

**SECOND HARVEST FOOD BANK OF
NORTHEAST TENNESSEE, INC.**

FINANCIAL REPORT

June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Second Harvest Food Bank of Northeast Tennessee, Inc.
Kingsport, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc. (the Food Bank) (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 the 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 audit. We conducted our audit 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The comparative schedule of assets, liabilities, and net assets, comparative schedule of revenues, comparative schedule of expenses, schedule of expenditures of federal awards, and the roster of management officials and board members are presented for purposes of additional analysis and are not a required part of the financial statements

The accompanying schedule of comparative schedule of assets, liabilities, and net assets, comparative schedule of revenues, comparative schedule of expenses, and the schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis, and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The roster of management officials and board members has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an 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 November 19, 2019, on our consideration of the Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Food Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
November 19, 2019

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents:

Undesignated \$ 1,048,806

Board designated - endowment 170,059

Investments 265,825

Investments - board designated endowment 264,200

Accounts receivable 128,468

Grants receivable 82,219

Inventories 1,079,181

Prepaid expenses 10,309

Total current assets 3,049,067

PROPERTY AND EQUIPMENT, net of accumulated depreciation 2,409,224

Total assets \$ 5,458,291

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses \$ 75,725

Current portion of long-term debt 59,586

Employee deductions payable 1,886

Deferred revenue 22,132

Total current liabilities 159,329

LONG-TERM LIABILITIES

Long-term debt 418,822

Total liabilities 578,151

NET ASSETS

Without donor restrictions - undesignated 4,098,701

Without donor restrictions - board designated endowment 434,259

Total net assets without donor restrictions 4,532,960

With donor restrictions 347,180

Total net assets 4,880,140

TOTAL LIABILITIES AND NET ASSETS \$ 5,458,291

The Notes to Financial Statements are an integral part of this statement.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

	Without Donor Restrictions	Without Donor Restrictions - Board Designated	With Donor Restrictions	Total
Revenues				
Cash contributions	\$ 927,363	\$ 6,889	\$ 1,016,884	\$ 1,951,136
Food and nonfood items donated	10,232,135	-	-	10,232,135
USDA commodities	3,536,425	-	-	3,536,425
Program service fees	1,143,765	-	-	1,143,765
Federal and state grants	288,029	-	100,000	388,029
Special events	365,753	-	-	365,753
Rental income	78,883	-	-	78,883
Investment income	3,652	18,070	-	21,722
Other in-kind donations	30,981	-	-	30,981
Other income	16,820	-	-	16,820
Net assets released from restrictions	1,071,148	-	(1,071,148)	-
Total revenues	17,694,954	24,959	45,736	17,765,649
Expenses				
Program services food distribution	16,807,201	-	-	16,807,201
Management and general	475,508	-	-	475,508
Fundraising	259,493	-	-	259,493
Payments to affiliate	9,590	-	-	9,590
Total expenses	17,551,792	-	-	17,551,792
Change in net assets	143,162	24,959	45,736	213,857
BALANCE, beginning	3,955,539	409,300	301,444	4,666,283
BALANCE, ending	\$ 4,098,701	\$ 434,259	\$ 347,180	\$ 4,880,140

The Notes to Financial Statements are an integral part of this statement.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and contract labor	\$ 639,787	\$ 320,361	\$ 103,027	\$ 1,063,175
Other employee costs	119,859	60,017	19,301	199,177
Total salaries and related expenses	759,646	380,378	122,328	1,262,352
Vehicle expense	119,288	-	-	119,288
Incoming freight charges	138,845	-	-	138,845
Travel and mileage	17,132	4,283	-	21,415
Insurance	8,656	9,450	-	18,106
Warehouse equipment repairs	3,275	-	-	3,275
Warehouse equipment and supplies	5,056	1,264	-	6,320
Sanitation/extermination	15,487	3,872	-	19,359
Building repairs and maintenance	22,545	5,636	-	28,181
Utilities	60,043	15,011	-	75,054
Professional fees	-	22,815	-	22,815
Postage	4,846	1,212	-	6,058
Printing and publications	6,154	1,538	-	7,692
Board and committees	-	702	-	702
Other administrative expense	50,047	-	12,512	62,559
Security system	1,522	381	-	1,903
Computer expense	19,410	4,853	-	24,263
Direct mail expense	-	-	117,486	117,486
Community relations	7,167	7,167	7,167	21,501
Other program services	13,332	-	-	13,332
Shared maintenance grants expense	397,504	-	-	397,504
Depreciation	136,456	16,946	-	153,402
Cost of goods distributed - food	12,104,575	-	-	12,104,575
Cost of goods distributed - USDA	2,916,215	-	-	2,916,215
Total functional expenses	<u>\$ 16,807,201</u>	<u>\$ 475,508</u>	<u>\$ 259,493</u>	17,542,202
Unallocated payments to affiliated organizations				<u>9,590</u>
Total expenses				<u>\$ 17,551,792</u>

