

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

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**Second Harvest Food Bank of Middle Tennessee, Inc.  
Board of Directors 2019 - 2020**

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|  |  |
|--|--|
| <b>Jeff Aiken</b>  | <b>Dave Fulmer</b>                               |
| <b>Greg Allen</b>  | <b>Lisa Gardi</b><br><i>Board Secretary</i>      |
| <b>Drew Berg</b><br><i>Board Treasurer</i>                         | <b>Dennis Georgatos</b>                          |
| <b>Michelle Bonnett</b>  | <b>Dr. Shanna Jackson</b>                        |
| <b>Scott Bowers</b>  | <b>David Johnson</b>                             |
| <b>Brian Bowman</b>  | <b>Nancy Keil</b><br><i>President &amp; CEO</i>  |
| <b>David Bradley</b>   | <b>Jake Martino, Ad Hoc</b>                      |
| <b>Suzanne Buchanan</b>  | <b>Jennifer Peters</b>                           |
| <b>Jim Burton</b>  | <b>Sharon W. Reynolds</b>                        |
| <b>Lee Cunningham</b>  | <b>Tony Rose</b>                                 |
| <b>Melissa Eads</b>  | <b>Derek Schraw</b>                              |
| <b>Troy Edwards</b>  | <b>Ute Strand</b>                                |
| <b>Bruce Esworthy</b>  | <b>Laquita Stribling</b>                         |
| <b>Andy Flatt</b>  | <b>Katherine Tosh</b>                            |
| <b>Jonathan Flack, Ad Hoc</b><br><i>Immediate Past Board Chair</i> | <b>Margaret Claire Walker, Ad Hoc</b>            |
| <b>Lucia Folk</b><br><i>Board Chair</i>                            | <b>Ken Watkins</b>                               |
|  | <b>Shawn Williams</b><br><i>Board Vice Chair</i> |

## INDEPENDENT AUDITOR'S REPORT

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

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Food Bank taken as a whole. The schedule of expenditures of federal awards on page 27-28, as required by Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), the board of directors listing on page i and the schedule of expenditures of state financial assistance on page 29, as required by the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information on pages 27-29 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and schedule of expenditures of state financial assistance are fairly stated, in all material respects, in relation to the financial statements as a whole.

The board of directors listing on page i has not been subjected to the auditing procedures in the audit of the financial statements and, accordingly, we express no opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020, on our consideration of the Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.



Nashville, Tennessee  
December 21, 2020

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

|   | <u>2020</u>          | <u>2019</u>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>                             |                      |                      |
| Cash                                      | \$ 10,304,506        | \$ 463,153           |
| Cash - restricted debt reserve            | 140,000              | 140,000              |
| Accounts receivable, net                  | 3,765,036            | 1,779,611            |
| Grants receivable                         | 1,052,507            | 810,168              |
| Pledges receivable, net                   | 2,680,968            | 3,998,543            |
| Inventories                               | 8,079,641            | 5,769,169            |
| Prepaid expenses and other current assets | 88,624               | 311,144              |
| Investments                               | 2,223,581            | 2,140,345            |
| Property and equipment, net               | <u>18,858,930</u>    | <u>19,158,186</u>    |
| <b>TOTAL ASSETS</b>                       | <u>\$ 47,193,793</u> | <u>\$ 34,570,319</u> |
| <b>LIABILITIES</b>                        |                      |                      |
| Accounts payable and accrued expenses     | \$ 5,656,669         | \$ 3,052,100         |
| Deferred revenue                          | 1,537,335            | 1,374,488            |
| Lines of credit                           | -                    | 2,503,244            |
| Long-term debt                            | <u>4,314,404</u>     | <u>2,745,041</u>     |
| <b>TOTAL LIABILITIES</b>                  | <u>11,508,408</u>    | <u>9,674,873</u>     |
| <b>NET ASSETS</b>                         |                      |                      |
| Without donor restrictions:               |                      |                      |
| Designated:                               |                      |                      |
| Donated food inventory                    | 2,514,274            | 2,144,554            |
| Property and equipment, less related debt | 16,116,626           | 15,663,145           |
| Board designated                          | -                    | 300,000              |
| Undesignated                              | <u>14,568,174</u>    | <u>3,983,536</u>     |
| Total without donor restrictions          | 33,199,074           | 22,091,235           |
| With donor restrictions                   | <u>2,486,311</u>     | <u>2,804,211</u>     |
| <b>TOTAL NET ASSETS</b>                   | <u>35,685,385</u>    | <u>24,895,446</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>   | <u>\$ 47,193,793</u> | <u>\$ 34,570,319</u> |

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

|  | 2020                 |                     |                      |
|--|----------------------|---------------------|----------------------|
|  | Without Donor        | With Donor          |                      |
|  | <u>Restrictions</u>  | <u>Restrictions</u> | <u>Totals</u>        |
| <b>PUBLIC SUPPORT AND REVENUE</b>  |                      |                     |                      |
| Donated food   | \$ 40,087,989        | \$ -                | \$ 40,087,989        |
| Contributions  | 18,061,140           | 3,123,484           | 21,184,624           |
| Government grants  | 14,838,780           | -                   | 14,838,780           |
| Shared maintenance fees  | 378,838              | -                   | 378,838              |
| Special events and activities  | 181,328              | -                   | 181,328              |
| Less: direct benefits to donors  | -                    | -                   | -                    |
| Investment income, net   | 135,065              | -                   | 135,065              |
| Agency transportation reimbursement  | 204,113              | -                   | 204,113              |
| Other income (loss)  | 132,270              | -                   | 132,270              |
| Net assets released in satisfaction of program restrictions                  | <u>3,441,384</u>     | <u>(3,441,384)</u>  | <u>-</u>             |
| <b>TOTAL PUBLIC SUPPORT AND REVENUE</b>                                      | <u>77,460,907</u>    | <u>(317,900)</u>    | <u>77,143,007</u>    |
| <b>REVENUE - PROJECT PRESERVE<sup>®</sup> PROGRAM</b>                        |                      |                     |                      |
| Sales to out of area network agencies, net of discount                       | 37,085,138           | -                   | 37,085,138           |
| Sales to local agencies  | 2,502,961            | -                   | 2,502,961            |
| Donated food and services  | <u>228,031</u>       | <u>-</u>            | <u>228,031</u>       |
| <b>TOTAL REVENUE - PROJECT PRESERVE<sup>®</sup> PROGRAM</b>                  | 39,816,130           | -                   | 39,816,130           |
| <b>LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE<sup>®</sup> PROGRAM</b> | <u>(36,444,326)</u>  | <u>-</u>            | <u>(36,444,326)</u>  |
| <b>GROSS PROFIT FROM PROJECT PRESERVE<sup>®</sup> PROGRAM</b>                | <u>3,371,804</u>     | <u>-</u>            | <u>3,371,804</u>     |
| <b>TOTAL SUPPORT AND REVENUE</b>   | <u>80,832,711</u>    | <u>(317,900)</u>    | <u>80,514,811</u>    |
| <b>EXPENSES</b>  |                      |                     |                      |
| Program services:  |                      |                     |                      |
| Emergency Food Box   | 4,021,427            | -                   | 4,021,427            |
| Community Food Partners  | 49,582,895           | -                   | 49,582,895           |
| Children's Programs  | 2,502,214            | -                   | 2,502,214            |
| Mobile Pantry  | <u>9,377,314</u>     | <u>-</u>            | <u>9,377,314</u>     |
| <b>Total Program Services</b>  | <u>65,483,850</u>    | <u>-</u>            | <u>65,483,850</u>    |
| Supporting services:   |                      |                     |                      |
| Management and general   | 1,200,309            | -                   | 1,200,309            |
| Fundraising  | <u>3,040,713</u>     | <u>-</u>            | <u>3,040,713</u>     |
| <b>Total Supporting Services</b>   | <u>4,241,022</u>     | <u>-</u>            | <u>4,241,022</u>     |
| <b>TOTAL EXPENSES</b>  | <u>69,724,872</u>    | <u>-</u>            | <u>69,724,872</u>    |
| <b>CHANGE IN NET ASSETS</b>  | 11,107,839           | (317,900)           | 10,789,939           |
| <b>NET ASSETS - BEGINNING OF YEAR</b>  | <u>22,091,235</u>    | <u>2,804,211</u>    | <u>24,895,446</u>    |
| <b>NET ASSETS - END OF YEAR</b>  | <u>\$ 33,199,074</u> | <u>\$ 2,486,311</u> | <u>\$ 35,685,385</u> |

