

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2021 AND 2020

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2021 AND 2020

TABLE OF CONTENTS

	<u>PAGE</u>
<u>BOARD OF DIRECTORS</u>	i
<u>INDEPENDENT AUDITOR'S REPORT</u>	1 - 2
 <u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	3
Statement of Activities - 2021	4
Statement of Activities - 2020	5
Statements of Cash Flows	6
Statement of Functional Expenses for the Year Ended June 30, 2021	7
Statement of Functional Expenses for the Year Ended June 30, 2020	8
Notes to Financial Statements	9 - 27
 <u>ADDITIONAL INFORMATION</u>	
Schedule of Expenditures of Federal Awards.....	28 - 29
Schedule of Expenditures of State Financial Assistance.....	30
 <u>OTHER REPORTS</u>	
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 <i>Government Auditing Standards</i>	31 - 32
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance.....	33 - 34
Schedule of Findings and Questioned Costs.....	35 - 36

**Second Harvest Food Bank of Middle Tennessee, Inc.
Board of Directors 2020-2021**

Jeff Aiken
Dave Alperson
Drew Berg
Board Treasurer
Michelle Bonnett
Scott Bowers
Jamaal Boykin
David Bradley
Suzanne Buchanan
Gerard Bullock
Jim Burton
Lee Cunningham
Troy Edwards
Bruce Esworthy
Andy Flatt
Lucia Folk
Board Chair
David Fulmer

Lisa Gardi
Board Secretary
Dennis Georgatos
Sonya Hostetler
Dr. Shanna Jackson
Michael Johnson
Jerome Katz
Nancy Keil
President & CEO
Brad Marks
Jennifer Peters
Sharon W. Reynolds
Derek Schraw
Ute Strand
Laquita Stribling
Katherine Tosh
Ken Watkins
Shawn Williams
Board Vice Chair

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, 2021 and 2020, 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

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 28-29, as required by Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), the board of directors listing on page i and the schedule of expenditures of state financial assistance on page 30, as required by the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information on pages 28-30 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 22, 2021, 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.

K. H. CPAs PLLC

Nashville, Tennessee
December 22, 2021

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 16,805,632	\$ 10,304,506
Cash - restricted debt reserve	140,000	140,000
Accounts receivable, net	2,455,446	3,765,036
Grants receivable	830,715	1,052,507
Pledges receivable, net	799,678	2,680,968
Inventories	10,213,625	8,079,641
Prepaid expenses and other current assets	129,064	88,624
Investments	13,038,172	2,223,581
Property and equipment, net	<u>18,198,248</u>	<u>18,858,930</u>
TOTAL ASSETS	<u>\$ 62,610,580</u>	<u>\$ 47,193,793</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,946,608	\$ 5,656,669
Deferred revenue	2,713,436	1,537,335
Long-term debt	<u>2,698,300</u>	<u>4,314,404</u>
TOTAL LIABILITIES	<u>9,358,344</u>	<u>11,508,408</u>
NET ASSETS		
Without donor restrictions:		
Designated:		
Donated food inventory	2,121,819	2,514,274
Property and equipment, less related debt	15,499,948	16,116,626
Board designated for long-term purposes	6,811,366	-
Board designated for repairs and maintenance	2,047,888	-
Undesignated	<u>25,223,964</u>	<u>14,568,174</u>
Total without donor restrictions	51,704,985	33,199,074
With donor restrictions	<u>1,547,251</u>	<u>2,486,311</u>
TOTAL NET ASSETS	<u>53,252,236</u>	<u>35,685,385</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 62,610,580</u>	<u>\$ 47,193,793</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

