<u>-</u>	<u>509,301</u>
Increase in cash and cash equivalents	14,492,438	4,402,718
Cash at beginning of year	<u>5,756,746</u>	<u>1,354,028</u>
Cash at end of year	\$ <u>20,249,184</u>	\$ <u>5,756,746</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Functional Expenses

Year ended June 30, 2021

	Food Distribution Program	Fundraising	Management and General	Totals
Product distribution	\$ 32,229,457	\$ -	\$ -	\$ 32,229,457
Salaries and wages	1,448,244	502,159	203,964	2,154,367
Payroll taxes	101,105	35,057	14,239	150,401
Health insurance	158,687	55,023	22,348	236,058
Retirement contributions	34,700	12,032	4,887	51,619
Other employee benefits	29,921	9,682	3,933	43,536
Depreciation	359,443	21,230	14,153	394,826
Printing and publications	9,856	23,059	1,326	34,241
Direct mail	-	235,562	-	235,562
Postage	11,832	645	1,592	14,069
Office supplies	5,194	283	699	6,176
Office equipment lease	14,277	402	992	15,671
Telephone	25,092	1,367	3,375	29,834
Utilities	76,167	4,152	10,245	90,564
Insurance	71,227	7,306	6,045	84,578
Fuel and vehicle registration	113,205	-	-	113,205
Repairs and maintenance	408,314	13,206	32,597	454,117
Conferences and travel	6,034	2,704	2,292	11,030
Dues and licenses	300	4,020	5,067	9,387
Professional services	65,150	22,590	9,176	96,916
Agency grants	618,879	-	-	618,879
Agency expenses	54,785	-	-	54,785
Warehouse and program expenses	110,415	-	-	110,415
Credit card processing fees	-	81,081	-	81,081
Other	3,495	3,268	493	7,256
Interest expense	-	-	1,158	1,158
	<u>\$ 35,955,779</u>	<u>\$ 1,034,828</u>	<u>\$ 338,581</u>	<u>\$ 37,329,188</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Functional Expenses

Year ended June 30, 2020

	<u>Food Distribution Program</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Totals</u>
Product distribution	\$ 28,872,916	\$ -	\$ -	\$ 28,872,916
Salaries and wages	1,269,716	496,311	199,760	1,965,787
Payroll taxes	104,536	40,861	16,446	161,843
Health insurance	135,613	53,009	21,335	209,957
Retirement contributions	28,201	11,023	4,437	43,661
Other employee benefits	31,726	12,401	4,991	49,118
Depreciation	296,099	19,740	13,160	328,999
Printing and publications	5,191	19,830	698	25,719
Direct mail	-	309,473	-	309,473
Postage	6,643	328	893	7,864
Office supplies	8,060	398	1,084	9,542
Office equipment lease	23,305	323	879	24,507
Telephone	23,580	1,164	3,172	27,916
Utilities	85,957	4,244	11,561	101,762
Insurance	70,077	5,869	4,982	80,928
Fuel and vehicle registration	110,844	-	-	110,844
Repairs and maintenance	301,902	8,231	22,426	332,559
Conferences and travel	15,448	4,976	5,321	25,745
Dues and licenses	9,689	4,668	9,386	23,743
Professional services	46,562	18,201	7,326	72,089
Agency grants	512,518	-	-	512,518
Agency expenses	13,127	-	-	13,127
Warehouse and program expenses	84,555	-	-	84,555
Credit card processing fees	-	55,155	-	55,155
Other	3,753	1,879	590	6,222
Interest expense	-	-	4,535	4,535
	<u>\$ 32,060,018</u>	<u>\$ 1,068,084</u>	<u>\$ 332,982</u>	<u>\$ 33,461,084</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(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) Recently adopted accounting standard

Effective July 1, 2020, the Organization adopted Accounting Standard Codification ("ASC") Topic 606 ("ASC 606"), *Revenue from Contracts with Customers*. ASC 606 guidance eliminates the transaction and industry-specific revenue recognition guidance under current accounting principles generally accepted in the United States of America ("GAAP") and replaces it with a principles-based approach. The core principle of the guidance in ASC 606 is that an entity should recognize revenue to depict the transfer of 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.

The five step model defined by ASC 606 requires the Organization to: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASC 606 additionally enhances the required disclosures surrounding the nature, amount, timing and uncertainty of revenues and the associated cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract.

The Organization adopted ASC 606 using the modified retrospective method. There was no cumulative effect adjustment to the opening balance of net assets in the statement of financial position as of July 1, 2020, as the adoption did not result in a material change to the Organization's revenue recognition.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(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.

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, 2021 or 2020.