The Notes to Financial Statements are an integral part of this statement.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

STATEMENT OF CASH FLOWS

June 30, 2019

OPERATING ACTIVITIES

Change in total net assets	\$ 213,857
Adjustments to reconcile change in total net assets to net cash provided by operating activities:	
Depreciation	153,402
Gain on sale of property and equipment	(9,039)
Investment market appreciation	(9,331)
(Increase) decrease in assets:	
Accounts receivable	(1,984)
Grants receivable	(31,285)
Inventories	(205,564)
Prepaid expenses	11,959
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(66,349)
Employee deductions payable	549
Deferred revenue	2,334
	<hr/>
Net cash provided by operating activities	58,549

INVESTING ACTIVITIES

Purchases of investments	(47,543)
Acquisition of property and equipment	(160,643)
	<hr/>
Net cash used in investing activities	(208,186)

FINANCING ACTIVITIES

Proceeds from sales of property	30,408
Principal payments on long-term debt	(37,392)
	<hr/>
Net cash used in financing activities	(6,984)

DECREASE IN CASH

(156,621)

CASH AND CASH EQUIVALENTS, beginning

1,375,486

CASH AND CASH EQUIVALENTS, ending

\$ 1,218,865

Cash and cash equivalents - undesignated

\$ 1,048,806

Cash and cash equivalents - board designated

170,059

Total Cash and cash equivalents

\$ 1,218,865

SUPPLEMENTAL DISCLOSURES

Interest paid

\$ 116

Noncash investing and financing activities

Property and equipment acquired with debt

\$ 11,000

The Notes to Financial Statements are an integral part of this statement.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 1. Nature of Business and Significant Accounting Policies

Nature of activities

Second Harvest Food Bank of Northeast Tennessee, Inc., (the Food Bank) is a Tennessee not-for-profit corporation organized for the purpose of distributing and providing food to other tax-exempt organizations. The Food Bank receives support from industry, churches, government, and individual contributors. Tennessee counties the Food Bank serves include Hancock, Hawkins, Greene, Sullivan, Washington, Unicoi, Carter, and Johnson.

Adoption of accounting standard

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which affects all nonprofit organizations. The ASU significantly amends the standard for the presentation and accompanying disclosures of the financials statements of nonprofit organizations. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The Food Bank implemented this ASU effective for the fiscal year ended June 30, 2019.

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized when incurred.

Basis of presentation

Financial statement presentation follows the recommendations of the FASB ASC 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* which was revised for accounting standards update 2016-14. Information regarding its financial position and activities are grouped according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the accounting change has been retrospectively applied to prior periods presented and net assets and changes therein are classified as follows:

- 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 Food Bank. The Food Bank's board may designate net assets without restrictions for specific operation purpose from time to time.
- With donor restrictions – Net assets subject to stipulations imposed by donor, and/or grantors. Some donor restrictions may be 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, where by the donor has stipulated the funds be maintained in perpetuity.

FASB ASC 958-205 provides additional guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform

(Continued)

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Basis of presentation (Continued)

Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958-205 requires additional disclosures about an organization's endowment funds (both donor-restricted and board designated endowment funds) and whether or not the organization is subject to UPMIFA. There are no donor restricted endowment accounts at June 30, 2019.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those used in computing depreciation on property and equipment, the fair value of investments, and the valuation of inventories. Actual results could vary from the estimates that were used.

Cash and cash equivalents

The Food Bank's cash balances at June 30, 2019 include amounts on deposit with financial institutions in checking, saving, and money market accounts. For purposes of the Statement of Cash Flows, the Food Bank considers cash equivalents to include all highly liquid debt instruments purchased with a maturity of three months or less.