	<u>Without Donor</u>	<u>With Donor</u>	<u>Totals</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 37,032,696	\$ -	\$ 37,032,696
Contributions	18,392,882	2,207,031	20,599,913
Government grants	40,800,687	-	40,800,687
Shared maintenance fees	(3,486)	-	(3,486)
Special events and activities	441,103	-	441,103
Less: direct benefits to donors	(45,708)	-	(45,708)
Investment income, net	844,463	-	844,463
Agency transportation reimbursement	220,788	-	220,788
Forgiveness of Paycheck Protection Program loan	1,572,100	-	1,572,100
Other income (loss)	477,708	-	477,708
Net assets released in satisfaction of program restrictions	<u>3,146,091</u>	<u>(3,146,091)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>102,879,324</u>	<u>(939,060)</u>	<u>101,940,264</u>
REVENUE - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	49,211,393	-	49,211,393
Sales to local agencies	2,300,192	-	2,300,192
Donated food and services	<u>210,980</u>	<u>-</u>	<u>210,980</u>
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	51,722,565	-	51,722,565
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	<u>(44,284,062)</u>	<u>-</u>	<u>(44,284,062)</u>
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	<u>7,438,503</u>	<u>-</u>	<u>7,438,503</u>
TOTAL SUPPORT AND REVENUE	<u>110,317,827</u>	<u>(939,060)</u>	<u>109,378,767</u>
EXPENSES			
Program services:			
Emergency Food Box	3,640,779	-	3,640,779
Community Food Partners	68,296,341	-	68,296,341
Children's Programs	2,273,531	-	2,273,531
Mobile Pantry	<u>12,986,935</u>	<u>-</u>	<u>12,986,935</u>
Total Program Services	<u>87,197,586</u>	<u>-</u>	<u>87,197,586</u>
Supporting services:			
Management and general	1,429,000	-	1,429,000
Fundraising	<u>3,185,330</u>	<u>-</u>	<u>3,185,330</u>
Total Supporting Services	<u>4,614,330</u>	<u>-</u>	<u>4,614,330</u>
TOTAL EXPENSES	<u>91,811,916</u>	<u>-</u>	<u>91,811,916</u>
CHANGE IN NET ASSETS	18,505,911	(939,060)	17,566,851
NET ASSETS - BEGINNING OF YEAR	<u>33,199,074</u>	<u>2,486,311</u>	<u>35,685,385</u>
NET ASSETS - END OF YEAR	<u>\$ 51,704,985</u>	<u>\$ 1,547,251</u>	<u>\$ 53,252,236</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Without Donor</u>	<u>With Donor</u>	<u>Totals</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 38,290,288	\$ -	\$ 38,290,288
Contributions	18,061,140	3,123,484	21,184,624
Government grants	16,636,481	-	16,636,481
Shared maintenance fees	378,838	-	378,838
Special events and activities	181,328	-	181,328
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>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>77,460,907</u>	<u>(317,900)</u>	<u>77,143,007</u>
REVENUE - PROJECT PRESERVE® PROGRAM			
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>
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	39,816,130	-	39,816,130
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	<u>(36,444,326)</u>	<u>-</u>	<u>(36,444,326)</u>
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	<u>3,371,804</u>	<u>-</u>	<u>3,371,804</u>
TOTAL SUPPORT AND REVENUE	<u>80,832,711</u>	<u>(317,900)</u>	<u>80,514,811</u>
EXPENSES			
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>
Total Program Services	<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>
Total Supporting Services	<u>4,241,022</u>	<u>-</u>	<u>4,241,022</u>
TOTAL EXPENSES	<u>69,724,872</u>	<u>-</u>	<u>69,724,872</u>
CHANGE IN NET ASSETS	11,107,839	(317,900)	10,789,939
NET ASSETS - BEGINNING OF YEAR	<u>22,091,235</u>	<u>2,804,211</u>	<u>24,895,446</u>
NET ASSETS - END OF YEAR	<u>\$ 33,199,074</u>	<u>\$ 2,486,311</u>	<u>\$ 35,685,385</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 17,566,851	\$ 10,789,939
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,289,730	1,236,350
(Gain) loss on sale of equipment	2,249	(900)
Forgiveness of Paycheck Protection Program loan	(1,572,100)	-
Noncash contribution of investments	(250,224)	(364,290)
Realized and unrealized gains on investments	(830,516)	(134,876)
(Increase) decrease in:		
Accounts receivable	1,309,590	(1,985,425)
Grants receivable	221,792	(242,339)
Pledges receivable	1,881,290	1,317,575
Inventories	(957,883)	(2,310,472)
Prepaid expenses and other current assets	(40,440)	222,520
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,710,061)	2,976,073
Deferred revenue	-	162,847
TOTAL ADJUSTMENTS	<u>(656,573)</u>	<u>877,063</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>16,910,278</u>	<u>11,667,002</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	269,741	429,322
Purchases of investments	(10,003,592)	(13,392)
Proceeds from sale of equipment	30,946	900
Additions to property and equipment	<u>(662,243)</u>	<u>(1,308,598)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(10,365,148)</u>	<u>(891,768)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Draws on USDA loan	-	159,164
Paycheck Protection Program loan funding	-	1,572,100
Net (repayments) draws on lines of credit	-	(2,503,244)
Payments on long-term debt	<u>(44,004)</u>	<u>(161,901)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(44,004)</u>	<u>(933,881)</u>
NET INCREASE IN CASH	6,501,126	9,841,353
CASH - BEGINNING OF YEAR	<u>10,444,506</u>	<u>603,153</u>
CASH - END OF YEAR	<u>\$ 16,945,632</u>	<u>\$ 10,444,506</u>
Operating cash	\$ 16,805,632	\$ 10,304,506
Restricted cash - debt reserve	<u>140,000</u>	<u>140,000</u>
TOTAL CASH	<u>\$ 16,945,632</u>	<u>\$ 10,444,506</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 94,153</u>	<u>\$ 179,877</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT	EMERGENCY	COMMUNITY	CHILDREN'S	MOBILE	MANAGEMENT	FUND	
	PRESERVE®	FOOD BOX	FOOD PARTNERS	PROGRAMS	PANTRY	AND GENERAL	RAISING	TOTALS
Salaries	\$ 1,113,249	\$ 333,708	\$ 2,472,107	\$ 467,198	\$ 485,874	\$ 467,192	\$ 1,334,831	\$ 6,674,159
Contract labor	84,133	16,382	447,984	12,776	73,355	44,224	-	678,854
Payroll taxes and benefits	345,649	102,663	775,853	143,930	150,856	146,891	417,155	2,082,997
TOTAL SALARIES AND RELATED EXPENSES	1,543,031	452,753	3,695,944	623,904	710,085	658,307	1,751,986	9,436,010
Food supplies and distribution	42,233,075	85,193	1,783,314	12,755	-	6,718	1,237	44,122,292
Donated food	210,980	746,936	28,668,668	145,638	7,863,910	-	-	37,636,132
Non-cash food commodities distributed	-	1,468,870	29,860,870	89,201	3,322,237	-	-	34,741,178
Internal food purchases and/or reimbursement	(3,312,234)	316,835	1,324,829	1,132,652	537,918	-	-	-
Product transportation	2,730,636	129,993	837,968	64,997	160,802	-	2,531	3,926,927
Office and administration	103,860	15,243	245,784	17,900	44,751	344,603	569,231	1,341,372
Occupancy	497,687	115,281	1,076,027	72,252	193,572	37,343	151,140	2,143,302
Depreciation	160,948	261,028	602,937	75,185	115,701	34,241	39,690	1,289,730
Communication expense	21,709	12,955	19,972	20,129	3,833	9,343	630,659	718,600
Travel and conferences	13,528	-	1,394	75	267	506	1,120	16,890
National network dues	-	-	-	-	-	-	-	-
Professional fees	11,309	926	18,205	1,460	3,073	320,556	18,166	373,695
Other special event costs	-	-	-	-	-	-	47,895	47,895
Insurance	69,533	34,766	160,429	17,383	30,786	17,383	17,383	347,663
TOTAL EXPENSES	44,284,062	3,640,779	68,296,341	2,273,531	12,986,935	1,429,000	3,231,038	136,141,686
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(45,708)	(45,708)
Direct costs and expenses of Project Preserve® program	(44,284,062)	-	-	-	-	-	-	(44,284,062)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 3,640,779	\$ 68,296,341	\$ 2,273,531	\$12,986,935	\$ 1,429,000	\$ 3,185,330	\$ 91,811,916