See accompanying notes to financial statements.

## 2019

| Without Donor<br>Restrictions | With Donor<br>Restrictions | Totals               |
|-------------------------------|----------------------------|----------------------|
| \$ 38,397,480                 | \$ -                       | \$ 38,397,480        |
| 7,641,633                     | 5,360,389                  | 13,002,022           |
| 7,372,008                     | -                          | 7,372,008            |
| 354,810                       | -                          | 354,810              |
| 788,737                       | -                          | 788,737              |
| (139,814)                     | -                          | (139,814)            |
| 94,574                        | -                          | 94,574               |
| 215,783                       | -                          | 215,783              |
| (16,120)                      | -                          | (16,120)             |
| <u>6,562,159</u>              | <u>(6,562,159)</u>         | <u>-</u>             |
| <u>61,271,250</u>             | <u>(1,201,770)</u>         | <u>60,069,480</u>    |
| 30,425,418                    | -                          | 30,425,418           |
| 2,252,229                     | -                          | 2,252,229            |
| <u>210,048</u>                | <u>-</u>                   | <u>210,048</u>       |
| 32,887,695                    | -                          | 32,887,695           |
| <u>(31,008,266)</u>           | <u>-</u>                   | <u>(31,008,266)</u>  |
| <u>1,879,429</u>              | <u>-</u>                   | <u>1,879,429</u>     |
| <u>63,150,679</u>             | <u>(1,201,770)</u>         | <u>61,948,909</u>    |
| 4,222,631                     | -                          | 4,222,631            |
| 38,583,583                    | -                          | 38,583,583           |
| 2,133,669                     | -                          | 2,133,669            |
| <u>9,825,133</u>              | <u>-</u>                   | <u>9,825,133</u>     |
| <u>54,765,016</u>             | <u>-</u>                   | <u>54,765,016</u>    |
| 925,991                       | -                          | 925,991              |
| <u>2,963,481</u>              | <u>-</u>                   | <u>2,963,481</u>     |
| <u>3,889,472</u>              | <u>-</u>                   | <u>3,889,472</u>     |
| <u>58,654,488</u>             | <u>-</u>                   | <u>58,654,488</u>    |
| 4,496,191                     | (1,201,770)                | 3,294,421            |
| <u>17,595,044</u>             | <u>4,005,981</u>           | <u>21,601,025</u>    |
| <u>\$ 22,091,235</u>          | <u>\$ 2,804,211</u>        | <u>\$ 24,895,446</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

|  | <u>2020</u>          | <u>2019</u>        |
|--|----------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                      |                    |
| Change in net assets   | \$ 10,789,939        | \$ 3,294,421       |
| Adjustments to reconcile change in net assets to<br>net cash provided by operating activities: |                      |                    |
| Depreciation   | 1,236,350            | 957,943            |
| (Gain) loss on sale of equipment   | (900)                | 53,605             |
| Noncash contribution of property and equipment   | -                    | (22,205)           |
| Noncash contribution of investments  | (364,290)            | (349,947)          |
| Realized and unrealized gains on investments   | (134,876)            | (91,697)           |
| (Increase) decrease in:  |                      |                    |
| Accounts receivable  | (1,985,425)          | (187,001)          |
| Grants receivable  | (242,339)            | (344,855)          |
| Pledges receivable   | 1,317,575            | (600,012)          |
| Inventories  | (2,310,472)          | (2,325,502)        |
| Prepaid expenses and other current assets  | 222,520              | (67,962)           |
| Increase (decrease) in:  |                      |                    |
| Accounts payable and accrued expenses  | 2,976,073            | 635,267            |
| Deferred revenue   | 162,847              | 1,126,514          |
| <b>TOTAL ADJUSTMENTS</b>   | <u>877,063</u>       | <u>(1,215,852)</u> |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <u>11,667,002</u>    | <u>2,078,569</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                      |                    |
| Proceeds from sales and maturities of investments  | 429,322              | 350,053            |
| Purchases of investments   | (13,392)             | (12,180)           |
| Proceeds from sale of equipment  | 900                  | 31,231             |
| Additions to property and equipment  | <u>(1,308,598)</u>   | <u>(8,409,782)</u> |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <u>(891,768)</u>     | <u>(8,040,678)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                      |                    |
| Draws on USDA loan   | 159,164              | 1,699,750          |
| Paycheck Protection Program loan funding   | 1,572,100            | -                  |
| Net (repayments) draws on lines of credit  | (2,503,244)          | 1,874,944          |
| Payments on long-term debt   | <u>(161,901)</u>     | <u>(4,096)</u>     |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>                                     | <u>(933,881)</u>     | <u>3,570,598</u>   |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | 9,841,353            | (2,391,511)        |
| <b>CASH - BEGINNING OF YEAR</b>  | <u>603,153</u>       | <u>2,994,664</u>   |
| <b>CASH - END OF YEAR</b>  | <u>\$ 10,444,506</u> | <u>\$ 603,153</u>  |
| Operating cash   | \$ 10,304,506        | \$ 463,153         |
| Restricted cash - debt reserve   | 140,000              | 140,000            |
| <b>TOTAL CASH</b>  | <u>\$ 10,444,506</u> | <u>\$ 603,153</u>  |
| <b>OTHER CASH FLOW DISCLOSURES:</b>  |                      |                    |
| Cash paid for interest   | \$ 179,877           | \$ 115,653         |
| Accounts payable for construction in progress  | \$ -                 | \$ 371,504         |