Accounts receivable are deemed to be fully collectible by management, and no allowance for doubtful accounts is considered necessary at June 30, 2021 or 2020.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(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.

(e) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are shown at their fair values in the statement of financial position. Investment return shown in the statement of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment return is reported in the period earned as an increase in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions. Investment return that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restrictions are met or expire in the year in which the income is recognized. All other donor-restricted investment return is reported as an increase in net assets with donor restrictions depending on the nature of the restrictions.

(f) Products held for distribution

Products held for distribution include 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 \$1.79 per pound for 2021 and \$1.62 per pound for 2020, 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 \$1.70 using the price established by Feeding America for 2021 and is valued at the price per case using the most recent USDA established market value per case in 2020.

(g) 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.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(h) 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.

(i) 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.

(j) 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.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020.

As of June 30, 2021 and 2020, 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.

(k) Use of estimates

The preparation of financial statements in conformity with 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.

(l) 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.

(m) New accounting pronouncement, not yet adopted

The Federal Accounting Standards Board's ("FASB") new lease accounting standard, ASU No. 2016-02, *Leases*, which was issued in February 2016, will generally require recognition on the statement of financial position for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of activities). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for the Organization beginning July 1, 2022. The Organization continues to evaluate the impact the standard will have on its financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(n) Events occurring after reporting date

Second Harvest has evaluated events and transactions that occurred between June 30, 2021 and December 16, 2021 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, 2021 that require additional disclosure.

(3) Liquidity

A summary of the Organization's financial assets as of June 30, 2021 and 2020 available to meet cash needs for general expenditures within one year of the statement of financial position date is as follows:

	<u>2021</u>	<u>2020</u>
Cash	20,249,184	5,756,746
Accounts and other receivables	35,668	116,040
Grants receivable	128,405	236,814
Pledges receivable	-	100,000
Investments	405,902	-
Beneficial interest in assets held by others	<u>3,949</u>	<u>3,949</u>
Financial assets at end of year	20,823,108	6,213,549
Less assets unavailable for general expenditures within one year:		
Financial assets subject to donor restrictions	<u>(202,534)</u>	<u>(741,350)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 20,620,574</u>	<u>\$ 5,472,199</u>

Additionally as described in Note (7), 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 discount rates ranging from 1.70% to 2.50%. There were no unconditional pledges receivable at June 30, 2021.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(5) Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (level 1), or significant other observable inputs (level 2) and the reporting entity's own assumptions about market participant assumptions (level 3).

The following is a description of the valuation methodologies used for asset measurement at fair value.

- (i) *Mutual funds:* Valued at the net asset value ("NAV") of shares held by the Plan at year-end using quoted market prices in an active market.

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 Organization's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's investments in mutual funds, which comprise the only assets measured at fair value as of June 30, 2021, are considered to be Level 1 in the hierarchy.

(6) Products held for distribution

Products held for distribution consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Donated food	\$ 872,342	\$ 497,325
USDA inventory	304,771	86,566
Purchased inventory	1,143,203	770,811
Program inventory	<u>422,984</u>	<u>349,473</u>
	<u>\$ 2,743,300</u>	<u>\$ 1,704,175</u>

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(7) Line of credit

Second Harvest has a bank line of credit, secured by a building, property and products held for distribution, in the amount of \$1,000,000 with a variable rate of interest (4.00% at June 30, 2021). The line of credit expires December 7, 2029. There was no interest incurred for the years ended June 30, 2021 and June 30, 2020. There was no outstanding balance as of June 30, 2021 and 2020.

(8) Long-term debt

Long-term debt of \$409,301 is comprised of a Paycheck Protection Program Loan ("PPP loan") received from the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act (the, "CARES Act"). The terms of the unsecured loan require a monthly installment of \$23,033 beginning November 20, 2020, including interest at 1.00% and originally set to mature on April 20, 2022.

The Repayment installments originally scheduled to begin November 20, 2020 were deferred until the SBA made a determination on debt forgiveness. The PPP loan was forgiven by the SBA in its entirety in August 2021, and the gain on debt forgiveness will be recognized during the year ended June 30, 2022.

(9) Net assets with donor restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Product distribution	\$ 1,600,097	\$ 933,916
Equipment acquisition	-	313,000
Pledges receivable restricted for facility acquisition	-	100,000
Other	<u>70,000</u>	<u>87,587</u>
	<u>\$ 1,670,097</u>	<u>\$ 1,434,503</u>

(10) 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 \$51,619 and \$43,661 the years ended June 30, 2021 and 2020, respectively.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2021 and 2020

(11) 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 \$29,314,683 and \$24,405,657 during the years ended June 30, 2021 and 2020, respectively, in contributions of food and distributed \$28,648,502 and \$28,872,916 of food (including purchased food) during the years ended June 30, 2021 and 2020, respectively.