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		
	PROJECT	EMERGENCY	COMMUNITY	CHILDREN'S	MOBILE	MANAGEMENT	FUND	
	PRESERVE®	FOOD BOX	FOOD PARTNERS	PROGRAMS	PANTRY	AND GENERAL	RAISING	TOTALS
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
TOTAL SALARIES AND RELATED EXPENSES	1,513,819	633,102	3,148,289	808,187	678,474	598,440	1,796,924	9,177,235
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
USDA commodities distribution	-	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
TOTAL EXPENSES	36,444,326	4,021,427	49,582,895	2,502,214	9,377,314	1,200,309	3,040,713	106,169,198
Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	-	-
Direct costs and expenses of Project Preserve® program	(36,444,326)	-	-	-	-	-	-	(36,444,326)
TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	\$ -	\$ 4,021,427	\$ 49,582,895	\$ 2,502,214	\$ 9,377,314	\$ 1,200,309	\$ 3,040,713	\$ 69,724,872

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

NOTE 1 - GENERAL

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

The Food Bank also operates the Project Preserve® program which distributes purchased products and internally manufactured food items to local agencies and other Feeding America® affiliates throughout the country. The gross profit from these sales is used to supplement the Food Bank's efforts within its own local service area. During 2021 and 2020, the program contributed approximately \$7.4 million and \$3.4 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, 2021 or 2020.

