



**SECOND HARVEST FOOD BANK OF  
NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Winston-Salem, North Carolina

Consolidated Financial Statements  
and Supplementary Information

Year Ended June 30, 2022

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Second Harvest Food Bank of Northwest North Carolina, Inc. (a nonprofit organization) and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates as of June 30, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not required parts of the consolidated financial statements. In addition, the accompanying schedule of expenditures of federal and state 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*, is presented for purposes of additional analysis and is also not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating statement of financial position, consolidating statement of activities, and schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2022, on our consideration of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' 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 Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' 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 Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' internal control over financial reporting and compliance.



Asheville, North Carolina  
December 8, 2022

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidated Statement of Financial Position  
June 30, 2022

**Assets**

|  |                      |
|--|----------------------|
| Current assets:                          |                      |
| Cash and equivalents                     | \$ 8,983,364         |
| Accounts receivable, net                 | 521,707              |
| Grants receivable                        | 3,300,346            |
| Other receivables                        | 594,037              |
| Promises to give, current portion        | 1,947,867            |
| Prepaid expenses                         | 402,421              |
| Inventories                              | 5,357,924            |
| Other asset, current portion             | <u>70,000</u>        |
| Total current assets                     | 21,177,666           |
| Restricted cash                          | 2,548,402            |
| Promises to give, net of current portion | 2,357,883            |
| Note receivable                          | 14,005,200           |
| Other asset, net of current portion      | 1,166,934            |
| Beneficial interest in endowment funds   | 800,277              |
| Property and equipment                   | <u>21,598,428</u>    |
| Total assets                             | <u>\$ 63,654,790</u> |
| <b>Liabilities and net assets</b>        |                      |
| Current liabilities:                     |                      |
| Current portion of notes payable         | \$ 70,000            |
| Accounts payable and accrued expenses    | 3,759,599            |
| Grants payable                           | 160,353              |
| Deferred revenue                         | <u>849,071</u>       |
| Total current liabilities                | 4,839,023            |
| Notes payable                            | <u>19,466,106</u>    |
| Total liabilities                        | <u>24,305,129</u>    |
| Net assets:                              |                      |
| Without donor restrictions               | 23,055,397           |
| With donor restrictions                  | <u>16,294,264</u>    |
| Total net assets                         | <u>39,349,661</u>    |
| Total liabilities and net assets         | <u>\$ 63,654,790</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidated Statement of Activities  
Year Ended June 30, 2022

|  | <u>Without<br/>Donor<br/>Restrictions</u> | <u>With<br/>Donor<br/>Restrictions</u> | <u>Total</u>         |
|--|---|--|----------------------|
| <b>Public support and revenues</b>                       |   |  |                      |
| Contributions and private grants                         | \$ 6,602,650                              | \$ 3,438,894                           | \$ 10,041,544        |
| United Way   | 107,097                                   |  | 107,097              |
| Government grants  | 9,130,580                                 |  | 9,130,580            |
| Donated food products                                    | 61,640,194                                | 425,597                                | 62,065,791           |
| In-kind contributions                                    | 47,872                                    |  | 47,872               |
| Special events income                                    | 1,227,772                                 |  | 1,227,772            |
| Handling fees  | 1,566,310                                 |  | 1,566,310            |
| Catering   | 1,852,152                                 |  | 1,852,152            |
| Restaurant   | 223,296                                   |  | 223,296              |
| Manor  | 189,909                                   |  | 189,909              |
| School   | 420,281                                   |  | 420,281              |
| Other income   | 4,392                                     |  | 4,392                |
| Net assets released from restrictions                    | <u>1,255,885</u>                          | <u>(1,255,885)</u>                     |                      |
| Total public support and revenues                        | <u>84,268,390</u>                         | <u>2,608,606</u>                       | <u>86,876,996</u>    |
| <b>Expenses</b>  |   |  |                      |
| Program services   | 74,900,315                                |  | 74,900,315           |
| Supporting services                                      | <u>3,484,895</u>                          |  | <u>3,484,895</u>     |
| Total expenses   | <u>78,385,210</u>                         |  | <u>78,385,210</u>    |
| Increase in net assets before<br>other income (expenses) | <u>5,883,180</u>                          | <u>2,608,606</u>                       | <u>8,491,786</u>     |
| <b>Other income (expenses)</b>                           |   |  |                      |
| Investment income, net                                   | 69,628                                    | (10,676)                               | 58,952               |
| Net losses on beneficial interest<br>in endowment funds  |   | (69,242)                               | (69,242)             |
| Gain on sale of property and equipment                   | <u>1,537,283</u>                          |  | <u>1,537,283</u>     |
| Total other income (expenses)                            | <u>1,606,911</u>                          | <u>(79,918)</u>                        | <u>1,526,993</u>     |
| Increase in net assets                                   | 7,490,091                                 | 2,528,688                              | 10,018,779           |
| Net assets at beginning of year                          | <u>15,565,306</u>                         | <u>13,765,576</u>                      | <u>29,330,882</u>    |
| Net assets at end of year                                | <u>\$ 23,055,397</u>                      | <u>\$ 16,294,264</u>                   | <u>\$ 39,349,661</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2022

|  | Supporting Services  |                         |                         |                                 | Total                |
|--|----------------------|-------------------------|-------------------------|---------------------------------|----------------------|
|  | Program<br>Services  | Management<br>& General | Fundraising<br>Expenses | Total<br>Supporting<br>Services |                      |
| Salaries and wages                                 | \$ 4,588,010         | \$ 678,284              | \$ 656,860              | \$ 1,335,144                    | \$ 5,923,154         |
| Payroll taxes                                      | 333,782              | 49,918                  | 48,436                  | 98,354                          | 432,136              |
| Employee benefits                                  | 671,524              | 75,425                  | 97,882                  | 173,307                         | 844,831              |
| Contract services                                  | 412,417              | 12,683                  | 1,827                   | 14,510                          | 426,927              |
| Total salaries<br>and related                      | 6,005,733            | 816,310                 | 805,005                 | 1,621,315                       | 7,627,048            |
| Operational  | 65,700,359           |                         |                         |                                 | 65,700,359           |
| Transportation                                     | 598,533              |                         |                         |                                 | 598,533              |
| Occupancy  | 1,381,989            | 172,748                 | 172,748                 | 345,496                         | 1,727,485            |
| Agency grants                                      | 433,758              |                         |                         |                                 | 433,758              |
| Administrative                                     | 162,638              | 255,650                 | 107,895                 | 363,545                         | 526,183              |
| Training and travel                                | 41,489               | 16,632                  | 15,564                  | 32,196                          | 73,685               |
| Office supplies                                    | 33,052               | 32,078                  | 32,078                  | 64,156                          | 97,208               |
| Telephone  | 12,999               | 12,616                  | 12,616                  | 25,232                          | 38,231               |
| Postage  | 76,209               | 73,967                  | 73,967                  | 147,934                         | 224,143              |
| Advertising and marketing                          | 14,737               | 14,737                  | 134,777                 | 149,514                         | 164,251              |
| Outreach and education                             | 165,756              |                         | 165,757                 | 165,757                         | 331,513              |
| Special events                                     |                      |                         | 26,422                  | 26,422                          | 26,422               |
| Bad debt   | 10,000               |                         | 467,428                 | 467,428                         | 477,428              |
| Miscellaneous                                      | 42,654               | 10,104                  | 10,104                  | 20,208                          | 62,862               |
| Total expenses before<br>interest and depreciation | 74,679,906           | 1,404,842               | 2,024,361               | 3,429,203                       | 78,109,109           |
| Interest   | 348                  | 338                     | 338                     | 676                             | 1,024                |
| Depreciation                                       | 220,061              | 27,508                  | 27,508                  | 55,016                          | 275,077              |
| Total expenses                                     | <u>\$ 74,900,315</u> | <u>\$ 1,432,688</u>     | <u>\$ 2,052,207</u>     | <u>\$ 3,484,895</u>             | <u>\$ 78,385,210</u> |

The accompanying notes are an integral part of these consolidated financial statements.