Investments

Investments at June 30, 2019 include long-term certificates of deposit and investments in marketable securities. The Food Bank records the investments in marketable securities with readily determinable market values and all investments in debt securities at their fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Gains and losses and investment income derived from investments are accounted for as without donor restrictions unless there are restrictions imposed by donors. Internal board designations are also treated as without donor restrictions.

Accounts receivable

The Food Bank believes the balances in accounts receivable are collectible, and accordingly, no allowance has been established. Accounts overdue by more than sixty days are considered past due. Management determines when an account is uncollectible and should be written off directly against the account, no allowance has been provided at June 30, 2019. A list is maintained of the uncollectible accounts and those agencies cannot place orders for inventory distributions until the amount due has been paid.

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SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Inventories

Inventories at June 30, 2019 include separately tracked balances for those items donated, purchased, and received from USDA commodities. Purchased inventory is valued at the lower of average cost (based on the First-In, First-Out (FIFO) method) or market value. This value is provided by Feeding America, the national hunger-relief organization under which the Food Bank is affiliated, and is established by independent auditors. For the fiscal year ended June 30, 2019, the approximate average price per pound was \$1.62. This price is based on the receipt of food and non-food items. USDA commodities are valued using the Feeding America approximate wholesale value of one pound per donated product, excluding non-food items. For the fiscal year ended June 30, 2019, the approximate average price per pound was \$1.52.

Property and equipment

Property and equipment are recorded at cost when purchased and are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20-40 years
Equipment and furniture	5-15 years
Vehicles	5-10 years

Additions and betterments of \$500 or more and with a useful life of one year or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. At the time property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposal is recognized in operations for the fiscal year.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless the donor has stipulated how long donated assets must be maintained, the Food Bank reports the expiration of donor restrictions when the donated or acquired assets are placed in service, and at that time, the assets are transferred from with net assets with donor restriction category to net assets without donor restrictions.

Compensated absences

The Food Bank requires vacation to be taken by June 30 each year; therefore, no accrual for vacation pay has been recorded at June 30, 2019.

Cash contributions

Contributions are recognized when the donor makes a promise to give to the Food Bank that is, in substance, unconditional. Donor-restricted contributions are reported as increase in net assets with donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

(Continued)

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash contributions (Continued)

When the restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. The Food Bank receives some contributions for participating agencies, for which they have no variance power over the spending of the contribution. Therefore, the Food Bank becomes an agent for the contributor, and not a recipient of a contribution. As a result, the contribution decreases accounts receivable due from the agency. For the fiscal year ended June 30, 2019, \$47,788 was received by the Food Bank and offset with contribution revenue and accounts receivable for the benefit of the specified agency.

Shared maintenance fees

The Food Bank receives fees from participating agencies to assist in the costs of storing and distributing food. Those shared maintenance fees are based on predetermined rates of \$0.19 per pound or less, as determined by Feeding America. In some instances, the Food Bank awards shared maintenance grants to agencies, using contributions received in which the Food Bank has power over their use. All active agencies in good standing are eligible for shared maintenance grants. These grants are recorded as shared maintenance grant expense and totaled \$397,504 for the fiscal year ended June 30, 2019.

Shipping and handling/freight

The Food Bank expenses freight costs as incurred. At June 30, 2019, freight amounted to \$138,845, as shown on the Statements of Functional Expenses.

Functional allocation of expenses

The costs of providing programs have been summarized on a functional basis in the Statements of Activities based on estimates developed by management. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Additional detail is located within the Statements of Functional Expenses.

Some expenses relate solely to a single function and have been distributed entirely to that function. The other expenses have been allocated based on an estimate of usage or time devoted to the various functions. Salaries were allocated based on approximate hours for each function.

Income taxes

The Food Bank is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. The rental income derived from rental of warehouse space and the parking lot are considered unrelated business income.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 2. Cash and Cash Equivalents

Total deposits held by the Food Bank at June 30, 2019 include \$537,092 held in commercial banks and \$501,255 held in credit unions. Total deposits at June 30, 2019, not insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Unions share Insurance Fund (NCUSIF) were \$272,008.