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

|  | PROGRAM SERVICES     |                       |                      |                        |                     | SUPPORTING SERVICES |                     | TOTALS               |
|--|----------------------|-----------------------|----------------------|------------------------|---------------------|---------------------|---------------------|----------------------|
|  | PROJECT<br>PRESERVE® | EMERGENCY<br>FOOD BOX | COMMUNITY            |                        | MOBILE<br>PANTRY    | MANAGEMENT          | FUND                |                      |
|  |                      |                       | FOOD<br>PARTNERS     | CHILDREN'S<br>PROGRAMS |                     | AND<br>GENERAL      | RAISING             |                      |
| Salaries   | \$ 1,150,139         | \$ 480,634            | \$ 2,265,095         | \$ 619,716             | \$ 498,430          | \$ 447,595          | \$ 1,385,028        | \$ 6,846,637         |
| Contract labor   | 22,735               | 10,358                | 195,911              | 6,082                  | 30,691              | 523                 | 1,337               | 267,637              |
| Payroll taxes and benefits   | 340,945              | 142,110               | 687,283              | 182,389                | 149,353             | 150,322             | 410,559             | 2,062,961            |
| <b>TOTAL SALARIES AND<br/>RELATED EXPENSES</b>                                   | <b>1,513,819</b>     | <b>633,102</b>        | <b>3,148,289</b>     | <b>808,187</b>         | <b>678,474</b>      | <b>598,440</b>      | <b>1,796,924</b>    | <b>9,177,235</b>     |
| Food supplies and distribution   | 34,912,180           | 97,056                | 602,079              | 20,998                 | 132,701             | 8,118               | 7,254               | 35,780,386           |
| Donated food   | 228,031              | 1,472,734             | 28,793,065           | 185,499                | 7,469,271           | -                   | -                   | 38,148,600           |
| Non-cash food commodities distributed  | -                    | 785,130               | 13,695,064           | -                      | -                   | -                   | -                   | 14,480,194           |
| Internal food purchases and/or reimbursement                                     | (2,778,576)          | 477,373               | 581,657              | 1,225,844              | 493,702             | -                   | -                   | -                    |
| Product transportation   | 1,731,144            | 126,901               | 783,895              | 63,450                 | 172,774             | -                   | 2,683               | 2,880,847            |
| Office and administration  | 56,974               | 24,681                | 306,909              | 22,171                 | 64,305              | 399,093             | 481,696             | 1,355,829            |
| Occupancy  | 512,816              | 111,977               | 931,124              | 69,320                 | 203,551             | 36,185              | 118,917             | 1,983,890            |
| Depreciation   | 160,393              | 248,325               | 547,305              | 71,848                 | 120,629             | 45,439              | 42,411              | 1,236,350            |
| Communication expense  | 19,545               | 12,820                | 22,166               | 17,864                 | 4,886               | 13,441              | 554,007             | 644,729              |
| Travel and conferences   | 21,115               | -                     | 6,123                | -                      | 1,349               | 10,125              | 7,918               | 46,630               |
| National network dues  | -                    | -                     | -                    | -                      | -                   | 19,692              | -                   | 19,692               |
| Professional fees  | 7,920                | 1,845                 | 22,253               | 2,291                  | 4,162               | 62,427              | 14,550              | 115,448              |
| Other special event costs  | -                    | -                     | -                    | -                      | -                   | -                   | 4,539               | 4,539                |
| Insurance  | 58,965               | 29,483                | 142,966              | 14,742                 | 31,510              | 7,349               | 9,814               | 294,829              |
| <b>TOTAL EXPENSES</b>  | <b>36,444,326</b>    | <b>4,021,427</b>      | <b>49,582,895</b>    | <b>2,502,214</b>       | <b>9,377,314</b>    | <b>1,200,309</b>    | <b>3,040,713</b>    | <b>106,169,198</b>   |
| Less expenses included with revenues on the<br>statement of activities:          |                      |                       |                      |                        |                     |                     |                     |                      |
| Direct costs and expenses of Project Preserve® program                           | (36,444,326)         | -                     | -                    | -                      | -                   | -                   | -                   | (36,444,326)         |
| <b>TOTAL EXPENSES INCLUDED IN EXPENSE SECTION<br/>OF STATEMENT OF ACTIVITIES</b> | <b>\$ -</b>          | <b>\$ 4,021,427</b>   | <b>\$ 49,582,895</b> | <b>\$ 2,502,214</b>    | <b>\$ 9,377,314</b> | <b>\$ 1,200,309</b> | <b>\$ 3,040,713</b> | <b>\$ 69,724,872</b> |

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

|  | PROGRAM SERVICES  |                     |                         |                     |                     | SUPPORTING SERVICES    |                     | TOTALS               |
|--|-------------------|---------------------|-------------------------|---------------------|---------------------|------------------------|---------------------|----------------------|
|  | PROJECT PRESERVE® | EMERGENCY FOOD BOX  | COMMUNITY FOOD PARTNERS | CHILDREN'S PROGRAMS | MOBILE PANTRY       | MANAGEMENT AND GENERAL | FUND RAISING        |                      |
| Salaries   | \$ 1,194,054      | \$ 514,021          | \$ 1,860,970            | \$ 573,090          | \$ 521,695          | \$ 359,734             | \$ 1,314,471        | \$ 6,338,035         |
| Contract labor   | 41,449            | 22,745              | 90,991                  | 17,132              | 25,508              | -                      | 82,213              | 280,038              |
| Payroll taxes and benefits   | 341,625           | 202,272             | 650,999                 | 183,038             | 193,711             | 61,355                 | 396,059             | 2,029,059            |
| <b>TOTAL SALARIES AND RELATED EXPENSES</b>                                   | <b>1,577,128</b>  | <b>739,038</b>      | <b>2,602,960</b>        | <b>773,260</b>      | <b>740,914</b>      | <b>421,089</b>         | <b>1,792,743</b>    | <b>8,647,132</b>     |
| Food supplies and distribution   | 28,966,055        | 72,767              | 42,265                  | 4,049               | 11,848              | 7,594                  | 13,716              | 29,118,294           |
| Donated food   | 210,048           | 2,113,824           | 28,222,001              | 154,219             | 7,911,619           | -                      | -                   | 38,611,711           |
| USDA commodities distribution  | -                 | 214,089             | 4,999,967               | -                   | -                   | -                      | -                   | 5,214,056            |
| Internal food purchases and/or reimbursement                                 | (2,137,134)       | 514,907             | 227,308                 | 931,946             | 462,973             | -                      | -                   | -                    |
| Product transportation   | 1,540,634         | 155,703             | 737,253                 | 77,852              | 206,678             | 75                     | 760                 | 2,718,955            |
| Office and administration  | 66,691            | 37,551              | 266,775                 | 23,887              | 74,786              | 257,580                | 422,116             | 1,149,386            |
| Occupancy  | 535,473           | 148,474             | 889,690                 | 76,267              | 249,412             | 27,214                 | 106,813             | 2,033,343            |
| Depreciation   | 131,039           | 184,606             | 417,670                 | 58,224              | 117,088             | 24,407                 | 24,909              | 957,943              |
| Communication expense  | 16,459            | 12,748              | 22,240                  | 16,435              | 6,235               | 12,967                 | 551,815             | 638,899              |
| Travel and conferences   | 39,173            | 11                  | 12,410                  | 1,459               | 3,479               | 25,651                 | 25,903              | 108,086              |
| National network dues  | -                 | -                   | -                       | -                   | -                   | 26,256                 | -                   | 26,256               |
| Professional fees  | 11,332            | 3,229               | 21,426                  | 3,229               | 6,007               | 117,728                | 4,001               | 166,952              |
| Other special event costs  | -                 | -                   | -                       | -                   | -                   | -                      | 152,619             | 152,619              |
| Insurance  | 51,368            | 25,684              | 121,618                 | 12,842              | 34,094              | 5,430                  | 7,900               | 258,936              |
| <b>TOTAL EXPENSES</b>  | <b>31,008,266</b> | <b>4,222,631</b>    | <b>38,583,583</b>       | <b>2,133,669</b>    | <b>9,825,133</b>    | <b>925,991</b>         | <b>3,103,295</b>    | <b>89,802,568</b>    |
| Less expenses included with revenues on the statement of activities:         |                   |                     |                         |                     |                     |                        |                     |                      |
| Direct benefits to donors  | -                 | -                   | -                       | -                   | -                   | -                      | (139,814)           | (139,814)            |
| Direct costs and expenses of Project Preserve® program                       | (31,008,266)      | -                   | -                       | -                   | -                   | -                      | -                   | (31,008,266)         |
| <b>TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES</b> | <b>\$ -</b>       | <b>\$ 4,222,631</b> | <b>\$ 38,583,583</b>    | <b>\$ 2,133,669</b> | <b>\$ 9,825,133</b> | <b>\$ 925,991</b>      | <b>\$ 2,963,481</b> | <b>\$ 58,654,488</b> |