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Grants

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 the value of 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[®] Revenue Recognition

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

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Project Preserve® Revenue Recognition (Continued)

Another component of Project Preserve is to provide disaster relief. In 2021, Project Preserve was able to respond to the needs of Feeding America Network food banks during the COVID-19 pandemic by proving nearly 1.4 million assembled food boxes for a total of nearly \$22 million in sales. During March - June of 2020, Project Preserve provided nearly 256,000 assembled food boxes for a total of over \$3.7 million.

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 (insignificant for June 30, 2021 and 0.29% as of June 30, 2020). Amortization of the discount, if any, is recognized on the interest method over the term of the gift and included in contribution revenue.

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

Accounts Receivable

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

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, 2021 and 2020.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed commodities (United States 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[®] is valued at the estimated average market value at the date of gift for all noncash donations, based on a study commissioned by Feeding America[®], which amounted to \$1.79 per pound in 2021 (\$1.74 per pound in 2020). Purchased inventory is reported at average cost, which approximates the lower of cost or net realizable value. During 2020, USDA inventory was valued at the most recent USDA established market value and recognized as program services expense when distributed. Effective July 1, 2020, the Food Bank began valuing all commodity inventory (USDA, TEMA and Farmers to Families food boxes) at the Feeding America[®] rate for food-only donations (or \$1.70 per pound) and is recognized as both grant revenue and program service expense when distributed.

Investments

Investments consist of money market accounts, certificates of deposit, equities, equity funds and fixed income funds. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. Equities, equity funds and fixed income 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.

Fair Value Measurements

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

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

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

Investments - Equities, equity funds and fixed income 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 2. The inputs used in the valuation include twenty-nine product types calculating a weighted-average value for the year based on actual donated pounds by type on a national level.

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

There have been no significant changes in the valuation methodologies since the prior year. The Food Bank did change its manner of valuing food commodities received under various federal and state programs to be consistent with the Feeding America® study as opposed to the published USDA prices, which resulting in inclusion in the fair value table beginning in 2021. This effect of changing this valuation was insignificant to the financial statements.

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 was fully forgivable if certain conditions are met and was forgiven in its entirety during 2021. The Food Bank accounted for the loan as a financial liability until such time the loan was forgiven and has recognized a gain on forgiveness during the current year.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

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

Emergency Food Box - provided approximately 1.3 million meals in 2021 for emergency staples, as well as produce, meat and dairy, to families in need through its eleven satellite centers in Davidson County that operated throughout the COVID-19 pandemic.

Community Food Partners - provided nearly 32,000,000 pounds of food during 2021 (or nearly 27 million meals) to nearly 450 not-for-profit agencies, including soup kitchens, pantries and emergency food programs (27,000,000 pounds of food in 2020). Also included under the Community Food Partners program umbrella in the financial statements are:

Grocery Rescue - collects perishable and non-perishable food from nearly 280 retail partners for distribution to partner agencies and programs. These products include meats, produce, dairy, bread, bakery items and dry products. During 2021 and 2020, the Food Bank collected over 7.3 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 1,300 applications during 2021 (3,200 applications during 2020).

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 2021, 24,392 boxes (22,036 boxes in 2020) were distributed to qualified seniors in Davidson County.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

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 in several area community centers and provided over 138,000 nutritious meals to children during 2021 (165,000 meals during 2020). 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 2021, the Food Bank distributed over 200,000 backpacks to hungry children (over 250,000 backpacks in 2020).

The School Food Pantry program is designed to increase food access for families in need. Fifty sites were operated during 2021 providing over 375,000 pounds, or over 300,000 meals, of food to families in need (forty-five sites were operating in 2020, providing over 270,000 pounds of food).

Mobile Pantry - Mobile Pantry travels to the forty-six-county service area and delivers perishable and non-perishable food and supplies that are distributed to people in need. During 2021, nearly 6,000,000 pounds of food (6,600,000 pounds of food in 2020) were distributed through this program's 261 events.