Note 3. Investments

Fair value of assets measured on a recurring basis at June 30, 2019 are as follows:

	2019			
	Total	Level one assets	Level two assets	Level three assets
Investments				
Certificates of deposit	\$ 208,659	\$ 208,659	\$ -	\$ -
Mutual funds - bonds	127,549	127,549	-	-
Mutual funds - equities	193,817	193,817	-	-
Total investments	<u>\$ 530,025</u>	<u>\$ 530,025</u>	<u>\$ -</u>	<u>\$ -</u>

Included in the total above is board designated investments totaling \$264,200.

Note 4. Endowment and Net Assets

The Food Bank's endowment funds consist of a fund designated by the Board of Directors to function as an endowment (quasi-endowment). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Food Bank's Board of Directors, based on review of applicable laws, has interpreted the Uniform Prudent Management of Institutional Funds Act, as adopted by the State of Tennessee, as not applying to the Food Bank's endowment funds as they are quasi in nature only, and do not currently include donor-restricted endowment funds. As a result, the endowment funds are classified as being without donor restrictions net assets - internally designated, in the amount of \$434,259.

Return objectives and risk parameters

The Food Bank has adopted an investment policy for endowment assets that attempts to provide long-term growth of principal while avoiding excessive risk. Under this policy, the endowment assets are invested in a manner that is intended to produce results that are comparable to the price and yield results of a weighted average of widely followed market indexes matching the asset allocation of the endowment investments.

(Continued)

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 4. Endowment and Net Assets (Continued)

Strategies employed for achieving objectives

To satisfy its long-term objectives, the Food Bank relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Food Bank targets a diversified asset allocation that places a greater emphasis on fixed income and equity-based investments to achieve its long-term return objective within prudent risk constraints. The value of assets associated with the endowment funds did not fall below the level the Board or UPMIFA requires the Organization to retain to meet its purposes. No deficiencies of this nature existed as of June 30, 2019. Endowment net assets were all without donor restrictions, as noted below, with the changes for the fiscal year ended June 30, 2019 are as follows:

	<u>Board Designated</u>
Endowment net assets, beginning of fiscal year	\$ 409,300
Investment return	
Investment income	8,740
Net appreciation	9,331
Total investment return	<u>18,071</u>
Contributions and principal added	<u>6,888</u>
Endowment net assets, end of fiscal year	<u>\$ 434,259</u>

Note 5. Liquidity and funds available

Financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 1,048,806
Investments	700,084
Receivables, including applicable grants	<u>210,687</u>
	1,959,577
Less: amounts to exclude from financial assets listed above –	
Portion of board designated unavailable for general expenditures	<u>(434,259)</u>
Available to meet cash needs for general expenditures within one year	<u>\$ 1,525,318</u>

As part of the Food Bank's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Donor-restricted net assets were restricted for specified purposes, various food programs, totaling \$347,180, of which \$82,219 will be funded by outstanding grants. Net assets without restrictions are \$4,098,701 with \$2,409,224 comprised of the Food Bank's net property and equipment, leaving \$1,689,477 being undesignated.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 6. Inventories

Inventories are comprised of the following as of June 30, 2019:

Donated inventory	\$ 291,202
Purchased inventory	149,075
USDA commodity inventory	<u>638,904</u>
Total inventories	<u>\$ 1,079,181</u>

Note 7. Property and Equipment

Property and equipment are comprised of the following at June 30, 2019:

Land	\$ 283,622
Buildings	2,001,569
Furniture and equipment	24,031
Warehouse equipment	312,973
Office equipment	136,541
Motor vehicles	<u>826,058</u>
	3,584,794
Less: accumulated depreciation	<u>1,175,570</u>
Net property and equipment	<u>\$ 2,409,224</u>

Depreciation expense for the fiscal year ended June 30, 2019 was \$153,402.

Note 8. Long-Term Debt

In November 2017, the Food Bank entered into a note payable to Powell Valley Electric Cooperative, Inc. in the aggregate principal amount of \$504,800. Monthly payments of \$4,674 commenced November 2018 with a maturity of October 2027, with no interest being payable for this loan. The note is secured by substantially all assets of the Food Bank. In December, 2019, the Food Bank will provide an itemized list to the lender that shows expenditures made on the project using the proceeds of the loan and include a certification in accordance to the terms of the loan.