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 1 - GENERAL

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

The Food Bank also operates the Project Preserve<sup>®</sup> program which distributes purchased products and internally manufactured food items to local agencies and other Feeding America<sup>®</sup> affiliates throughout the country. The gross profit from these sales is used to supplement the Food Bank's efforts within its own local service area. During 2020 and 2019, the program contributed approximately \$3.4 million and \$1.9 million, respectively, to the Food Bank's mission to feed hungry people.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Food Bank or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Food Bank did not have any net assets with donor restrictions that are perpetual in nature as of June 30, 2020 or 2019.

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support

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

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

Any gifts of equipment, facilities or materials are reported as net assets without donor restrictions unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as net assets with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Services

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

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

Project Preserve<sup>®</sup> Revenue Recognition

Project Preserve<sup>®</sup> sales are reported net of allowances for discounts and returns. Revenue is recognized when the product is shipped to the customer. Project Preserve<sup>®</sup> sells products primarily to out-of-area agencies in the Feeding America<sup>®</sup> network, but also sells to partner agencies within the Food Bank's local area. In addition to selling purchased product, the program also operates a cook/chill operation, which is a method of food manufacturing that involves heating food, pumping the product into form-fill plastic bags that are heat sealed, then super cooled for approximately 45 minutes prior to freezing the product. It has utilized large amounts of donated ingredients that would have otherwise been wasted. Additionally, this operation produces tray pack meals for children's feeding, senior nutrition and partner agencies that do direct home distribution to clients in need.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Project Preserve<sup>®</sup> Revenue Recognition (Continued)

Another component of Project Preserve is to provide disaster relief. During 2020, Project Preserve was able to respond to the needs of Feeding America Network food banks during the COVID-19 pandemic in March - June by providing nearly 256,000 assembled food boxes for a total of over \$3.7 million. During 2019, Project Preserve provided over \$1 million in purchased food to network food banks.

Cash

Cash consists principally of checking and deposit account balances.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the month in which the promise is received (0.29% as of June 30, 2020 and 1.76% as of June 30, 2019). Amortization of the discount, if any, is recognized on the interest method over the term of the gift and included in contribution revenue.

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

Accounts Receivable

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

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

Management estimated the allowance for doubtful accounts to be approximately \$10,700 at June 30, 2020 and 2019.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed United State Department of Agriculture (USDA), Tennessee Emergency Management Agency (TEMA), and Farmers to Families food boxes. Donated food received from food drives, food companies, grocery stores and Feeding America<sup>®</sup> is valued at \$1.74 per pound in 2020 (\$1.62 per pound in 2019), the estimated average market value at the date of gift, based on a study commissioned by Feeding America<sup>®</sup>. Purchased inventory is reported at average cost, which approximates the lower of cost or net realizable value. USDA inventory is valued at the most recent USDA established market value per pound amount, and is recognized as program services expense when distributed. TEMA and Farmers to Families food boxes inventory is valued at the \$1.49 per pound in 2020, the estimated average market value at the date of gift for food only items, based on a study commissioned by Feeding America<sup>®</sup>, and is recognized as program service expense when distributed.

Investments

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

Property and Equipment

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

Board Designated Net Assets

The Board of Directors had designated \$300,000 of net assets to be invested, with the income used to support current operations of the Food Bank. This designation was removed by the Board during 2020.

Fair Value Measurements

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

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

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

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

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

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

Paycheck Protection Program Loan

During 2020, the Food Bank was the recipient of a loan under the Paycheck Protection Program ("PPP"). The PPP, established as a part of the Coronavirus Aid, Relief and Economic Security ("CARES") Act, provides for loans to small businesses to pay up to 24 weeks of payroll costs and benefits, interest on mortgages, rent and utilities. The loan is fully forgivable if certain conditions are met.

The Food Bank has elected to account for the loan as a financial liability until such time the loan is forgiven. If the loan is forgiven, the Food Bank will not be responsible for any payments, and the balance of the loan will be reclassified to other income on the Statements of Activities at the time forgiveness is granted. If only a portion of the loan is forgiven, or if the forgiveness application is denied, any remaining balance due on the loan must be repaid on or before the maturity date of the loan, including accrued interest.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

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

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

Emergency Food Box - provided approximately 2,400,000 pounds of food each year of 2020 and 2019 in emergency staples, as well as produce, meat and dairy, to families in need through its sixteen satellite centers in Davidson County.

Community Food Partners - provided nearly 27,000,000 pounds of food during 2020 (25,000,000 pounds of food in 2019) to nearly 450 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs.

*Grocery Rescue* - collects perishable and non-perishable food from more than 280 food donors, such as grocery stores, retailers, wholesalers and bakeries, and is then distributed to community food partners and programs. These products include meats, produce, dairy, bread, bakery items and dry products. During 2020, the Food Bank collected over 7 million pounds of food (equivalent to nearly 6 million meals) under this program.

*SNAP Outreach* - The Food Bank offers SNAP Outreach through our Emergency Food Box Sites, Mobile Pantry Distributions, and partner agencies. SNAP, also known as Food Stamps, is for people and families with low incomes, including working people, households with children, seniors, unemployed people, immigrant families and people with disabilities. SNAP helps them buy the food they need for good health. Second Harvest's Benefits Outreach Counselor shares information about the nutrition benefits of SNAP, pre-screens potential participants and helps people fill out the SNAP Application. Counselors assisted in completing approximately 3,200 applications during 2020 (800 applications during 2019).

The Food Bank operates CSFP (Commodity Supplemental Food Program) which works to improve the health of low-income persons at least 60 years of age by supplementing their diets with nutritious USDA foods. In 2020, 22,036 boxes (16,989 boxes in 2019) were distributed to qualified seniors in Davidson County.

Children's Programs - includes Kids Café®, At Risk After School Program and the Backpack Program. Kids Café® and At Risk After School Program operates a weekly feeding program for children at risk of hunger at several area community centers and provided over 165,000 meals during 2020 (200,000 meals during 2019). The mission of the Backpack Program is to meet the needs of hungry children by providing them with nutritious and easy to prepare food to take home on weekends when other resources are not available. During 2020 (over 230,000 backpacks in 2019), the Food Bank distributed over 250,000 backpacks to hungry children.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Children's Programs (Continued)

The School Food Pantry program is designed to increase food access for families in need and may have a permanent residence within a school or may operate through a mobile pantry distribution where food is brought to the school campus and distributed once a month. Forty-five sites were operated during 2020 providing over 275,000 pounds of food to families in need (twenty-nine sites were operating in 2019, providing over 150,000 pounds of food).