COVID-19 Response - Second Harvest Food Bank was able to employ innovative measures to in 2021 continue to safely serve programs and clients. Nearly 5 million pounds of COVID-relief food was distributed throughout the fiscal year. Produce boxes and assembled dry boxes were among the safe distribution methods employed to ensure our neighbors facing hunger were able to access the food they needed during this time. During the last 3.5 months of fiscal 2020, over 2.7 million pounds of COVID-relief food was distributed.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Shipping and Handling

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

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

On July 1, 2020, the Food Bank adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (Topic 606), and all subsequent amendments to the ASU (collectively, “ASC 606”) which supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. ASC 606 requires revenue to be recognized in an amount that reflects the considerations to which the entity expects to be entitled in an exchange of goods or services. The Food Bank adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of July 1, 2020.

The Food Bank performed an analysis of revenue streams and transactions to determine in-scope applicability. The revenue streams considered in-scope for purposes of ASC 606 include Project Preserve[®] sales, shared maintenance fees and agency transportation reimbursement. The Food Bank recognizes revenues that fall within the scope of ASC 606 as it satisfies its obligation to the customer. The adoption of ASC 606 did not result in a material change to the accounting for any of the in-scope revenue streams; as such, the Food Bank did not record a cumulative effect adjustment.

Recent Accounting Pronouncements

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.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU is effective for the Food Bank beginning on July 1, 2021. The Food Bank is currently evaluating the impact of this new guidance on its financial statements.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2021 and December 22, 2021, 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>2021</u>	<u>2020</u>
Cash	\$ 16,805,632	\$ 10,304,506
Accounts receivable, net	2,455,446	3,765,036
Grants receivable	830,715	1,052,507
Pledges receivable, net	799,678	2,680,968
Investments	<u>13,038,172</u>	<u>2,223,581</u>
Total financial assets	<u>33,929,643</u>	<u>20,026,598</u>
Less amounts not available to be used within one year:		
Net assets with donor imposed restrictions	1,547,251	2,486,311
Board designated for long-term purposes	6,811,366	-
Board designated for repairs and maintenance	2,047,888	-
Unrestricted pledge amounts to be collected in greater than one year	<u>117,538</u>	<u>273,154</u>
	<u>10,524,043</u>	<u>2,759,465</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 23,405,600</u>	<u>\$ 17,267,133</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

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, 2021 and 2020, the line had a \$0 balance.

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. Collections on outstanding pledges will be utilized 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, 2021:

	<u>Operating</u>	<u>Capital Campaign</u>	<u>Total</u>
Due in less than one year	\$ 529,804	\$ 207,618	\$ 737,422
Due in one to five years	2,785	107,538	110,323
Due in greater than five years	<u>-</u>	<u>10,000</u>	<u>10,000</u>
	532,589	325,156	857,745
Less: Allowance for uncollectible pledges	(45,409)	-	(45,409)
Less: Discount to present value	<u>(4,496)</u>	<u>(8,162)</u>	<u>(12,658)</u>
	<u>\$ 482,684</u>	<u>\$ 316,994</u>	<u>\$ 799,678</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 4 - PLEDGES RECEIVABLE (CONTINUED)

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

	<u>Operating</u>	<u>Capital 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	-	10,000	10,000
	<u>1,617,244</u>	<u>1,152,024</u>	<u>2,769,268</u>
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>

NOTE 5 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Donated food	\$ 2,121,819	\$ 2,514,274
USDA commodities inventory	1,577,341	778,517
TEMA commodities inventory	1,136,095	491,621
Farmers to Families food box inventory	-	267,197
Cook/chill manufactured inventory	144,591	180,873
Purchased inventory	<u>5,233,779</u>	<u>3,847,159</u>
	<u>\$ 10,213,625</u>	<u>\$ 8,079,641</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 6 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
Liquid money market funds	\$ 5,024,917	\$ 82,968
Certificates of deposit	122,230	122,134
Equities	1,568,456	-
Equity funds	4,120,141	1,201,336
Fixed income funds	<u>2,202,428</u>	<u>817,143</u>
	<u>\$ 13,038,172</u>	<u>\$ 2,223,581</u>

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:

	<u>2021</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Equities:				
U.S. equities	\$ 1,568,456	\$ 1,568,456	\$ -	\$ -
Equity funds:				
Exchange traded funds	1,403,873	1,403,873	-	-
International equity	<u>2,716,268</u>	<u>2,716,268</u>	<u>-</u>	<u>-</u>
	<u>4,120,141</u>	<u>4,120,141</u>	<u>-</u>	<u>-</u>
Fixed income:				
Short-term bond	998,302	998,302	-	-
Global fixed income	<u>1,204,126</u>	<u>1,204,126</u>	<u>-</u>	<u>-</u>
	<u>2,202,428</u>	<u>2,202,428</u>	<u>-</u>	<u>-</u>
Total investments at fair value	7,891,025	7,891,025	-	-
Inventories:				
Commodities	2,713,436	-	2,713,436	-
Donated inventory	<u>2,121,819</u>	<u>-</u>	<u>2,121,819</u>	<u>-</u>
Total	<u>\$ 12,726,280</u>	<u>\$ 7,891,025</u>	<u>\$ 4,835,255</u>	<u>\$ -</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 7 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2020			
	Fair Value	Level 1	Level 2	Level 3
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>\$ 2,514,274</u>	<u>\$ -</u>

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2021	2020
Land	\$ 1,414,586	\$ 1,414,586
Building and improvements	18,945,879	18,725,975
Office and warehouse furniture and equipment	4,339,035	4,124,127
Transportation equipment	2,027,375	1,894,799
Cook/chill equipment	721,974	721,974
	27,448,849	26,881,461
Less accumulated depreciation	9,250,601	8,022,531
	<u>\$ 18,198,248</u>	<u>\$ 18,858,930</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 9 - LINES OF CREDIT

The Food Bank has a \$2,500,000 line of credit to a financial institution, subject to a borrowing base calculated on eligible accounts and inventory. The line has been extended through June 2022. 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 1.50% (1.5855% at June 30, 2021) and had no outstanding balance at June 30, 2021 or 2020.

The Food Bank also had a \$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 was subject to certain financial covenants and is secured by a second deed of trust on the Nashville facility, and was paid in full during the fiscal year ended June 30, 2020.

NOTE 10 - LONG TERM DEBT

Notes payable consisted of the following at June 30:

	<u>2021</u>	<u>2020</u>
\$2,200,000 USDA Rural Development Loan requiring interest only payments of 3.5% through June 11, 2020. Beginning July 11, 2020 the loan requires principal and interest payments of \$8,734. The loan matures on June 11, 2058.	\$ 2,007,294 ⁽¹⁾	\$ 2,042,508
\$700,000 USDA Rural Development Loan requiring interest only payments of 3.5% through June 11, 2020. Beginning July 11, 2020 the loan requires principal and interest payments of \$2,779. The loan matures on June 11, 2058.	691,006 ⁽¹⁾	699,796
\$1,572,000 Paycheck Protection Program Loan requiring monthly principal and interest payments beginning after the ten-month forgiveness application period expires. The loan was forgiven on May 12, 2021.	<u>-</u>	<u>1,572,100</u>
Total long-term debt	<u>\$ 2,698,300</u>	<u>\$ 4,314,404</u>

(1) The USDA loans are collectively secured by property in Camden, Tennessee and Nashville, Tennessee with carrying values totaling \$6,579.646 (building only) at June 30, 2021.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 10 - LONG TERM DEBT (CONTINUED)

Total interest expense incurred by the Food Bank amounted to \$93,507 and \$180,443 during years ended June 30, 2021 and 2020, respectively. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

Maturities on the notes payable at June 30, 2021 are as follows:

For the year ending June 30:

2022	\$ 43,934
2023	45,497
2024	47,115
2025	48,790
2026	50,526
Thereafter	<u>2,462,438</u>
	<u>\$ 2,698,300</u>

NOTE 11 - LEASES

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

Future minimum lease payments required under the leases is as follows at June 30, 2021:

For year ended June 30:

2022	\$ 542,521
2023	553,498
2024	<u>564,749</u>
Total	<u>\$ 1,660,768</u>

Lease expense under these agreements and other cancellable or short-term leases amounted to \$553,625 and \$574,838 during years ended June 30, 2021 and 2020, respectively.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2021</u>	<u>2020</u>
<u>Net Assets with Time Restrictions</u>		
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 5,000	\$ 86,625
Other pledges for future years' operations	235,250	1,185,748
<u>Net assets with Purpose Restrictions</u>		
Donations for Children's programs (backpacks and summer feeding programs)	253,992	302,210
Donations for mobile pantries and agency equipment	687,268	660,808
Donations for emergency food box program	67,655	136,659
Donations for equipment purchases and other communities	298,086	114,261
	<u>\$ 1,547,251</u>	<u>\$ 2,486,311</u>