On June 19, 2019, the Food Bank acquired a vehicle financed with a credit union totaling \$11,000, 35 (thirty-five) monthly payments of \$330, including interest at a stated rate of 4.95% commencing August 1, 2019 and matures July 1, 2022. The note is secured by the vehicle. The balances of these two loans at June 30, 2019 are as follows:

Powell Valley Electric Cooperative	\$ 467,408
Eastman Credit Union	<u>11,000</u>
Total debt	478,408
Less current maturities	<u>(59,586)</u>
Long-term debt	<u>\$ 408,822</u>

(Continued)

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 8. Long-Term Debt (Continued)

Future maturities on long-term debt subsequent to June 30, 2019 are as follows:

<u>Fiscal year ending June 30</u>	<u>Principal Maturities</u>
2020	\$ 59,586
2021	59,763
2022	59,915
2023	56,088
2024	56,088
Thereafter	<u>186,968</u>
Total	<u>\$ 478,408</u>

Interest expense for the fiscal year ended June 30, 2019 was \$116, for payments other than the two notes. Neither note incurred any interest during the fiscal year.

Note 9. Donated Services

No amounts have been reflected in the financial statements for donated services. The Food Bank generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Food Bank with the food distribution program, campaign solicitations, warehouse space, and various committee assignments. For the fiscal year ended June 30, 2019, 33,944 hours were received from volunteers.

Note 10. Concentrations of Credit Risk

The Food Bank has concentrations of credit risk resulting from cash deposits being maintained in banks within the same geographic region, deposits being held in excess of FDIC or NCUSIF coverage, and its customer base being located in the same geographic region.

Note 11. Related Party Transactions

Some Board of Directors members are employed by companies doing business with the Food Bank. Their duties are not directly related to the transactions with the Food Bank.

Note 12. Retirement Plan

The Food Bank has a 403(b) plan. Full-time employees are eligible to participate in the plan once they have reached the age of twenty-one and have completed twelve months of service. The Food Bank matches participating employee contributions up to three percent of the employee's wages. For the fiscal year ended June 30, 2019, retirement expense was \$15,714.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

Note 13. Income Tax Status and Uncertain Tax Positions

The Food Bank is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Food Bank files informational income tax returns in the U.S. federal jurisdiction. The Food Bank's income tax filings are subject to audit by various taxing authorities. The Food Bank's open audit periods are 2015-2018.

The Food Bank follows the FASB ASC, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of June 30, 2019, the Food Bank had no uncertain tax positions that qualifies for either recognition or disclosure in the Food Bank's financial statements. The Food Bank's practice is to recognize interest and penalties on unrecognized tax liabilities in tax expense in the financial statements. However, no interest or penalties were recorded during the fiscal year ended June 30, 2019.

Note 14. Subsequent Events

In accordance with FASB ASC 855, the Food Bank evaluated subsequent events through November 19, 2019, the date these financial statements were issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements:

Note 15. Future Accounting Standards

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). ASU 2014-09 supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific accounting guidance. Additionally, ASU 2014-09 supersedes some guidance included in ASC 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, assets within the scope of ASC 360, *Property, Plant, and Equipment*, and intangible assets within the scope of ASC 350, *Intangibles—Goodwill and Other*) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in ASU 2014-09. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606): *Deferral of the Effective Date* (ASU 2015-14) which defers the effective date of the new revenue recognition standard by one year. Accordingly, ASU 2014-09 will be effective for nonpublic entities for annual reporting periods beginning after December 15, 2018 and interim periods therein. The FASB has also issued ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, all of which clarify certain implementation guidance within ASU 2014-09. The Food Bank is evaluating the potential impact of the adoption of this guidance, but does not anticipate that the adoption will significantly change the timing or amount of revenue recognized. Therefore, the Food Bank believes the adoption will be limited to expanded disclosures in its financial statements.