**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidated Statement of Cash Flows  
Year Ended June 30, 2022

**Cash flows from operating activities**

|  |                    |
|--|--------------------|
| Increase in net assets   | \$ 10,018,779      |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities: |                    |
| Depreciation   | 275,077            |
| Bad debt expense   | 477,428            |
| Present value adjustment   | (101,810)          |
| Amortization of debt issuance costs  | 45,591             |
| Receipts of donated inventory  | (62,065,791)       |
| Disbursements of donated inventory   | 60,572,187         |
| Gain on sale of property and equipment   | (1,537,283)        |
| Net losses on beneficial interest in endowment funds   | 69,242             |
| Receipt of donated stock   | (481,893)          |
| Contributions restricted for long-term purposes  | (1,853,111)        |
| Changes in working capital - sources (uses):   |                    |
| Accounts receivable  | (304,031)          |
| Grants receivable  | (2,946,149)        |
| Other receivables  | (534,764)          |
| Promises to give   | 888,549            |
| Prepaid expenses   | (171,385)          |
| Inventories  | (452,467)          |
| Accounts payable and accrued expenses  | 2,434,325          |
| Grants payable   | 160,353            |
| Deferred revenue   | <u>(1,953,889)</u> |
| Net cash provided by operating activities  | <u>2,538,958</u>   |

**Cash flows from investing activities**

|  |                     |
|--|---------------------|
| Disbursement of funds in exchange for note receivable    | (14,005,200)        |
| Proceeds from sale of investments                        | 481,893             |
| Contribution to beneficial interest in endowment funds   | (3,000)             |
| Distribution from beneficial interest in endowment funds | 1,356               |
| Change in beneficial interest in endowment funds         | 10,676              |
| Proceeds from sale of property and equipment             | 2,789,341           |
| Purchase of property and equipment                       | <u>(18,266,456)</u> |
| Net cash used by investing activities                    | <u>(28,991,390)</u> |

The accompanying notes are an integral part of these consolidated financial statements.

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidated Statement of Cash Flows (continued)  
Year Ended June 30, 2022

|   |                      |
|---|----------------------|
| <b>Cash flows from financing activities</b>                   |                      |
| Contributions restricted for long-term purposes               | \$ 1,853,111         |
| Proceeds from notes payable                                   | 27,652,185           |
| Principal repayments on notes payable                         | <u>(9,398,604)</u>   |
| Net cash provided by financing activities                     | <u>20,106,692</u>    |
| <br>  |                      |
| Decrease in cash and equivalents and restricted cash          | (6,345,740)          |
| <br>  |                      |
| Cash and equivalents and restricted cash at beginning of year | <u>17,877,506</u>    |
| <br>  |                      |
| Cash and equivalents and restricted cash at end of year       | <u>\$ 11,531,766</u> |
| <br>  |                      |
| <b>Supplemental disclosure of cash flow information</b>       |                      |
| Cash paid for interest  | <u>\$ 1,024</u>      |
| <br>  |                      |
| <b>Schedule of noncash investing and financing activities</b> |                      |
| Other asset acquired through issuance of note payable         | <u>\$ 1,236,934</u>  |

The accompanying notes are an integral part of these consolidated financial statements.

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Notes to Consolidated Financial Statements  
June 30, 2022

**Note 1 - Summary of Significant Accounting Policies**

Organization

Second Harvest Food Bank of Northwest North Carolina, Inc. (SHFB) is a nonprofit entity established for the purpose of collecting, warehousing, and distributing salvageable food and non-food products to area agencies and other eligible recipients which serve and feed the hungry. The Organization was incorporated as a nonprofit organization under the laws of the State of North Carolina on August 24, 1981.

TCK Providence, Inc. (Providence) is a nonprofit entity established to provide culinary training, hunger relief, and social enterprise opportunities to the community through its restaurant and catering operations. Providence was incorporated as a nonprofit organization under the laws of the State of North Carolina on March 25, 2014, and is a controlled affiliate of SHFB. Providence operates the Triad Community Kitchen Training program to provide food service training to individuals. Providence also operates a production kitchen that manufactures prepackaged food products for purchase and distribution by various food banks within North Carolina.

SHFBNWNC Headquarters, Inc. (SHFB HQ) is a nonprofit entity organized under the laws of the State of North Carolina on November 10, 2021. SHFB HQ is established to hold and operate property that houses warehouse and administrative facilities for SHFB and Providence, and is a controlled affiliate of SHFB.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of SHFB, Providence, and SHFB HQ (collectively the Organization). All material intercompany transactions and balances have been eliminated.

Income Tax Status

SHFB, Providence, and SHFB HQ are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, each entity qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The entities have also been classified as a publicly-supported charitable organizations and are exempt from state taxes under North Carolina General Statute 105-130.11(a).

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### **Basis of Presentation**

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Organization 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 Organization's management and Board of Directors.
- *Net assets with donor restrictions:* Net assets subject to donor-imposed time or purpose restrictions. These restrictions limit the spending options when using these resources because the Organization has a fiduciary responsibility to follow the donors' instructions. Net assets with donor restrictions generally result from donor-restricted contributions and grants and donated food inventory. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization, or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Support is recorded as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (that is, the donor-stipulated purpose has been fulfilled and/or time period has elapsed) are reported as net assets released from restrictions. The Organization has adopted a policy to classify donor restricted support as without donor restrictions to the extent that restrictions were met in the reporting period the support was recognized.

The net asset classification of donor-restricted endowment funds is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). As a result, the investment return from donor-restricted endowment funds is classified as net assets with donor restrictions until appropriated for expenditure.

### **Measure of Operations**

The consolidated statement of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing program services. Non-operating activities are limited to resources that generate return from investments and beneficial interest in endowment funds, gain on disposal of property and equipment, and other activities considered to be more unusual or nonrecurring in nature.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Estimates

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

### Fair Value of Financial Instruments

The carrying value of substantially all reported assets and liabilities, other than accounts receivable, promises to give, inventories, other asset, note receivable, beneficial interest in endowment funds, and notes payable, approximates fair value due to the relatively short-term nature of the financial instruments.

Amounts recognized for accounts receivable approximate fair value due to the allowance for doubtful accounts applied to outstanding balances.

Amounts recognized for promises to give approximates fair value due to the allowance for uncollectible pledges and net present value adjustment applied to outstanding balances.

The fair value of inventories is discussed in Note 1, Inventories.

Other asset approximates fair value due to the net present value adjustment applied to the outstanding balance.

The carrying value of the note receivable and notes payable approximates fair value due to the market-based interest rates charged at the time of borrowing.

The fair value of beneficial interest in endowment funds is discussed in Note 8.

### Cash and Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Restricted cash consists of amounts held in deposit accounts that have been donor restricted for the acquisition of capital assets or required by lenders to be held in separate bank accounts as collateral for notes payable and the acquisition of capital assets.

### Grants and Other Receivables

Grants receivable are funds due from federal, state, or local governmental agencies and nonprofit organizations at fiscal year-end.

Other receivables consist primarily of sales tax receivables.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Grants and Other Receivables (continued)

All grants and other receivables are considered by management to be fully collectible and therefore no allowance for uncollectible accounts has been recorded. Receivables are considered impaired if full payment is not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible receivables when management determines collection is unlikely.

### Accounts Receivable

Accounts receivable consist of uncollateralized customer obligations for administrative fees, food sales, and other services. The Organization provides credit to certain customers and agency partners. Receipts of payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices. The Organization has not experienced significant difficulties in collecting accounts receivable and therefore does not assess finance charges. Accounts outstanding longer than the contractual payment terms are considered past due. Management believes its billing and collection policies are adequate to minimize potential credit risk. In reviewing aged receivables, management considers their knowledge of customers, historical losses, and current economic conditions in establishing the allowance for doubtful accounts. The Organization writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited back to the allowance account in the period the payment is received.