Mobile Pantry - Mobile Pantry travels to the forty-six-county service area and delivers large boxes of perishable and non-perishable food and supplies that are distributed to people in need. During 2020, nearly 6,600,000 pounds of food (6,200,000 pounds of food in 2019) were distributed through this program.

Tornado and COVID-19 Response - On March 3, 2020, Davidson, Putnam and Wilson counties were severely damaged by tornadoes that tore through the counties. During the first weeks of tornado relief, the Food Bank was able to provide over 200,000 pounds of much needed food, water, and supplies to hard hit areas. COVID-19 response began mid-March 2020. From March 16 - June 30 2020, Second Harvest Food Bank was able to employ innovative measures to continue to safely serve programs and clients. Over 2.7 million pounds of COVID-relief food was distributed during the first 3.5 months of the crisis. These efforts are spread amongst the Food Bank's existing programs above.

Supporting Services

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

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

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management. Some expenses are allocated based on time and effort of the people working in the program and other expenses are allocated based on the number of pounds of food distributed by the program.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shipping and Handling

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

Income Taxes

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

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. The Mobile Pantry program was previously included as part of Community Food Partners but is now presented separately. Prior year expenses have been reclassified based on the number of pounds of food distributed. The reclassifications had no effect on prior year’s change in net assets.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

On July 1, 2019, the Food Bank adopted Accounting Standards Update (“ASU”) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, as amended, as management believes the standard improves the usefulness and understandability of the Food Bank’s financial reporting. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions. Analysis of various provisions of this standard resulted in no significant changes in the way the Food Bank recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018, and in June 2020, in response to the COVID-19 pandemic, the FASB issued ASU 2020-05, allowing certain entities to defer implementation of ASU 2014-09 for an additional year. As a result of the issuance of ASU 2020-05, the Food Bank will defer the implementation of ASU 2014-09 until July 1, 2020. The Food Bank is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by Accounting Standards Codification (“ASC”) 250-10-50-3 in the fiscal year in which an organization adopts the new leases standard.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The new standard, which will be effective for the Food Bank July 1, 2022, provides a number of practical expedients.

The Food Bank is currently evaluating the impact of the pending adoption of the new standard on its financial statements.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2020 and December 31, 2020, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - AVAILABILITY AND LIQUIDITY

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

|   | <u>2020</u>          | <u>2019</u>         |
|---|----------------------|---------------------|
| Cash  | \$ 10,304,506        | \$ 463,153          |
| Accounts receivable, net  | 3,765,036            | 1,779,611           |
| Grants receivable   | 1,052,507            | 810,168             |
| Pledges receivable, net   | 2,680,968            | 3,998,543           |
| Investments   | <u>2,223,581</u>     | <u>2,140,345</u>    |
| Total financial assets  | <u>20,026,598</u>    | <u>9,191,820</u>    |
| Less amounts not available to be used within one year:                              |                      |                     |
| Net assets with donor imposed restrictions  | 2,486,311            | 2,804,211           |
| Board designations  | -                    | 300,000             |
| Capital campaign amounts to be collected in greater than one year                   | <u>273,154</u>       | <u>870,000</u>      |
|   | <u>2,759,465</u>     | <u>3,974,211</u>    |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 17,267,133</u> | <u>\$ 5,217,609</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 3 - AVAILABILITY AND LIQUIDITY (CONTINUED)

As part of the liquidity management plan, the Food Bank invests cash in excess of normal requirements in short-term investments, certificates of deposit and money market funds. Additionally, the Food Bank has an operating line of credit in the amount of \$2,500,000 that can be used if needed. At June 30, 2020, the line had a \$0 balance, and \$2,500,000 was available to be used.

NOTE 4 - PLEDGES RECEIVABLE

During 2014, the Food Bank began soliciting donations for a capital campaign *Setting the Table for the Future*, for expansion and improvements to more effectively distribute food to the 46-county service area. During 2019, the Food Bank broke ground on a 25,800 square foot western branch in Benton County, made renovations and additions to the Nashville facility and expanded into Rutherford County by leasing 86,000 square feet of warehouse space that houses the Project Preserve Program and serves as the operations facility for a 15-county area. Both the Benton and Rutherford County facilities opened for business during the 2019 fiscal year and the final improvements to the main Nashville facility were completed in July 2019.

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

In addition to the capital campaign pledges, the Food Bank has pledges receivable for general operations.

Pledges receivable for both operations and the capital campaign consisted for the following as of June 30, 2020:

|   | <u>Operating</u>    | <u>Capital<br/>Campaign</u> | <u>Total</u>        |
|---|---------------------|-----------------------------|---------------------|
| Due in less than one year                 | \$ 726,827          | \$ 878,870                  | \$ 1,605,697        |
| Due in one to five years                  | 890,417             | 263,154                     | 1,153,571           |
| Due in greater than five years            | <u>-</u>            | <u>10,000</u>               | <u>10,000</u>       |
|   | 1,617,244           | 1,152,024                   | 2,769,268           |
| Less: Allowance for uncollectible pledges | (45,409)            | -                           | (45,409)            |
| Less: Discount to present value           | <u>(20,277)</u>     | <u>(22,614)</u>             | <u>(42,891)</u>     |
|   | <u>\$ 1,551,558</u> | <u>\$ 1,129,410</u>         | <u>\$ 2,680,968</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 4 - PLEDGES RECEIVABLE (CONTINUED)

Pledges receivable for both operations and the capital campaign consisted for the following as of June 30, 2019:

|   | <u>Operating</u>    | <u>Capital<br/>Campaign</u> | <u>Total</u>        |
|---|---------------------|-----------------------------|---------------------|
| Due in less than one year                 | \$ 1,036,089        | \$ 1,300,005                | \$ 2,336,094        |
| Due in one to five years                  | 890,417             | 850,000                     | 1,740,417           |
| Due in greater than five years            | -                   | 20,000                      | 20,000              |
|   | 1,926,506           | 2,170,005                   | 4,096,511           |
| Less: Allowance for uncollectible pledges | (5,409)             | -                           | (5,409)             |
| Less: Discount to present value           | (33,315)            | (59,244)                    | (92,559)            |
|   | <u>\$ 1,887,782</u> | <u>\$ 2,110,761</u>         | <u>\$ 3,998,543</u> |

NOTE 5 - INVENTORIES

Inventories consisted of the following at June 30:

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
| Donated food                           | \$ 2,514,274        | \$ 2,144,554        |
| USDA commodities inventory             | 778,517             | 1,374,488           |
| TEMA commodities inventory             | 491,621             | -                   |
| Farmers to Families food box inventory | 267,197             | -                   |
| Cook/chill manufactured inventory      | 180,873             | 124,183             |
| Purchased inventory                    | 3,847,159           | 2,125,944           |
|  | <u>\$ 8,079,641</u> | <u>\$ 5,769,169</u> |

NOTE 6 - INVESTMENTS

Investments consisted of the following at June 30:

|                           | <u>2020</u>         | <u>2019</u>         |
|---------------------------|---------------------|---------------------|
| Liquid money market funds | \$ 82,968           | \$ 139,455          |
| Certificates of deposit   | 122,134             | 121,888             |
| Equity funds              | 1,201,336           | 1,127,841           |
| Taxable bond funds        | 817,143             | 751,161             |
|                           | <u>\$ 2,223,581</u> | <u>\$ 2,140,345</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 7 - FAIR VALUE MEASUREMENTS