SUPPLEMENTARY INFORMATION

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

**COMPARATIVE SCHEDULE OF ASSETS, LIABILITIES, AND NET ASSETS
June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents:		
Undesignated	\$ 1,048,806	\$ 1,174,718
Board designated - endowment	170,059	200,768
Investments	265,825	264,619
Investments - board designated endowment	264,200	208,532
Accounts receivable	128,468	126,484
Grants receivable	82,219	50,934
Inventories	1,079,181	873,617
Prepaid expenses	10,309	22,268
Total current assets	<u>3,049,067</u>	<u>2,921,940</u>
 PROPERTY AND EQUIPMENT, net of accumulated depreciation	<u>2,409,224</u>	<u>2,412,352</u>
Total assets	<u><u>\$ 5,458,291</u></u>	<u><u>\$ 5,334,292</u></u>
 LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 75,725	\$ 142,074
Current portion of long-term debt	59,586	37,392
Employee deductions payable	1,886	1,337
Deferred revenue	22,132	19,798
Total current liabilities	<u>159,329</u>	<u>200,601</u>
 Long-term debt	<u>418,822</u>	<u>467,408</u>
Total liabilities	<u>578,151</u>	<u>668,009</u>
 NET ASSETS		
Without donor restrictions	4,098,701	3,955,539
Without donor restrictions - board designated endowment	434,259	409,300
With donor restrictions	347,180	301,444
Total net assets	<u>4,880,140</u>	<u>4,666,283</u>
 TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,458,291</u></u>	<u><u>\$ 5,334,292</u></u>

See Independent Auditor's Report.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

COMPARATIVE SCHEDULE OF REVENUES
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Revenues			
Cash contributions	\$ 1,951,136	\$ 1,938,601	\$ 12,535
Food and nonfood items donated	10,232,135	13,523,099	(3,290,964)
USDA commodities	3,536,425	1,454,541	2,081,884
Program service fees	1,143,765	1,160,869	(17,104)
Federal and state grants	388,029	333,475	54,554
Special events	365,753	409,865	(44,112)
Rental income	78,883	32,033	46,850
Investment income	21,722	21,874	(152)
Other in-kind donations	30,981	85,813	(54,832)
Other income	16,162	8,707	7,455
Total Revenues	<u>\$ 17,764,991</u>	<u>\$ 18,968,877</u>	<u>\$ (1,203,886)</u>

See Independent Auditor's Report.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

COMPARATIVE SCHEDULE OF EXPENSES
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	Increase (Decrease)
Salaries and contract labor	\$ 1,063,175	\$ 992,856	\$ 70,319
Other employee costs	199,177	210,244	(11,067)
Vehicle expense	119,288	123,087	(3,799)
Incoming freight charges	138,845	176,308	(37,463)
Travel and mileage	21,415	15,372	6,043
Insurance	18,106	18,198	(92)
Warehouse equipment repairs	3,275	8,488	(5,213)
Warehouse equipment and supplies	6,320	11,853	(5,533)
Sanitation/extermination	19,359	14,219	5,140
Building repairs and maintenance	28,181	8,500	19,681
Utilities	75,054	80,323	(5,269)
Professional fees	22,815	38,256	(15,441)
Postage	6,058	6,385	(327)
Printing and publications	7,692	4,643	3,049
Board and committees	702	1,069	(367)
Other administrative expense and small equipment	62,559	61,871	688
Security system	1,903	2,074	(171)
Computer expense	24,263	23,720	543
Direct mail expense	117,486	151,218	(33,732)
Golf tournament, net	-	(177)	177
Community relations	21,501	21,764	(263)
Other program services	13,332	20,199	(6,867)
Shared maintenance grants expense	397,504	390,962	6,542
Depreciation	153,402	152,757	645
Payments to affiliated organizations	9,590	8,304	1,286
Cost of goods distributed			
- food donated and purchased	12,104,575	14,636,601	(2,532,026)
Cost of goods distributed			
- USDA Commodities	<u>2,916,215</u>	<u>1,669,314</u>	<u>1,246,901</u>
 Total expenses	 <u><u>\$ 17,551,792</u></u>	 <u><u>\$ 18,848,408</u></u>	 <u><u>\$ (1,296,616)</u></u>

See Independent Auditor's Report.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2019