### Promises to Give

Conditional promises to give are not recognized in the consolidated financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is included in contributions and private grants. Management provides for probable uncollectible amounts through a provision for uncollectible promises to give.

### Note Receivable

Note receivable is carried at the unpaid principal balance. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The note receivable is considered by management to be fully collectible and therefore no allowance has been recorded. Notes are considered impaired if full payment is not received in accordance with the contractual terms. It is the Organization's practice is to charge off any note or portion of a note when the balance is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, deteriorating or deteriorated financial condition, or other reasons.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Inventories

Inventories represent donated and purchased food and other household products. Inventory items purchased are recorded at cost on the first-in, first-out method. Donated food inventory and the related donated food revenue and amounts distributed are valued at the approximate average wholesale value of one pound of donated product at the national level as outlined in the Product Valuation Survey Methodology (the Survey), prepared by Feeding America. The value per pound of inventory as determined by Feeding America for the year ended June 30, 2022, was \$1.92.

### Fair Value Measurements and Disclosures

The Organization applies U.S. GAAP authoritative guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Assets and liabilities within the hierarchy are based on the lowest (or least observable) input that is significant to the measurement. The Organization's assessment of the significance of an input requires judgment, which may affect the valuation and classification within the fair value hierarchy.

### Investments

Investments are recorded at fair market value. Both unrealized gains and losses from the fluctuation of market value and realized gains and losses from the sale of investments are reflected in the consolidated statement of activities.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### **Investment Income and Gains**

Investment income and gains are reported as increases in net assets without donor restrictions if the restrictions are met (either a stipulated time period ends or purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

### **Debt Issuance Costs**

Debt issuance costs are comprised of costs incurred in connection with financing arrangements with third party lenders and are presented as a direct deduction of the carrying value of the associated debt. These costs are amortized as interest expense on a straight-line basis over the terms of the related financing contracts.

### **Property and Equipment**

Additions to property and equipment, if purchased, are recorded at cost. Major renewals and replacements are capitalized. Expenditures for repairs and maintenance that do not improve or extend the life of the asset are expensed. The Organization has adopted an accounting policy to capitalize all property and equipment with a cost greater than \$5,000 and estimated useful life extending beyond one year. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from two to forty years.

### **Donated Property and Equipment**

Donations of property and equipment are recorded as contributions at the estimated fair value at the date of the gift. The Organization reports gifts of property and equipment as contributions without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are recorded as net assets with donor restrictions until such assets are acquired or placed in service.

### **Donated Assets**

Donated marketable securities are recorded as contributions at their estimated fair value at the date of donation. Donated materials and equipment are reflected as in-kind contributions at their estimated fair value at the date of donation. Noncash donated assets are described in Note 12.

### **Donated Services**

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services are described in Note 12.



## **Note 1 - Summary of Significant Accounting Policies (continued)**

### **Revenue Recognition**

Contributions are recognized when cash, securities, other assets, or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return of the asset or right of release of the obligation - are not recognized until the conditions on which they depend have been met. A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidated statement of financial position. The Organization received \$709,741 in advance payments on cost-reimbursable grants that have not been recognized as of June 30, 2022. These amounts will be included in deferred revenue until qualifying expenditures have been incurred or refunded to the grantor as unexpended grant funding.

In April 2022, the Organization was awarded a conditional federal reimbursement based grant through the American Rescue Plan Act. As of June 30, 2022, the Organization has not incurred qualifying expenditures related to \$5,059,748 of this funding.

Handling fees consist of food sales, processing, warehousing, and delivery fees charged for products and services provided to agencies. Handling fees predominately contain a single performance obligation and revenue is recognized at a single point in time when ownership, risks, and rewards transfer to the customers. Unearned fees are not recognized in the consolidated statement of activities and are included in deferred revenue in the consolidated statement of financial position. Freight costs associated with food distribution are recorded as transportation expenses in the accompanying consolidated statement of functional expenses.

Catering and restaurant revenue consists of food preparation services for customers. These services predominately contain a single performance obligation and revenue is recognized at a point in time when the services are provided. Payments received in advance are deferred to the applicable period in which the related service occurs.

Manor revenue consists primarily of short-term lodging to customers and revenue is recognized on the straight-line basis as services and facilities are provided in accordance with the underlying agreement. Payments in advance are deferred to the applicable period in which the related lodging stay occurs.

School revenue consists of providing culinary training services to customers. Revenue is recognized on the straight-line basis as training services are provided.

### **Advertising**

The Organization uses advertising to promote various programs. Advertising costs are not expected to extend beyond the current period and are expensed as incurred. Advertising expense for the year ended June 30, 2022, was \$164,251.

## **Note 1 - Summary of Significant Accounting Policies (continued)**

### Functional Allocation of Expenses

The costs of providing program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Certain categories of expenses are attributable to programs and support. All expenses except for operational, transportation, agency grants, and special events are allocated on the basis of a combination of estimates of time and effort and the square footage of building space in which the programs are operated. Operational, transportation, and agency grants are directly attributable to program services. Special events are directly attributable to fundraising expenses, which is a supporting service.

### Newly Adopted Accounting Pronouncements

During the year ended June 30, 2022, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB). The implementation of each of these standards did not materially impact the Organization's consolidated financial statements.

- Accounting Standards Update No. 2018-15, *Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.
- Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 clarifies and expands the presentation and disclosure requirements of contributed nonfinancial assets for nonprofit entities for the purpose of enhancing transparency of such contributions received. These additional note disclosures are included in Note 12, In-kind Contributions.

### Recently Issued Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases*. Under the new standard, lessees will recognize a right-of-use asset and lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments. For statement of activity purposes, leases continue to be classified as either operating or finance. Operating leases will result in straight-line expense, while finance leases will result in accelerated expense recognition, comparable to current capital leases. Classification will be based on criteria similar to those applied to current lease accounting. Additional disclosures will be required to provide details of revenue and expense recognized and expected to be recognized from existing agreements. The new standard will be effective beginning July 1, 2022. The Organization is currently evaluating the effect this ASU will have on its consolidated financial statements.

## Note 1 - Summary of Significant Accounting Policies (continued)

### Reclassification

During the year ended June 30, 2022, it was determined that certain net assets with donor restrictions were improperly reported as net assets without donor restrictions at June 30, 2021. Accordingly, adjustments were made to increase net assets with donor restrictions and decrease net assets without donor restrictions by \$2,407,760 as of June 30, 2021, from amounts previously reported.

## Note 2 - Net Assets

Net assets are described as follows:

| <u>At June 30</u>  | <u>2022</u>          |
|--|----------------------|
| Net assets without donor restrictions:                       |                      |
| Undesignated   | \$ 9,954,695         |
| Investment in property and equipment                         | 8,109,212            |
| Investment in inventories                                    | 4,906,135            |
| Board designated for capital maintenance                     | <u>85,355</u>        |
| Net assets without donor restrictions                        | <u>23,055,397</u>    |
| Net assets with donor restrictions:                          |                      |
| Subject to expenditure for specified purpose or period:      |                      |
| Capital campaign   | 13,233,019           |
| Endowment earnings for operations                            | 672,691              |
| Greensboro facilities  | 772,082              |
| USDA food programs   | 425,597              |
| Backpack program   | 487,172              |
| Passage of time  | 307,117              |
| Senior meals   | 150,000              |
| Summer feeding   | 49,000               |
| Trauma and resilience  | 60,000               |
| Nutrition for children                                       | <u>10,000</u>        |
| Total subject to expenditure for specified purpose or period | 16,166,678           |
| Not subject to spending policy or appropriation:             |                      |
| Investment in perpetuity - endowment funds                   | <u>127,586</u>       |
| Net assets with donor restrictions                           | <u>16,294,264</u>    |
| <u>Total net assets</u>                                      | <u>\$ 39,349,661</u> |

### **Note 3 - Liquidity and Availability of Financial Assets**

The Organization receives significant contributions, grants, and promises to give restricted by donors and consider those program contributions, which are ongoing, major, and central to its operations, to be available to meet cash needs for general expenditures.