NOTE 13 - IN-KIND DONATIONS

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

	<u>2021</u>	<u>2020</u>
Special events goods and services	\$ 5,222	\$ -
Food supplies and distribution	11,373	157,991
Equipment and warehouse supplies	210	9,663
Office and administration:		
Marketing and promotional	8,950	671
Consulting services	212,555	-
Office supplies	37,266	27,013
Other	9,865	2,559
	<u>\$ 285,441</u>	<u>\$ 197,897</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 14 - 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, 2021 amounted to \$469,227 (\$435,211 for 2020).

NOTE 15 - 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, 2021, pledges receivable from two donors amounted to \$325,000 or approximately 38% of total pledges receivable. At June 30, 2020, pledges receivable from two donors amounted to \$830,000, or approximately 31% of total pledges receivable.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2021 AND 2020

NOTE 16 - 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 and throughout 2021, 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, 2021

EXPENDITURES OF FEDERAL AWARDS	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2020	7/1/20 - 6/30/21		(ACCRUED) DEFERRED REVENUE 6/30/2021	PASSED THROUGH TO SUBRECIPIENTS
						RECEIPTS	EXPENDITURES		
U.S. DEPARTMENT OF AGRICULTURE									
Passed Through Tennessee Department of Human Services									
Child and Adult Care Food Program (CACFP)	10.558	N/A	*	*	\$ -	\$ 35,609	\$ 35,609	\$ -	\$ -
Summer Food Service Program (SFSP)	10.559	N/A	5/1/20 - 9/30/20	*	(107,819)	149,780	41,961	-	-
Summer Food Service Program (SFSP)	10.559	N/A	5/1/21 - 9/30/21	*	-	-	49,066	(49,066)	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	10/1/19 - 6/30/20	\$ 36,357	(6,912)	6,912	-	-	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	7/1/20 - 9/30/20	\$ 12,119	-	6,671	6,671	-	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	N/A	10/1/20 - 6/30/21	\$ 29,860	-	12,761	22,408	(9,647)	-
Total - Tennessee Department of Human Services					(114,731)	211,733	155,715	(58,713)	-
Passed Through Tennessee Department of Agriculture									
Trade Mitigation Program - Administrative Costs	10.178		10/01/19 - 9/30/20	\$ 367,138	-	367,138	367,138	-	-
Emergency Food Assistance Program - Administrative Costs	10.568	GR-32501-00	10/01/19 - 9/30/20	\$ 800,000	(76,905)	654,905	578,000	-	-
Emergency Food Assistance Program - Administrative Costs	10.568	GR-32501-00	10/01/20 - 9/30/21	\$ 1,000,000	-	249,150	1,000,000	(750,850)	-
Emergency Food Assistance Program - Commodities	10.568	GR-32501-00	10/01/19 - 9/30/20	*	627,146	4,713,473	5,340,619	-	5,340,619
Emergency Food Assistance Program - Commodities	10.569	GR-32501-00	10/01/20 - 9/30/21	*	-	9,817,426	8,570,196	1,247,230	8,570,196
COVID - Emergency Food Assistance Program - Coronavirus Relief Fund Supplemental Funding Administrative Costs	10.568 - COVID		3/27/20 - 9/30/20	\$ 1,144,000	(824,815)	1,144,000	319,185	-	-
Total - Tennessee Department of Agriculture					(274,574)	16,946,092	16,175,138	496,380	13,910,815
Passed Through Tennessee Department of Health									
Commodity Supplemental Food Program (CSFP) Administrative Costs	10.565	GR-1960182	10/01/19 - 9/30/20	\$ 184,353	(36,056)	58,974	22,918	-	-
Commodity Supplemental Food Program (CSFP) Administrative Costs	10.565	GR-1960182	10/01/20 - 9/30/21	\$ 161,153	-	139,782	160,933	(21,151)	-
Commodity Supplemental Food Program (CSFP) Commodities	10.565	GR-1960182	10/01/19 - 9/30/20	*	151,372	630,023	781,395	-	-
Commodity Supplemental Food Program (CSFP) Commodities	10.565	GR-19060182	10/01/20 - 9/30/21	*	-	870,937	540,826	330,111	-
Total - Tennessee Department of Health					115,316	1,699,716	1,506,072	308,960	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE					(273,989)	18,857,541	17,836,925	746,627	13,910,815