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

|                                 | 2020                |                     |                |                     |
|---------------------------------|---------------------|---------------------|----------------|---------------------|
|                                 | <u>Fair Value</u>   | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u>      |
| Investments:                    |                     |                     |                |                     |
| Equity funds:                   |                     |                     |                |                     |
| Large value                     | \$ 727,554          | \$ 727,554          | \$ -           | \$ -                |
| Small cap                       | 85,908              | 85,908              | -              | -                   |
| International                   | 387,874             | 387,874             | -              | -                   |
| Total equity funds              | 1,201,336           | 1,201,336           | -              | -                   |
| Taxable bond funds:             |                     |                     |                |                     |
| Intermediate term               | 817,143             | 817,143             | -              | -                   |
| Total investments at fair value | 2,018,479           | 2,018,479           | -              | -                   |
| Donated inventory               | 2,514,274           | -                   | -              | 2,514,274           |
| Total                           | <u>\$ 4,532,753</u> | <u>\$ 2,018,479</u> | <u>\$ -</u>    | <u>\$ 2,514,274</u> |
|                                 |                     |                     |                |                     |
|                                 | 2019                |                     |                |                     |
|                                 | <u>Fair Value</u>   | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u>      |
| Investments:                    |                     |                     |                |                     |
| Equity funds:                   |                     |                     |                |                     |
| Large value                     | \$ 673,433          | \$ 673,433          | \$ -           | \$ -                |
| Small cap                       | 93,300              | 93,300              | -              | -                   |
| International                   | 361,108             | 361,108             | -              | -                   |
| Total equity funds              | 1,127,841           | 1,127,841           | -              | -                   |
| Taxable bond funds:             |                     |                     |                |                     |
| Intermediate term               | 751,161             | 751,161             | -              | -                   |
| Total investments at fair value | 1,879,002           | 1,879,002           | -              | -                   |
| Donated inventory               | 2,144,554           | -                   | -              | 2,144,554           |
| Total                           | <u>\$ 4,023,556</u> | <u>\$ 1,879,002</u> | <u>\$ -</u>    | <u>\$ 2,144,554</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 7 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

|                          | <u>2020</u>         | <u>2019</u>         |
|--------------------------|---------------------|---------------------|
| Beginning of year        | \$ 2,144,554        | \$ 1,727,593        |
| Donated food received    | 38,518,320          | 39,028,672          |
| Donated food distributed | <u>(38,148,600)</u> | <u>(38,611,711)</u> |
| End of year              | <u>\$ 2,514,274</u> | <u>\$ 2,144,554</u> |

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

|  | <u>2020</u>          | <u>2019</u>          |
|--|----------------------|----------------------|
| Land   | \$ 1,414,586         | \$ 1,414,586         |
| Building and improvements                    | 18,725,975           | 16,524,528           |
| Office and warehouse furniture and equipment | 4,124,127            | 3,955,363            |
| Transportation equipment                     | 1,894,799            | 1,822,972            |
| Cook/chill equipment                         | 721,974              | 721,969              |
| Construction in progress                     | -                    | <u>1,613,073</u>     |
|  | 26,881,461           | 26,052,491           |
| Less accumulated depreciation                | <u>8,022,531</u>     | <u>6,894,305</u>     |
|  | <u>\$ 18,858,930</u> | <u>\$ 19,158,186</u> |

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 9 - LONG TERM DEBT

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

|  | <u>2020</u>                 | <u>2019</u>         |
|--|-----------------------------|---------------------|
| <u>Lines of Credit</u>   |                             |                     |
| \$2,500,000 line of credit to a financial institution, subject to a borrowing base calculated on eligible accounts and inventory. The line has been extended through June 2021. It is management's intent to extend or renew the line of credit upon maturity. Interest is payable monthly at a rate of one-month LIBOR plus 2.25% (2.41% at June 30, 2020). | \$ -                        | \$ 1,753,244        |
| \$5,500,000 line of credit agreement for capital improvements requiring monthly interest-only payments at a rate of 5.05% per year through September 11, 2024 at which time all outstanding principal and interest are due. The agreement is subject to certain financial covenants and is secured by a second deed of trust on the Nashville facility.      | <u>-</u>                    | <u>750,000</u>      |
| Total lines of credit  | <u>\$ -</u>                 | <u>\$ 2,503,244</u> |
| <u>Notes Payable</u>   |                             |                     |
| \$2,200,000 USDA Rural Development Loan requiring interest only payments of 3.5% through June 11, 2020. The loan matures on January 11, 2058, in 480 monthly payments of principal and interest in the amount of \$8,734.  | \$ 2,042,508 <sup>(1)</sup> | \$ 2,042,304        |
| \$700,000 USDA Rural Development Loan requiring interest only payments of 3.5% through June 11, 2020. The loan matures on June 11, 2058, in 480 monthly payments of principal and interest in the amount of \$2,779.   | 699,796 <sup>(1)</sup>      | 700,000             |
| \$1,572,000 Paycheck Protection Program Loan requiring monthly principal and interest payments beginning after the ten-month forgiveness application period expires. The loan bears interest at 1% and matures on April 15, 2022.  | 1,572,100                   | -                   |

(1) The USDA loans are collectively secured by property in Camden, Tennessee and Nashville, Tennessee with carrying values totaling \$6,880,132 (building only) at June 30, 2020.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 9 - LONG TERM DEBT (CONTINUED)

|   | <u>2020</u>         | <u>2019</u>         |
|---|---------------------|---------------------|
| <u>Lease Obligation</u>   |                     |                     |
| \$12,000 lease obligation to a financial institution to finance the purchase of forklift machinery. Lease is payable in monthly principal and interest payments of \$345, with interest at a fixed rate of 2.246%. The lease matured March 1, 2020. | \$ -                | \$ 2,737            |
| Total long-term debt  | <u>\$ 4,314,404</u> | <u>\$ 2,745,041</u> |

Total interest expense incurred by the Food Bank amounted to \$180,443 and \$118,649 during years ended June 30, 2020 and 2019, respectively. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

Maturities on the notes payable at June 30, 2020, excluding the PPP loan, are as follows:

For the year ending June 30:

|            |                     |
|------------|---------------------|
| 2021       | \$ 44,204           |
| 2022       | 44,431              |
| 2023       | 46,011              |
| 2024       | 47,647              |
| 2025       | 49,342              |
| Thereafter | <u>2,510,669</u>    |
|            | <u>\$ 2,742,304</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 10 - LEASES

The Food Bank leases 86,000 square feet of warehouse space that houses its Rutherford County operations facility under a seventy-five-month non-cancelable lease which expires in June 2024. Rent expense is recognized on a straight-line basis over the term of the lease. The Food Bank also leases parking spaces under a thirty-eight-month non-cancelable lease which expires in June 2023.

Future minimum lease payments required under the leases is as follows at June 30, 2020:

For year ended June 30:

|       |                     |
|-------|---------------------|
| 2021  | \$ 555,812          |
| 2022  | 566,521             |
| 2023  | 577,498             |
| 2024  | <u>564,750</u>      |
| Total | <u>\$ 2,264,581</u> |

Lease expense under these agreements and other cancellable or short-term leases amounted to \$574,838 and \$530,919 during years ended June 30, 2020 and 2019, respectively.