The Organization maintains cash reserves to meet operational needs by forecasting future cash flows and monitors liquidity on a regular basis.

Board designated capital maintenance reserves are available for appropriation by the Board. However, the Organization does not intend to spend from these reserves, unless necessary.

The following reflects the liquidity and availability of the Organization's financial assets:

| At June 30  | 2022                 |
|---|----------------------|
| Financial assets:   |                      |
| Cash and equivalents  | \$ 11,531,766        |
| Accounts receivable, net  | 521,707              |
| Grants receivable   | 3,300,346            |
| Other receivables   | 594,037              |
| Promises to give, net   | 4,305,750            |
| Inventories   | 5,357,924            |
| Note receivable   | 14,005,200           |
| Beneficial interest in endowment funds  | <u>800,277</u>       |
| Total financial assets  | <u>40,417,007</u>    |
| Amounts not available for general expenditure:  |                      |
| Board designated capital maintenance  | (85,355)             |
| Net assets with donor restrictions  | (16,294,264)         |
| Donated food inventories to be distributed  | (4,122,885)          |
| Add back: promises to give, current portion   | <u>1,947,867</u>     |
| Total amounts not available for general expenditure   | <u>(18,554,637)</u>  |
| Net financial assets available to meet cash needs<br>for general expenditures within one year | <u>\$ 21,862,370</u> |

### **Note 4 - Contract Assets and Liabilities**

Accounts receivable, grants receivable, promises to give, and note receivable represent the Organization's contract assets with an unconditional right to receive consideration from customers. Accounts receivable are recorded at invoiced amounts less an allowance for doubtful accounts. Grants receivable are recorded at invoiced amounts or amounts expected to be receivable based on contractual terms without conditions. Promises to give are recorded at net realizable value or present value of future cash flows. The note receivable is recorded at the amount expected to be received based on contractual terms without conditions.

#### **Note 4 - Contract Assets and Liabilities (continued)**

The following table provides information about contract assets:

| <u>At June 30</u>  | <u>2022</u>          | <u>2021</u>         |
|--|----------------------|---------------------|
| Accounts receivable:   |                      |                     |
| Accounts receivable  | \$ 533,699           | \$ 229,668          |
| Less, allowance for doubtful accounts  | <u>(11,992)</u>      | <u>(1,992)</u>      |
| Accounts receivable  | <u>521,707</u>       | <u>227,676</u>      |
| Grants receivable  | <u>3,300,346</u>     | <u>354,197</u>      |
| Promises to give:  |                      |                     |
| Due in less than one year  | 1,947,867            | 1,448,271           |
| One to five years  | 2,733,529            | 4,421,674           |
| More than five years   | <u>300,000</u>       |                     |
| Total promises to give   | <u>4,981,396</u>     | <u>5,869,945</u>    |
| Less, allowance for uncollectible<br>promises to give  | <u>(467,428)</u>     |                     |
| Less, discount to net present value at 3%  | <u>(208,218)</u>     | <u>(310,028)</u>    |
| Promises to give, net  | <u>4,305,750</u>     | <u>5,559,917</u>    |
| Note receivable with quarterly interest<br>only payments at 0.93%, balloon payment<br>of all outstanding principal and interest<br>due December 2047 | <u>14,005,200</u>    |                     |
| <u>Total contract assets</u>   | <u>\$ 22,133,003</u> | <u>\$ 6,141,790</u> |

Contract liabilities are recorded when a customer pays consideration, or the Organization has a right to an amount of consideration that is unconditional, before the transfer of a good or performance of a service to the customer. Thus, the Organization has an obligation to transfer the good or service to the customer at a future date. Contract liabilities are reported as grants payable and deferred revenue in the accompanying consolidated statement of financial position and are comprised of the following:

- Grants payable, represent amounts awarded to agency members that contain donor imposed restrictions.
- Conditional grants, representing advance payments received from grantors prior to incurring expenditures in compliance with specific contract or grant provisions.
- Agency credits, representing advance payments from customers for products or services.
- Customer deposits, representing advance payments received from customers prior to services being rendered.

#### **Note 4 - Contract Assets and Liabilities (continued)**

Significant changes in contract liabilities from contracts with customers are as follows:

| <u>Year Ended June 30</u>  | <u>2022</u>         |
|--|---------------------|
| Grants payable, beginning of year  | \$                  |
| Grant funds awarded  | <u>160,353</u>      |
| Grants payable, end of year  | <u>160,353</u>      |
| Deferred revenue:  |                     |
| Conditional grants, beginning of year                                      | 2,383,600           |
| Revenue recognized during the year that was included in conditional grants | <u>(2,383,600)</u>  |
| Increase in conditional grants due to cash received during year            | <u>709,741</u>      |
| Conditional grants, end of year  | <u>709,741</u>      |
| Agency credits, beginning of year  | 379,733             |
| Credits applied to agency balances   | <u>(303,308)</u>    |
| Deposits received and credits issued to agencies                           | <u>17,958</u>       |
| Agency credits, end of year  | <u>94,383</u>       |
| Customer deposits, beginning of year                                       | 39,627              |
| Revenue recognized during the year that was included in customer deposits  | <u>(39,627)</u>     |
| Increase in customer deposits due to cash received during year             | <u>44,947</u>       |
| Customer deposits, end of year   | <u>44,947</u>       |
| Total deferred revenue   | <u>849,071</u>      |
| <u>Total contract liabilities</u>  | <u>\$ 1,009,424</u> |

#### **Note 5 - Inventories**

Major classes of food inventories are as follows:

| <u>At June 30</u>        | <u>2022</u>         |
|--------------------------|---------------------|
| Regular donated          | \$ 4,122,885        |
| USDA product             | 425,597             |
| Grant purchased          | 463,549             |
| Purchased                | 184,476             |
| Providence               | 25,195              |
| Backpack                 | 26,192              |
| Summer feeding           | <u>110,030</u>      |
| <u>Total inventories</u> | <u>\$ 5,357,924</u> |

### **Note 6 - Other Asset**

As part of a note payable agreement with a local government agency, the Organization agreed to make annual payments of \$70,000 for 25 years in lieu of property tax payments. Other asset consists of the Organization's investment in future property taxes. The other asset will be amortized ratably on the straight-line basis through January 2047. Details of the other asset are as follows:

| <u>At June 30</u>                         | <u>2022</u>         |
|---|---------------------|
| Other asset                               | \$ 1,750,000        |
| Less, discount to net present value at 3% | <u>(513,066)</u>    |
| Total other asset, net                    | 1,236,934           |
| Less, current portion                     | <u>(70,000)</u>     |
| <u>Long-term other asset, net</u>         | <u>\$ 1,166,934</u> |

### **Note 7 - Beneficial Interest in Endowment Funds**

The Organization has established endowment funds at the Community Foundation of Greater Greensboro, Inc. (CFGG) and Winston-Salem Foundation (WSJ). The fund agreements grant variance power to the Foundations. This power allows the Board of Directors of the Foundations to modify any condition or restriction on the distribution of funds, if, in its sole judgment (without the approval of any trustee, custodian, or agent), such condition or restriction becomes in effect unnecessary, incapable of fulfillment, or inconsistent with the charitable needs served by the Foundation. Under the terms of the agreements, the Organization can withdraw all or a portion of the original principal provided that the governing board of the Organization and the Foundation approve the withdrawal. The Organization's beneficial interest in endowment funds is invested in an allocated investment pool at the Foundations and is presented in the consolidated financial statements in the aggregate at fair value.