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed-through to Subrecipients	Federal Expenditures
Department of Agriculture:				
Pass Through Payments TN Department of Agriculture:				
Emergency Food Assistance Program - Administrative Costs	10.568	62640	N/A	\$ 135,000
Emergency Food Assistance Program - Administrative Costs	10.568	66700	N/A	51,035
				<u>186,035</u>
Emergency Food Assistance Program - Food Commodities	10.569		2,916,215	<u>2,916,215</u>
Total Food Distribution Cluster				<u>3,102,250</u>
Pass Through Payments Tennessee Department of Human Services:				
Summer Food Services Program for Children	10.559	30126	N/A	89,695
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	44543	N/A	<u>17,147</u>
Total Department of Agriculture				<u>3,209,092</u>
Total Expenditures of Federal Awards				<u>\$ 3,209,092</u>

(Continued)

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2019**

NOTE 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) include the federal and state grant activity of Second Harvest Food Bank of Northeast Tennessee Inc. under programs of the federal and state governments for the year ended June 30, 2019 on an accrual basis. The Organization has not elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

NOTE 2. Sub Recipients

For the fiscal year ended June 30, 2019, 1,918,171 pounds of USDA commodities were distributed to subrecipient agencies, which equates to \$2,916,215 in value.

NOTE 3. Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed, based on the Feeding America value per pound. At June 30, 2019, Second Harvest Food Bank of Northeast Tennessee, Inc. had food commodities totaling \$638,904 in inventory.

NOTE 4. Federal Loans

The Food Bank received a loan totaling \$504,800 from the Powell Valley Electric Cooperative, Inc. acting through the Rural Business-Cooperative Service pursuant to the Rural Economic Development Loan and Grant Program during the year ended June 30, 2018. The funds will be reported on the SEFA as they are expended. The ending balance on the loan at June 30, 2019 is \$478,408.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2019**

Granting Agency/Pass-Through Agency Grant Program	Contract/Grant Number	Expenditures
Grantor: Tennessee Department of Human Services		
Direct Appropriation Grant - Purchase of Food		\$ 104,190
Total State Awards		\$ 104,190

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

**ROSTER OF MANAGEMENT OFFICIALS AND BOARD MEMBERS (UNAUDITED)
June 30, 2019**

Management Officials:

Rhonda Chafin	Executive Director
Tom Cromie	Senior Operations Director
Ann Rhem	Development Director
Beth Tanner	Comptroller
Chuck Burrell	Warehouse Manager
Leyla Cruz	Programs Manager
Michael Ledford	Logistics – Facilities Manager
Angie Sproles	Development Manager

Fiscal Year 2019 Board of Directors:

Chris Chandley	President
Shelley Huber	Past-President and Board Member
Matt Burns	Vice President
Cathy Crumley Byers	Secretary
Will Kelly	Treasurer
Derek Adkisson	Board Member
M. Valentina Escobar-Gonzalez	Board Member
Ray Feagins, Jr.	Board Member
Richard Van Hoever	Board Member
Robin M. King	Board Member
Lottie Ryans	Board Member
Margot Seay	Board Member
Dr. Morris H. Seligman, MD	Board Member
Matt Storey	Board Member
Sean Templeton	Board Member
Marty Underwood	Board Member
Dr. Steve Barnett	Board Member

COMPLIANCE

**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**

To the Board of Directors
Second Harvest Food Bank of Northeast Tennessee, Inc.
Kingsport, Tennessee

We have audited, in accordance with the 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 Northeast Tennessee, Inc., (the Food Bank) (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 a 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Food Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
November 19, 2019



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

To the Board of Directors
Second Harvest Food Bank of Northeast Tennessee, Inc.
Kingsport, Tennessee

Report on Compliance for the Major Federal Program

We have audited Second Harvest Food Bank of Northeast Tennessee, Inc.'s (the Food Bank) (a not-for-profit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Food Bank's major federal program for the fiscal year ended June 30, 2019. The Food Bank's major federal program is 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 the Food Bank's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2, *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the major federal program. However, our audit does not provide a legal determination of the Food Bank's compliance.

Opinion on the Major Federal Program

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

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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 a 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 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.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Kingsport, Tennessee
November 19, 2019

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2019

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements were reported in the 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 Accounting Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings related to the major program**.
7. The programs tested as major programs include:

Food Distribution Cluster:

Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	10.569

8. The threshold for distinguishing Types A and B programs was **\$750,000**.
9. Second Harvest Food Bank of Northeast Tennessee, Inc. was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2019**

Financial Statement Audit

There were no prior findings reported.

Major Federal Awards Programs

There were no prior findings reported.