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

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

|   | <u>2020</u>         | <u>2019</u>         |
|---|---------------------|---------------------|
| <u>Net Assets with Time Restrictions</u>  |                     |                     |
| United Way of Middle Tennessee - contribution pledge<br>for the following period for program grants | \$ 86,625           | \$ 106,654          |
| Other pledges for future years' operations  | 1,185,748           | 1,806,076           |
| <u>Net assets with Purpose Restrictions</u>   |                     |                     |
| Donations for Children's programs (backpacks and<br>summer feeding programs)                        | 302,210             | 179,628             |
| Donations for mobile pantries and agency equipment  | 660,808             | 683,996             |
| Donations for emergency food box program  | 136,659             | -                   |
| Donations for equipment purchases and other communities   | <u>114,261</u>      | <u>27,857</u>       |
|   | <u>\$ 2,486,311</u> | <u>\$ 2,804,211</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 12 - IN-KIND DONATIONS

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

|                                   | <u>2020</u>       | <u>2019</u>       |
|-----------------------------------|-------------------|-------------------|
| Special events goods and services | \$ -              | \$ 4,960          |
| Food supplies and distribution    | 157,991           | 970               |
| Equipment and warehouse supplies  | 9,663             | 108,014           |
| Office and administration:        |                   |                   |
| Marketing                         | 671               | 15,748            |
| Office supplies                   | 27,013            | 162               |
| Other                             | 2,559             | 1,064             |
|                                   | <u>\$ 197,897</u> | <u>\$ 130,918</u> |

NOTE 13 - EMPLOYEE BENEFIT PLAN

The Food Bank sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowed under the Internal Revenue Code (“IRC”). In addition, the plan requires the Food Bank to contribute 5% of each participant’s compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Food Bank contributions to the plan for the year ended June 30, 2020, amounted to \$435,211 (\$414,242 for 2019).

NOTE 14 - CONCENTRATIONS OF CREDIT RISK

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

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

At June 30, 2020, pledges receivable from two donors amounted to \$830,000, or approximately 31% of total pledges receivable. At June 30, 2019, pledges receivable from two donors amounted to \$1,265,000, or approximately 32% of total pledges receivable.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 15 - RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which the Food Bank operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Food Bank, the Food Bank’s leadership team continues to evaluate the evolving situation.

In response to the pandemic, the Food Bank has and will continue to serve the community through the following measures:

- All three of the distribution centers remain open and the trucks are on the road to ensure food is delivered to their network of more than 460 partner agencies across our 46-county service area.
- The Food Bank has purchased additional food to support emergency food distributions. The Food Bank’s top priority is to increase the amount of food available to their network of 460 partner agencies. The agencies’ ability to impact hunger on the frontlines depends on the Food Bank’s ability to continue operations.
- The Food Bank has been working with school districts across their service area to ensure children were fed while schools are closed.
- The Food Bank has continued to work to register those eligible for SNAP to ensure that everyone who needs these benefits can access them.
- The Food Bank expanded the Emergency Food Box program - anyone who needs food and lives in Davidson or Wilson County could visit any of the locations to get a food box with 2-3 days of staple food items. Typically, there are income requirements to qualify for this program, but those have all been waived until further notice.

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

| EXPENDITURES OF FEDERAL AWARDS  | FEDERAL<br>CFDA<br>NUMBER | GRANTOR'S<br>NUMBER | GRANT<br>PERIOD    | GRANT<br>AMOUNT | (ACCRUED)                       | 7/1/19 - 6/30/20 |              | (ACCRUED)                        | PASSED<br>THROUGH TO<br>SUBRECIPIENTS |
|---|---------------------------|---------------------|--------------------|-----------------|---------------------------------|------------------|--------------|----------------------------------|---------------------------------------|
|   |                           |                     |                    |                 | DEFERRED<br>REVENUE<br>7/1/2019 | RECEIPTS         | EXPENDITURES | DEFERRED<br>REVENUE<br>6/30/2020 |                                       |
| U.S. DEPARTMENT OF AGRICULTURE  |                           |                     |                    |                 |                                 |                  |              |                                  |                                       |
| Passed Through Tennessee Department of Human Services   |                           |                     |                    |                 |                                 |                  |              |                                  |                                       |
| Child and Adult Care Food Program (CACFP)   | 10.558                    | N/A                 | *                  | *               | \$ (36,801)                     | \$ 170,503       | \$ 133,702   | \$ -                             | \$ -                                  |
| Summer Food Service Program (SFSP)  | 10.559                    | N/A                 | 5/1/19 - 9/30/19   | *               | (40,828)                        | 83,405           | 42,577       | -                                | -                                     |
| Summer Food Service Program (SFSP)  | 10.559                    | N/A                 | 5/1/20 - 9/30/20   | *               | -                               | 85,566           | 193,385      | (107,819)                        | -                                     |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program                        | 10.561                    | N/A                 | 10/1/18 - 6/30/19  | \$ 33,839       | (8,470)                         | 8,470            | -            | -                                | -                                     |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program                        | 10.561                    | N/A                 | 7/1/19 - 9/30/19   | \$ 11,280       | -                               | 5,916            | 5,916        | -                                | -                                     |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program                        | 10.561                    | N/A                 | 10/1/19 - 6/30/20  | \$ 36,357       | -                               | 14,803           | 21,715       | (6,912)                          | -                                     |
| Total - Tennessee Department of Human Services  |                           |                     |                    |                 | (86,099)                        | 368,663          | 397,295      | (114,731)                        | -                                     |
| Passed Through Tennessee Department of Agriculture  |                           |                     |                    |                 |                                 |                  |              |                                  |                                       |
| Trade Mitigation Program - Administrative Costs   | 10.178                    | GR-32501-00         | 10/01/18 - 9/30/19 | \$ 337,648      | -                               | 337,648          | 337,648      | -                                | -                                     |
| Emergency Food Assistance Program - Administrative Costs  | 10.568                    | (1) GR-32501-00     | 10/01/18 - 9/30/19 | \$ 444,000      | (279,251)                       | 279,251          | -            | -                                | -                                     |
| Emergency Food Assistance Program - Commodities   | 10.569                    | (1) GR-32501-00     | 10/01/18 - 9/30/19 | *               | 1,274,855                       | 2,428,517        | 3,703,372    | -                                | 3,703,372                             |
| Emergency Food Assistance Program - Administrative Costs  | 10.568                    | (1) GR-32501-00     | 10/01/19 - 9/30/20 | \$ 220,000      | -                               | 145,095          | 220,000      | (74,905)                         | -                                     |
| Emergency Food Assistance Program - Commodities   | 10.569                    | (1) GR-32501-00     | 10/01/19 - 9/30/20 | *               | -                               | 8,701,922        | 8,074,776    | 627,146                          | 8,074,776                             |
| COVID - Emergency Food Assistance Program - Coronavirus Relief Fund Supplemental Funding Administrative Costs | 10.568                    | (1) GR-32501-00     | 10/01/19 - 9/30/20 | *               | -                               | -                | 824,815      | (824,815)                        | -                                     |
| Total - Tennessee Department of Agriculture   |                           |                     |                    |                 | 995,604                         | 11,892,433       | 13,160,611   | (272,574)                        | 11,778,148                            |
| Passed Through Tennessee Department of Health   |                           |                     |                    |                 |                                 |                  |              |                                  |                                       |
| Commodity Supplemental Food Program (CSFP) Administrative Costs   | 10.565                    | (1) GR-1960182      | 10/01/18 - 9/30/19 | \$ 204,800      | (73,150)                        | 99,877           | 26,727       | -                                | -                                     |
| Commodity Supplemental Food Program (CSFP) Administrative Costs   | 10.565                    | (1) GR-1960182      | 10/01/19 - 9/30/20 | \$ 184,353      | -                               | 125,380          | 161,436      | (36,056)                         | -                                     |
| Commodity Supplemental Food Program (CSFP) Commodities  | 10.565                    | (1) GR-1960182      | 10/01/18 - 9/30/19 | *               | 99,633                          | 126,109          | 225,742      | -                                | -                                     |
| Commodity Supplemental Food Program (CSFP) Commodities  | 10.565                    | (1) GR-1960182      | 10/1/19 - 9/30/20  | *               | -                               | 396,422          | 245,051      | 151,371                          | -                                     |
| Total - Tennessee Department of Health  |                           |                     |                    |                 | 26,483                          | 747,788          | 658,956      | 115,315                          | -                                     |
| TOTAL U.S. DEPT OF AGRICULTURE  |                           |                     |                    |                 | 935,988                         | 13,008,884       | 14,216,862   | (271,990)                        | 11,778,148                            |