### **Note 8 - Fair Value Measurements**

The beneficial interest in endowment funds is reported in the accompanying consolidated financial statements at estimated fair value in accordance with the fair value hierarchy. The fair value of the beneficial interest in endowment funds is provided by CFGG and WSJ. Due to inputs being unobservable, the instruments are categorized as Level 3. A reconciliation of changes in Level 3 inputs is as follows:

| <u>Year Ended June 30</u>                            | <u>2022</u>       |
|--|-------------------|
| Level 3 inputs, beginning of the year                | \$ 878,551        |
| Contributions  | 3,000             |
| Distributions  | (1,356)           |
| Interest and dividends                               | 611               |
| Investment fees                                      | (11,287)          |
| Net losses on beneficial interest in endowment funds | <u>(69,242)</u>   |
| <u>Level 3 inputs, end of year</u>                   | <u>\$ 800,277</u> |

## **Note 9 - Endowment Funds**

The Organization's endowment funds consist of two individual funds established for a variety of purposes in accordance with donor restrictions. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor restricted endowment funds are classified as net assets with donor restrictions and board-designated endowment funds are classified as net assets without donor restrictions.

### **Interpretation of Relevant Law**

Absent explicit donor stipulations to the contrary, the Board of Directors of the Organization has interpreted North Carolina UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds. As a result of this interpretation, the Organization retains in perpetuity (1) the original value of initial and subsequent gifts donated to the permanent endowment and (2) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure. UPMIFA permits the Board of Directors to appropriate for expenditure as much of a donor-restricted endowment fund as determined prudent for uses, benefits, purposes, and duration for which the endowment fund was established. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) investment policies of the Organization.

### **Investment Return Objectives, Risk Parameters, Strategies, and Spending Policy**

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of endowment assets. As authorized by the Board of Directors, these assets are invested to maximize long-term returns, while mitigating risk through a diversified portfolio. The assets are invested in a manner that is intended to produce an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds expenditures with acceptable levels of risk. The Organization expects its endowment assets, over time, to produce an average rate of return in excess of inflation. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment funds; investment assets and allocation between asset classes and strategies are managed to prevent exposing the fund to unacceptable levels of risk.



## Note 9 - Endowment Funds (continued)

### Underwater Endowment Funds

The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. These deficiencies could result from unfavorable market fluctuations. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. The Organization has no underwater endowment funds at June 30, 2022.

Endowment net asset composition by type of fund is as follows:

| <u>At June 30, 2022</u>   | <u>Without<br/>Donor<br/>Restrictions</u> | <u>With<br/>Donor<br/>Restrictions</u> | <u>Total<br/>Endowment<br/>Net Assets</u> |
|---|---|--|---|
| Donor-restricted endowment funds:   |   |  |   |
| Original donor-restricted gift amounts<br>and amounts required to be<br>maintained in perpetuity by donor | \$  | \$ 406,596                             | \$ 406,596                                |
| Accumulated investment gains  |   | <u>393,681</u>                         | <u>393,681</u>                            |
| <u>Total funds</u>  | <u>\$</u>                                 | <u>\$ 800,277</u>                      | <u>\$ 800,277</u>                         |

Changes in endowment net assets are as follows:

| <u>Year Ended June 30, 2022</u>            | <u>Without<br/>Donor<br/>Restrictions</u> | <u>With<br/>Donor<br/>Restrictions</u> | <u>Total<br/>Endowment<br/>Net Assets</u> |
|--|---|--|---|
| Endowment net assets,<br>beginning of year | \$  | \$ 878,551                             | \$ 878,551                                |
| Contributions                              |   | 3,000                                  | 3,000                                     |
| Investment returns, net                    |   | (79,918)                               | (79,918)                                  |
| Appropriation for expenditure              |   | <u>(1,356)</u>                         | <u>(1,356)</u>                            |
| <u>Endowment net assets, end of year</u>   | <u>\$</u>                                 | <u>\$ 800,277</u>                      | <u>\$ 800,277</u>                         |

## **Note 10 - Property and Equipment**

Property and equipment consist of the following:

| <u>At June 30</u>              | <u>2022</u>          |
|--------------------------------|----------------------|
| Warehouse equipment            | \$ 1,926,041         |
| Office furniture and equipment | 534,158              |
| Vehicles                       | 507,449              |
| Leasehold improvements         | 388,499              |
| Software                       | 114,348              |
| Construction in progress       | <u>20,107,125</u>    |
|                                | 23,577,620           |
| Less, accumulated depreciation | <u>(1,979,192)</u>   |
| <u>Property and equipment</u>  | <u>\$ 21,598,428</u> |

Depreciation expense for the year ended June 30, 2022, was \$275,077.

## **Note 11 - Notes payable**

Notes payable is described as follows:

| <u>At June 30</u>   | <u>2022</u>  |
|---|--------------|
| Noninterest bearing note payable due in 25 annual installments of \$70,000 beginning in January 2023 through January 2047 to a local government agency in lieu of property taxes  | \$ 1,750,000 |
| Six installment note payables with interest only payments at 1% fixed interest rate through December 2028 and maturing in December 2051, secured by constructed facilities, with the following principal repayment schedules: |              |
| 92 quarterly principal and interest payments of \$44,095 beginning March 2029 through December 2051   | 3,620,000    |
| 92 quarterly principal and interest payments of \$73,617 beginning March 2029 through December 2051   | 6,043,600    |
| 92 quarterly principal and interest payments of \$52,885 beginning March 2029 through December 2051   | 4,341,600    |
| \$100,000 principal payment in December 2028, 92 quarterly principal and interest payments of \$14,374 beginning March 2029 through December 2051   | 1,280,000    |

**Note 11 - Notes payable (continued)**

| <u>At June 30</u>   | <u>2022</u>          |
|---|----------------------|
| 92 quarterly principal and interest payments of \$26,815 beginning March 2029 through December 2051 | \$ 2,201,400         |
| 92 quarterly principal and interest payments of \$18,739 beginning March 2029 through December 2051 | <u>1,538,400</u>     |
|   | 20,775,000           |
| Less, unearned discount on notes payable  | (513,066)            |
| Less, unamortized debt issuance costs   | <u>(725,828)</u>     |
| Total notes payable   | 19,536,106           |
| Less, current maturities  | <u>(70,000)</u>      |
| <u>Notes payable, net</u>   | <u>\$ 19,466,106</u> |

Principal maturities on notes payable are as follows:

| <u>Years Ending June 30</u>                |                      |
|--|----------------------|
| 2023                                       | \$ 70,000            |
| 2024                                       | 70,000               |
| 2025                                       | 70,000               |
| 2026                                       | 70,000               |
| 2027                                       | 70,000               |
| Thereafter                                 | 20,425,000           |
| Less, unearned discount on notes payable   | (513,066)            |
| Less, unamortized debt issuance costs      | <u>(725,828)</u>     |
| <u>Principal payments on notes payable</u> | <u>\$ 19,536,106</u> |

Interest costs charged to operations consist of the following:

| <u>Year Ended June 30</u>   | <u>2022</u>      |
|---|------------------|
| Interest cost incurred, including \$45,591 of interest cost related to product financing arrangements | \$ 175,315       |
| Decrease as a result of capitalizing interest as a cost of construction                               | <u>(174,291)</u> |
| <u>Interest charged to operations</u>   | <u>\$ 1,024</u>  |

The Organization also has access to an additional unused note payable agreement with \$4,000,000 in available credit at 2.7% fixed interest rate. Principal and interest payments on the note will be due beginning April 2023 and the note matures in December 2031.

## **Note 12 - In-kind Contributions**

In-kind gifts are acknowledged for the furtherance of the various programs and mission of the Organization. Volunteers also provided a variety of tasks that assist the Organization with specific objectives throughout the fiscal year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

In-kind contributions are summarized as follows:

| <u>Year Ended June 30, 2022</u>            |                      |  |                                   |
|--|----------------------|--|-----------------------------------|
|  | <u>Fair Value</u>    | <u>Usage in Program</u>                    | <u>Donor Restriction</u>          |
| In-kind contributions:                     |                      |  |                                   |
| Professional services                      | <u>\$ 47,872</u>     | Allocated to program & supporting services | None                              |
| Donated food products:                     |                      |  |                                   |
| USDA food receipts                         | 9,124,064            | Program                                    | Food dist. to eligible recipients |
| Privately donated food                     | <u>52,941,727</u>    | Program                                    | None                              |
| Total donated food products                | <u>62,065,791</u>    |  |                                   |
| Total contributions of nonfinancial assets | <u>\$ 62,113,663</u> |  |                                   |

Fair valuation techniques - The valuation for USDA food receipts and privately donated food is discussed in Note 1, Inventories. Professional services are valued by the donor based on standard billing rates for the underlying services provided. All other in-kind contributions are valued at the donor provided amount, price that would be paid to purchase a comparable item, or current sales price of the item as sold by the donating vendor.