(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, 2021

	FEDERAL CFDA NUMBER	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2020	7/1/20 - 6/30/21		(ACCRUED) DEFERRED REVENUE 6/30/2021	PASSED THROUGH TO SUBRECIPIENTS
						RECEIPTS	EXPENDITURES		
U.S. DEPARTMENT OF THE TREASURY									
Passed Through the Metropolitan Government of Metropolitan Nashville and Davidson County, Tennessee									
Coronavirus Relief Fund	21.019 - COVID	L-4578	3/1/20 - 12/30/20	\$ 200,000	\$ -	\$ 200,000	\$ 200,000	\$ -	\$ -
Coronavirus Relief Fund	21.019 - COVID	L-4481	8/15/20 - 12/30/20	\$ 2,500,000	-	2,500,000	2,500,000	-	-
Total passed through the Metropolitan Government of Nashville and Davidson County, Tennessee					-	2,700,000	2,700,000	-	-
Passed Through the Tennessee Department of Agriculture									
Coronavirus Relief Fund (Coronavirus Agricultural and Forestry Business Fund)	21.019 - COVID		3/1/20 - 12/30/20	\$ 211,508	-	205,166	205,166	-	-
TOTAL U.S. DEPARTMENT OF THE TREASURY					-	2,905,166	2,905,166	-	-
DEPARTMENT OF HOMELAND SECURITY									
Passed Through United Way of Middle Tennessee:									
Emergency Management Food and Shelter Program	97.024	765200-002	1/1/20 - 5/31/21	\$ 46,504	-	46,504	46,504	-	-
Emergency Management Food and Shelter Program	97.024	765200-002	1/1/21 - 10/31/21	\$ 73,950	-	36,975	73,950	(36,975)	-
TOTAL DEPARTMENT OF HOMELAND SECURITY					-	83,479	120,454	(36,975)	-
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ (273,989)	\$ 21,846,186	\$ 20,862,545	\$ 709,652	\$ 13,910,815

* Not specified.

(1) Denotes a major program

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") under programs of the federal government for the year ended June 30, 2021. 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, 2021 are as follows:

97-01	\$ 2,007,294
97-02	691,006
	<u>\$ 2,698,300</u>

Total Expenditures by CFDA Number (Cluster):

10.178	\$ 367,138
10.558	35,609
10.559	91,027
10.561	29,079
10.565, 10.568 & 10.569	17,314,072
21.019	2,905,166
97.024	120,454
	<u>\$ 20,862,545</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2021

	GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2020	<u>7/1/20 - 6/30/21</u>		(ACCRUED) DEFERRED REVENUE 6/30/2021	PASSED THROUGH TO SUBRECIPIENTS
					RECEIPTS	EXPENDITURES		
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	\$ (188,406)	\$ 165,191	\$ 3,770	\$ (26,985)	\$ -
TOTAL TENNESSEE DEPARTMENT OF ENVIRONMENT & CONSERVATION				(188,406)	165,191	3,770	(26,985)	-
TENNESSEE DEPARTMENT OF EMERGENCY MANAGEMENT								
Tennessee Emergency Management Agency (TEMA) Commodities	*	4/14/2020 - 09/30/2021	*	491,621	14,733,087	14,088,613	1,136,095	14,088,613
TOTAL TENNESSEE DEPARTMENT OF EMERGENCY MANAGEMENT				491,621	14,733,087	14,088,613	1,136,095	14,088,613
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE				\$ 303,215	\$ 14,898,278	\$ 14,092,383	\$ 1,109,110	\$ 14,088,613

* Not specified.

(1) Denotes a major program

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, 2021. 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, 2021, 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 22, 2021.

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.

Kraft CPAs PLLC

Nashville, Tennessee
December 22, 2021

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, 2021. 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, 2021.

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.



Nashville, Tennessee
December 22, 2021

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2021

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
21.019

Food Distribution Cluster (including supplemental COVID funding)
Coronavirus Relief Fund

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, 2021

Part II - Financial Statement Findings

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