(Continued on following page)

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

|  | FEDERAL<br>CFDA<br>NUMBER                     | GRANTOR'S<br>NUMBER | GRANT<br>PERIOD | GRANT<br>AMOUNT  | (ACCRUED)                       | 7/1/19 - 6/30/20 |               | (ACCRUED)                        | PASSED<br>THROUGH TO<br>SUBRECIPIENTS |               |
|--|---|---------------------|-----------------|------------------|---------------------------------|------------------|---------------|----------------------------------|---------------------------------------|---------------|
|  |   |                     |                 |                  | DEFERRED<br>REVENUE<br>7/1/2019 | RECEIPTS         | EXPENDITURES  | DEFERRED<br>REVENUE<br>6/30/2020 |                                       |               |
| DEPARTMENT OF HOMELAND SECURITY                |   |                     |                 |                  |                                 |                  |               |                                  |                                       |               |
| Passed Through United Way of Middle Tennessee: |   |                     |                 |                  |                                 |                  |               |                                  |                                       |               |
|  | Emergency Management Food and Shelter Program | 97.024              | 765200-002      | 2/1/19 - 3/31/20 | \$ 52,176                       | \$ -             | \$ 52,176     | \$ 52,176                        | \$ -                                  | \$ -          |
| TOTAL DEPARTMENT OF HOMELAND SECURITY          |   |                     |                 |                  |                                 | \$ -             | \$ 52,176     | \$ 52,176                        | \$ -                                  | \$ -          |
| TOTAL EXPENDITURES OF FEDERAL AWARDS           |   |                     |                 |                  |                                 | \$ 935,988       | \$ 13,061,060 | \$ 14,269,038                    | \$ (271,990)                          | \$ 11,778,148 |

Total Expenditures by CFDA Number (Cluster):

\* Not specified.

(1) Denotes a major program

|                         |                      |
|-------------------------|----------------------|
| 10.178                  | \$ 337,648           |
| 10.558                  | 133,702              |
| 10.559                  | 235,962              |
| 10.561                  | 27,631               |
| 10.565, 10.568 & 10.569 | 13,481,919           |
| 97.024                  | 52,176               |
|                         | <u>\$ 14,269,038</u> |

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Food Bank.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Food Bank has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - LOAN BALANCES

The outstanding balance on the Community Facilities Rural Development Loans at June 30, 2020 are as follows:

|       |                     |
|-------|---------------------|
| 97-01 | \$ 2,042,508        |
| 97-02 | <u>699,796</u>      |
|       | <u>\$ 2,742,304</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2020

|  | GRANTOR'S<br>NUMBER | GRANT<br>PERIOD       | GRANT<br>AMOUNT | (ACCRUED)                       | 7/1/19 - 6/30/20 |              | (ACCRUED)                        | PASSED<br>THROUGH TO<br>SUBRECIPIENTS |
|--|---------------------|-----------------------|-----------------|---------------------------------|------------------|--------------|----------------------------------|---------------------------------------|
|  |                     |                       |                 | DEFERRED<br>REVENUE<br>7/1/2019 | RECEIPTS         | EXPENDITURES | DEFERRED<br>REVENUE<br>6/30/2020 |                                       |
| EXPENDITURES OF STATE FINANCIAL ASSISTANCE               |                     |                       |                 |                                 |                  |              |                                  |                                       |
| TENNESSEE DEPARTMENT OF ENVIRONMENT & CONSERVATION       |                     |                       |                 |                                 |                  |              |                                  |                                       |
| Division of Solid Waste Management                       |                     |                       |                 |                                 |                  |              |                                  |                                       |
| Organics Management Grant                                | 2018-3681           | 1/5/2018 - 1/4/2023   | \$ 1,098,091    | \$ (165,191)                    | \$ -             | \$ 23,215    | \$ (188,406)                     | \$ -                                  |
| Waste Reduction Grant                                    | 2018-3977           | 1/15/2019 - 1/14/2024 | \$ 180,000      | (179,744)                       | 179,744          | -            | -                                | -                                     |
| TOTAL TENNESSEE DEPARTMENT OF ENVIRONMENT & CONSERVATION |                     |                       |                 | (344,935)                       | 179,744          | 23,215       | (188,406)                        | -                                     |
| TENNESSEE DEPARTMENT OF EMERGENCY MANAGEMENT             |                     |                       |                 |                                 |                  |              |                                  |                                       |
| Tennessee Emergency Management Agency (TEMA)             |                     |                       |                 |                                 |                  |              |                                  |                                       |
| Commodities  | *                   | 4/14/2020 - 10/9/2020 | *               | -                               | 886,301          | 394,680      | 491,621                          | -                                     |
| TOTAL TENNESSEE DEPARTMENT OF EMERGENCY MANAGEMENT       |                     |                       |                 | -                               | 886,301          | 394,680      | 491,621                          | -                                     |
| TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE         |                     |                       |                 | \$ (344,935)                    | \$ 1,066,045     | \$ 417,895   | \$ 303,215                       | \$ -                                  |

\* Not specified.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of state financial assistance (the "Schedule") includes the state award activity of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") under programs of the State of Tennessee for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of the State of Tennessee *Audit Manual*. Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Food Bank.

OTHER REPORTS

INDEPENDENT AUDITOR’S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the “Food Bank”), a Tennessee not-for-profit corporation, which comprise the statement of financial position as of June 30, 2020, 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 21, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Food Bank’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank’s internal control.

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

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

## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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

Handwritten signature in black ink that reads "Kung CPAs PLLC".

Nashville, Tennessee  
December 21, 2020

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

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Second Harvest Food Bank of Middle Tennessee, Inc.’s (the “Food Bank”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Food Bank’s major federal programs for the year ended June 30, 2020. The Food Bank’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT’S RESPONSIBILITY

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

AUDITOR’S RESPONSIBILITY

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

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

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Second Harvest Food Bank of Middle Tennessee, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

Kumpf CPAs PLLC

Nashville, Tennessee  
December 21, 2020

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2020

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes       X  no

*Federal Awards*

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ yes       X  no

Identification of major programs:

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

10.565, 10.568 and 10.569              Food Distribution Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

X  yes      \_\_\_\_\_ no

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2020

**Part II - Financial Statement Findings**

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