## **Note 13 - Defined Contribution Plan**

The Organization participates in a 401(k) defined contribution retirement plan (the Plan). Employees are eligible for participation in the Plan after attaining age eighteen years of age. Employees are eligible to receive discretionary employer matching contributions after one year of service. The discretionary matching rate was up to 4% for the year ended June 30, 2022. Employer contributions become vested after three years of service based on a minimum of 1,000 hours of service per service year. The Organization also has the option to make discretionary nonelective contributions to the Plan. The Organization's contributions to the Plan were \$94,629 for the year ended June 30, 2022.

## **Note 14 - Commitments and Contingencies**

### Lease Commitments

The Organization leases office space, warehouse space, equipment, trucks, and trailers under operating lease agreements with various monthly payments and maturity dates through July 2031. Payments under all operating leases for the year ended June 30, 2022, were \$677,841. The future minimum rental obligations under all operating leases are as follows:

| <u>Years Ending June 30</u>         |                     |
|-------------------------------------|---------------------|
| 2023                                | \$ 416,680          |
| 2024                                | 106,031             |
| 2025                                | 85,844              |
| 2026                                | 71,539              |
| 2027                                | 65,836              |
| Thereafter                          | <u>279,197</u>      |
| <u>Total minimum lease payments</u> | <u>\$ 1,025,127</u> |

### Government Assisted Programs

The Organization has received proceeds from governmental agencies. Periodic audits of these grants and third-party reimbursements are required and certain costs may be questioned as not being appropriate expenditures under the agreements. Such audits could result in the refund or reimbursement to the grantor or third-party agencies. Management believes that refunds or reimbursements, should any be determined, would be immaterial. No provisions have been made in the accompanying consolidated financial statements for the repayment of any grant monies or third-party reimbursements.

### Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and volunteers; and natural disasters. The Organization carries commercial insurance coverage for risks of loss. Claims have not exceeded coverage in any year since inception.

## **Note 15 - Concentrations of Credit Risk**

The Organization maintains its cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. The uninsured cash balance at June 30, 2022, was \$10,207,148.

The Organization's beneficial interest in endowment funds are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these investments and the level of uncertainty related to changes in the fair value of investments, it is at least reasonably possible that changes in the various risk factors could occur in the near term and materially affect the Organization's financial position.

## **Note 15 - Concentrations of Credit Risk (continued)**

### Concentrations of Revenue

Concentrations of revenue exist when revenue from a single source equals 10% or more of the Organization's total revenue. Government grants and donated food products from one grantor for the year ended June 30, 2022, was \$16,595,212. Grants receivable from this grantor at June 30, 2022, was \$3,163,448. Deferred revenue from this grantor at June 30, 2022, was \$704,741.

### Concentrations of Promises to Give

Concentrations of promises to give exist when promises to give from a single source equals 10% or more of the Organization's total promises to give. Promises to give from two such donor for the year ended June 30, 2022, were \$750,000 and \$800,000.

## **Note 16 - Related Party Transactions**

The Organization operates as a member of Feeding America. Contributions received from Feeding America were \$225,000 for the year ended June 30, 2022. Purchases made from Feeding America were \$122,998 for the year ended June 30, 2022. Membership dues paid to Feeding America were \$16,722 for the year ended June 30, 2022.

Contributions from board members totaled \$74,589, during the year ended June 30, 2022. Outstanding promises to give were \$206,856 as of June 30, 2022.

## **Note 17 - Income Taxes**

### Uncertain Tax Positions

The SHFB, Providence, and SHFB HQ are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions material to the consolidated financial statements.

### Open Tax Years

The Organization's Return of Organization Exempt From Income Tax (Form 990) for the years ended June 30, 2021, 2020, and 2019, are subject to examination by the IRS, generally for three years after they were filed.

### **Note 18 - Coronavirus Pandemic Impact**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused unprecedented business and economic disruption through mandated closings of certain businesses and industries.

The Organization received increased community support and governmental revenues in response to increased demands for the products and services the Organization provides. Government grants received as a result of COVID-19 consist of \$1,821,659 in federal funding to respond to and distribute federal food products, \$3,135,344 in federal food commodities, \$3,870,426 in Coronavirus Relief Fund grants to purchase food inventories and respond to demands and costs associated with COVID-19, and \$1,406,919 in Coronavirus State and Local Fiscal Recovery Funds to respond to demands and costs associated with COVID-19 for the year ended June 30, 2022.

The extent of the impact of COVID-19 will depend on certain developments, including the duration and spread of the outbreak. At this point, it is unclear to what extent COVID-19 will impact the Organization's financial condition or results of operations.

### **Note 19 - Subsequent Events**

Management has evaluated subsequent events through December 8, 2022, which is the date the consolidated financial statements were available to be issued.

In November 2022, the Organization received a \$250,000 grant through Feeding America for operations and technology upgrades.

In December 2022, a local government agency notified the Organization that they were awarded a reimbursement-based grant through the American Rescue Plan Act of approximately \$152,000. The funding is contingent upon allowable expenditures being incurred and finalization of the grant agreement.

From July 2022 through the audit report date, the Organization incurred approximately \$2,300,000 in construction related expenditures for the construction of new facilities.

**SUPPLEMENTARY INFORMATION**



**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidating Statement of Financial Position  
June 30, 2022

|   | SHFB          | Providence   | SHFB HQ       | Eliminations   | Total         |
|---|---------------|--------------|---------------|----------------|---------------|
| <b>Assets</b>                             |               |              |               |                |               |
| Current assets:                           |               |              |               |                |               |
| Cash and equivalents                      | \$ 6,467,522  | \$ 1,312,249 | \$ 1,203,593  | \$             | \$ 8,983,364  |
| Accounts receivable                       | 66,366        | 467,731      |               | (12,390)       | 521,707       |
| Grants receivable                         | 3,300,346     |              |               |                | 3,300,346     |
| Other receivables                         | 124,240       | 25,490       | 444,307       |                | 594,037       |
| Promises to give,<br>current portion      | 1,947,867     |              |               |                | 1,947,867     |
| Prepaid expenses                          | 402,421       |              |               |                | 402,421       |
| Inventories                               | 5,332,729     | 25,195       |               |                | 5,357,924     |
| Other asset, current                      | 70,000        |              |               |                | 70,000        |
| Accounts receivable<br>- affiliate        | 3,062,629     |              |               | (3,062,629)    |               |
| Total current assets                      | 20,774,120    | 1,830,665    | 1,647,900     | (3,075,019)    | 21,177,666    |
| Restricted cash                           | 200,315       |              | 2,348,087     |                | 2,548,402     |
| Promises to give, net                     | 2,357,883     |              |               |                | 2,357,883     |
| Note receivable                           | 14,005,200    |              |               |                | 14,005,200    |
| Other asset, net                          | 1,166,934     |              |               |                | 1,166,934     |
| Beneficial interest<br>in endowment funds | 800,277       |              |               |                | 800,277       |
| Property and equipment                    | 1,338,708     | 152,595      | 20,107,125    |                | 21,598,428    |
| Total assets                              | \$ 40,643,437 | \$ 1,983,260 | \$ 24,103,112 | \$ (3,075,019) | \$ 63,654,790 |
| <b>Liabilities and net assets</b>         |               |              |               |                |               |
| Current liabilities:                      |               |              |               |                |               |
| Current portion of<br>notes payable       | \$ 70,000     | \$           | \$            | \$             | \$ 70,000     |
| Accounts payable and<br>accrued expenses  | 655,432       | 367,968      | 2,748,589     | (12,390)       | 3,759,599     |
| Grants payable                            | 160,353       |              |               |                | 160,353       |
| Deferred revenue                          | 804,124       | 44,947       |               |                | 849,071       |
| Accounts payable<br>- affiliate           |               |              | 3,062,629     | (3,062,629)    |               |
| Total current<br>liabilities              | 1,689,909     | 412,915      | 5,811,218     | (3,075,019)    | 4,839,023     |
| Notes payable, net                        | 1,166,934     |              | 18,299,172    |                | 19,466,106    |
| Total liabilities                         | 2,856,843     | 412,915      | 24,110,390    | (3,075,019)    | 24,305,129    |
| Net assets (deficit):                     |               |              |               |                |               |
| Without donor<br>restrictions             | 30,956,574    | 1,301,345    | (9,202,522)   |                | 23,055,397    |
| With donor restrictions                   | 6,830,020     | 269,000      | 9,195,244     |                | 16,294,264    |
| Total net assets<br>(deficit)             | 37,786,594    | 1,570,345    | (7,278)       |                | 39,349,661    |
| Total liabilities<br>and net assets       | \$ 40,643,437 | \$ 1,983,260 | \$ 24,103,112 | \$ (3,075,019) | \$ 63,654,790 |