Second Harvest received in-kind donations valued at \$226,618 and \$136,675 during the years ended June 30, 2021 and 2020, respectively. The amounts are recorded in property and equipment, event revenue, contributions, and program services based on their intended use.

(12) 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.

(13) 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.

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 beneficial interest in assets held by others in the accompanying statements of financial position.

OTHER FINANCIAL INFORMATION

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2021

CFDA Number	Name of Program	Contracting Agency	Amount Expended	Products Balance July 1, 2020	OTHER INFORMATION				
					Balance July 1, 2020 Receivable	Contract Funds Received	Amount Earned (Adjusted)	Balance June 30, 2021 Receivable	Products Balance June 30, 2021
FEDERAL AWARDS									
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 75545	\$ -	\$ -	\$ 236,814	\$ 236,814	\$ -	\$ -	\$ -
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 79739	<u>253,680</u>	<u>-</u>	<u>-</u>	<u>125,275</u>	<u>253,680</u>	<u>128,405</u>	<u>-</u>
	Total CFDA 10.568		<u>253,680</u>	<u>-</u>	<u>236,814</u>	<u>362,089</u>	<u>253,680</u>	<u>128,405</u>	<u>-</u>
10.569	Emergency Food Assistance Program - Food Commodities	US Dept of Agriculture Pass through Tennessee Dept of Agriculture (noncash)	<u>3,147,530</u>	<u>86,566</u>	<u>-</u>	<u>3,365,735</u>	<u>3,147,530</u>	<u>-</u>	<u>304,771</u>
	Total CFDA 10.569 (noncash)		<u>3,147,530</u>	<u>86,566</u>	<u>-</u>	<u>3,365,735</u>	<u>3,147,530</u>	<u>-</u>	<u>304,771</u>
	Food distribution program cluster		3,401,210	86,566	236,814	3,727,824	3,401,210	128,405	304,771
10.178	Trade Mitigation Program Eligible Recipient Agency Operational Funds	Federal Emergency Management Agency	<u>55,486</u>	<u>-</u>	<u>-</u>	<u>55,486</u>	<u>55,486</u>	<u>-</u>	<u>-</u>
	Total Federal Awards		<u>3,456,696</u>	<u>86,566</u>	<u>236,814</u>	<u>3,783,310</u>	<u>3,456,696</u>	<u>128,405</u>	<u>304,771</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, 2021

<u>CFDA Number</u>	<u>Name of Program</u>	<u>Contracting Agency</u>	<u>Amount Expended</u>	<u>Products Balance July 1, 2020</u>	<u>OTHER INFORMATION</u>				
					<u>Balance July 1, 2020 Receivable</u>	<u>Contract Funds Received</u>	<u>Amount Earned (Adjusted)</u>	<u>Balance June 30, 2021 Receivable</u>	<u>Products Balance June 30, 2021</u>
STATE AWARDS									
N/A	Direct Appropriation Grant - Purchase of Food	Tennessee Department of Human Services	200,000	-	-	200,000	200,000	-	-
N/A	Tennessee Cares Act - Purchase of Food - COVID	Tennessee Department of Human Services	<u>260,151</u>	-	-	<u>260,151</u>	<u>260,151</u>	-	-
	Total State Awards		<u>460,151</u>	-	-	<u>460,151</u>	<u>460,151</u>	-	-
	Total Federal and State Awards		<u>\$ 3,916,847</u>	<u>\$ 86,566</u>	<u>\$ 236,814</u>	<u>\$ 4,243,461</u>	<u>\$ 3,916,847</u>	<u>\$ 128,405</u>	<u>\$ 304,771</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, 2021

(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, 2021. 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") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, 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, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

LBMC, PC

Knoxville, Tennessee
December 16, 2021

**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, 2021. 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, 2021.

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.

LBMC, PC

Knoxville, Tennessee
December 16, 2021

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2021

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?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified?	_____ Yes	<u> X </u> None Reported	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified?	_____ Yes	<u> X </u> 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	_____ Yes	<u> X </u> No
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Identification of Major Programs:

<u>CFDA Number - 10.568 (portion of cluster)</u>	<u>Emergency Food Assistance Program - Administrative Costs</u>
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<u>CFDA Number - 10.569 (portion of cluster)</u>	<u>Emergency Food Assistance Program - Food 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	<u> X </u> Yes	_____ 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, 2021

There were no findings or questioned costs relative to federal and state awards reported in the financial statement audit of Second Harvest Food Bank of East Tennessee as of and for the year ended June 30, 2020.