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidating Statement of Activities  
Year Ended June 30, 2022

|   | SHFB         | Providence | SHFB HQ     | Eliminations | Total        |
|---|--------------|------------|-------------|--------------|--------------|
| Changes in net assets without donor restrictions:   |              |            |             |              |              |
| <b>Public support and revenues</b>  |              |            |             |              |              |
| Contributions and private grants  | \$ 6,555,829 | \$ 46,821  | \$          | \$           | \$ 6,602,650 |
| United Way  | 107,097      |            |             |              | 107,097      |
| Government grants   | 8,275,440    | 855,140    |             |              | 9,130,580    |
| Donated food products   | 61,640,194   | 93,450     |             | (93,450)     | 61,640,194   |
| In-kind contributions   | 47,872       | 2,231,356  |             | (2,231,356)  | 47,872       |
| Special events income   | 1,227,772    |            |             |              | 1,227,772    |
| Handling fees   | 1,587,841    |            |             | (21,531)     | 1,566,310    |
| Catering  |              | 1,886,273  |             | (34,121)     | 1,852,152    |
| Restaurant  |              | 223,296    |             |              | 223,296      |
| Manor   |              | 189,909    |             |              | 189,909      |
| School  | 390,035      | 30,246     |             |              | 420,281      |
| Other income  | 4,373        | 19         |             |              | 4,392        |
| Net assets released from restrictions   | 1,255,885    |            |             |              | 1,255,885    |
| Total public support and revenues   | 81,092,338   | 5,556,510  |             | (2,380,458)  | 84,268,390   |
| <b>Expenses</b>   |              |            |             |              |              |
| Program services  | 72,847,895   | 4,405,958  |             | (2,353,538)  | 74,900,315   |
| Supporting services   | 2,848,140    | 656,397    | 7,278       | (26,920)     | 3,484,895    |
| Total expenses  | 75,696,035   | 5,062,355  | 7,278       | (2,380,458)  | 78,385,210   |
| Increase (decrease) in net assets without donor restrictions before other income (expenses) and transfers | 5,396,303    | 494,155    | (7,278)     |              | 5,883,180    |
| <b>Other income (expenses) and transfers</b>  |              |            |             |              |              |
| Interest income, net  | 69,628       |            |             |              | 69,628       |
| Gain (loss) on sale of property and equipment   | 1,552,603    | (15,320)   |             |              | 1,537,283    |
| Transfers   | 9,195,244    |            | (9,195,244) |              |              |
| Total other income (expenses) and transfers   | 10,817,475   | (15,320)   | (9,195,244) |              | 1,606,911    |
| Increase (decrease) in net assets without donor restrictions  | 16,213,778   | 478,835    | (9,202,522) |              | 7,490,091    |

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Consolidating Statement of Activities (continued)  
Year Ended June 30, 2022

|   | SHFB                 | Providence          | SHFB HQ           | Eliminations | Total                |
|---|----------------------|---------------------|-------------------|--------------|----------------------|
| Changes in net assets with donor restrictions:            |                      |                     |                   |              |                      |
| <b>Public support and revenues</b>                        |                      |                     |                   |              |                      |
| Contributions and private grants                          | \$ 3,169,894         | \$ 269,000          | \$                | \$           | \$ 3,438,894         |
| Donated food products                                     | 425,597              |                     |                   |              | 425,597              |
| Net assets released from restrictions                     | <u>(1,255,885)</u>   |                     |                   |              | <u>(1,255,885)</u>   |
| Total public support and revenues                         | <u>2,339,606</u>     | <u>269,000</u>      |                   |              | <u>2,608,606</u>     |
| <b>Other expenses and transfers</b>                       |                      |                     |                   |              |                      |
| Interest income, net                                      | (10,676)             |                     |                   |              | (10,676)             |
| Net losses on beneficial interest in endowment funds      | (69,242)             |                     |                   |              | (69,242)             |
| Transfers   | <u>(9,195,244)</u>   |                     | 9,195,244         |              |                      |
| Total other expenses and transfers                        | <u>(9,275,162)</u>   |                     | <u>9,195,244</u>  |              | <u>(79,918)</u>      |
| Increase (decrease) in net assets with donor restrictions | <u>(6,935,556)</u>   | <u>269,000</u>      | <u>9,195,244</u>  |              | <u>2,528,688</u>     |
| Increase (decrease) in net assets                         | 9,278,222            | 747,835             | (7,278)           |              | 10,018,779           |
| Net assets at beginning of year                           | <u>28,508,372</u>    | <u>822,510</u>      |                   |              | <u>29,330,882</u>    |
| Net assets (deficit) at end of year                       | <u>\$ 37,786,594</u> | <u>\$ 1,570,345</u> | <u>\$ (7,278)</u> | <u>\$</u>    | <u>\$ 39,349,661</u> |

## **COMPLIANCE SECTION**

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

To the Board of Directors  
Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates

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 consolidated financial statements of Second Harvest Food Bank of Northwest North Carolina, Inc. (a nonprofit organization) and Affiliates, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 8, 2022.

**Report on Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2022-001 and 2022-002 to be material weaknesses.

To the Board of Directors  
Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates

### **Report on Internal Control over Financial Reporting (continued)**

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2022-003 to be a significant deficiency.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' consolidated 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 consolidated 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*.

### **Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' Response to Findings**

*Government Auditing Standards* requires the auditors to perform limited procedures on Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' response was not subjected to other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

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

*CARTER, P.C.*

Asheville, North Carolina  
December 8, 2022

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

To the Board of Directors  
Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates

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

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

We have audited Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' major federal programs for the year ended June 30, 2022. Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates 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, 2022.

***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' compliance with the compliance requirements referred to above.

To the Board of Directors  
Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' federal programs.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates' internal control over compliance. Accordingly, no such opinion is expressed.



To the Board of Directors  
Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates

***Auditors' Responsibilities for the Audit of Compliance (continued)***

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*CARTER, P.C.*

Asheville, North Carolina  
December 8, 2022

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Schedule of Expenditures of Federal and State Awards  
Year Ended June 30, 2022

| <u>Grantor/Pass-Through Grantor/Program Title</u>  | <u>Federal<br/>AL<br/>Number</u> | <u>State/Pass-through<br/>Grantor's Number</u> | <u>Expenditures</u> | <u>Pass-<br/>through to<br/>Subrecipients</u> |
|--|----------------------------------|--|---------------------|---|
| <b>Federal Awards</b>  |                                  |  |                     |   |
| <u>U.S. Department of Agriculture</u>  |                                  |  |                     |   |
| Food and Nutrition Service:  |                                  |  |                     |   |
| Passed through N.C. Department of Agriculture and<br>Consumer Services - Food Distribution Division: |                                  |  |                     |   |
| Food Distribution Cluster:   |                                  |  |                     |   |
| Emergency Food Assistance Program (Food Commodities)   | 10.569                           | 21-020-2029<br>& 22-009-2009                   | \$ 6,035,153        | \$ 4,868,689                                  |
| COVID-19 - Emergency Food Assistance Program<br>(Food Commodities)                                   | 10.569                           | 21-020-2029<br>& 22-009-2009                   | 3,135,344           | 3,135,344                                     |
| Emergency Food Assistance Program (Administrative Costs)   | 10.568                           | 21-020-2029<br>& 22-009-2009                   | 540,969             |   |
| COVID-19 - Emergency Food Assistance Program<br>(Administrative Costs)                               | 10.568                           | 21-020-2029<br>& 22-009-2009                   | <u>1,652,834</u>    |   |
| Total Food Distribution Cluster  |                                  |  | <u>11,364,300</u>   | <u>8,004,033</u>                              |
| Passed through N.C. Department of Health and Human<br>Services - Division of Public Health:          |                                  |  |                     |   |
| Child and Adult Food Program   | 10.558                           | 09578  | 208,457             |   |
| Passed through YMCA of Northwest North Carolina:   |                                  |  |                     |   |
| Child and Adult Food Program   | 10.558                           | 8337   | <u>38,681</u>       |   |
| Total Child and Adult Food Program   |                                  |  | <u>247,138</u>      |   |
| Passed through N.C. Department of Health and Human<br>Services - Division of Social Services:        |                                  |  |                     |   |
| SNAP Cluster:  |                                  |  |                     |   |
| State Administrative Matching Grants for the Supplemental<br>Nutrition Assistance Program            | 10.561                           | 41082 & 43045                                  | <u>278,248</u>      |   |

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Schedule of Expenditures of Federal and State Awards (continued)  
Year Ended June 30, 2022

| <u>Grantor/Pass-Through Grantor/Program Title</u>   | <u>Federal<br/>AL<br/>Number</u> | <u>State/Pass-through<br/>Grantor's Number</u> | <u>Expenditures</u>  | <u>Pass-<br/>through to<br/>Subrecipients</u> |
|---|----------------------------------|--|----------------------|---|
| <b>Federal Awards (continued)</b>   |                                  |  |                      |   |
| <u>U.S. Department of Agriculture (continued)</u>   |                                  |  |                      |   |
| Passed through N.C. Department of Public Instruction:   |                                  |  |                      |   |
| Child Nutrition Cluster:  |                                  |  |                      |   |
| Summer Food Service Program for Children  | 10.559                           | 09000  | \$ 398,483           | \$ _____                                      |
| Total U.S. Department of Agriculture  |                                  |  | <u>12,288,169</u>    | <u>8,004,033</u>                              |
| <u>U.S. Department of the Treasury</u>  |                                  |  |                      |   |
| Passed through N.C. Department of Health and Human<br>Services - Division of Budget and Analysis: |                                  |  |                      |   |
| Coronavirus Relief Fund   | 21.019                           | Session Law 2021-03                            | 3,870,426            | 562,241                                       |
| Coronavirus State and Local Fiscal Recovery Fund  | 21.027                           | 200005733                                      | <u>1,406,919</u>     | _____   |
| Total U.S. Department of the Treasury   |                                  |  | <u>5,277,345</u>     | <u>562,241</u>                                |
| <u>U.S. Department of Health and Human Services</u>   |                                  |  |                      |   |
| Administration for Community Living:  |                                  |  |                      |   |
| Passed through Piedmont Triad Regional Council  |                                  |  |                      |   |
| Area Agency on Aging:   |                                  |  |                      |   |
| Aging Cluster:  |                                  |  |                      |   |
| Nutrition Services Under Title III-C<br>of the Older Americans Act                                | 93.045                           | 2101NCHDC05                                    | 41,747               |   |
| Covid-19 - Cares Act for Nutrition Services Under<br>Title III-C of the Older Americans Act       | 93.045                           | 2001NCHDC3-00                                  | <u>168,825</u>       |   |
| Total Aging Cluster   |                                  |  | <u>210,572</u>       |   |
| Total expenditures of federal awards  |                                  |  | <u>\$ 17,776,086</u> | <u>\$ 8,566,274</u>                           |

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Schedule of Expenditures of Federal and State Awards (continued)  
Year Ended June 30, 2022

| <u>Grantor/Pass-Through Grantor/Program Title</u>             | <u>Federal<br/>AL<br/>Number</u> | <u>State/Pass-through<br/>Grantor's Number</u> | <u>Expenditures</u> | <u>Pass-<br/>through to<br/>Subrecipients</u> |
|---|----------------------------------|--|---------------------|---|
| <b>State Awards</b>   |                                  |  |                     |   |
| <u>North Carolina Department of Health and Human Services</u> |                                  |  |                     |   |
| Division of Budget and Analysis:                              |                                  |  |                     |   |
| State-Wide Health and Human Services Initiative               |                                  | 44107  | \$ <u>526,043</u>   | \$ _____                                      |

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

**Note A - Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards (SEFSA) includes the federal and state award activity of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates under programs of the federal government and the State of North Carolina for the year ended June 30, 2022. The information in this SEFSA 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 SEFSA presents only a selected portion of the operations of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates.

**Note B - Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are presented 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.

**Note C - Indirect Cost Rate**

Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2022

Section I - Summary of Auditors' Results

***Consolidated Financial Statements***

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes       no

Significant deficiency(ies) identified?  X  yes       none reported

Noncompliance material to consolidated financial statements noted?       yes  X  no

***Federal Awards***

Internal control over compliance:

Material weakness(es) identified?       yes  X  no

Significant deficiency(ies) identified?       yes  X  none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?       yes  X  no

Identification of major federal programs:  
AL# 21.019 - Coronavirus Relief Fund  
AL# 21.027 - Coronavirus State and Local Fiscal Recovery Fund

The threshold for distinguishing Type A and Type B programs was \$750,000.

Second Harvest Food Bank of Northwest North Carolina, Inc. and Affiliates was determined to be a low-risk auditee.

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2022

Section II - Financial Statement Findings

Finding 2022-001 - Account Reconciliations

MATERIAL WEAKNESS

*Criteria:* Account balances should be reconciled on a regular basis to verify the recording of transactions are accurate, proper, and complete.

*Condition:* Accounts receivable and pledges receivable required material adjustments. A large number of errors and misstatements were noted during audit procedures related to the proper tracking of these revenue and receivable balances.

*Effect:* The accounting records required material adjustments to be in conformity with U.S. GAAP.

*Cause:* Procedures are not in place to adjust the accounting records for new pledges made and payments received on outstanding pledges. Additionally, the accounts receivable aging schedule was not reviewed for accuracy resulting in multiple payments being improperly being recorded as revenue instead of payments on outstanding receivable balances.

*Recommendation:* Procedures should be implemented to adjust pledge receivable balances on a regular basis to account for new pledges made and payments made on outstanding pledges. Additionally, the various receivable balances should be reviewed on a regular basis to determine that transactions are properly recorded and outstanding receivable balances are properly stated.

*Views of Responsible Officials and Planned Corrective Actions:* Management agrees with this finding and will adhere to the Corrective Action Plan.

Finding 2022-002 - Net Asset Restrictions

MATERIAL WEAKNESS

*Criteria:* The receipt and release of donor-imposed restrictions are required to be tracked in order to determine the balance of net assets with donor restrictions.

*Condition:* Appropriate controls and procedures are not in place to adequately track and report the receipt and release of donor-imposed restrictions for contributions received.

*Effect:* Material adjustments were required to both beginning and ending net assets with donor restrictions in order for the consolidated financial statements to be in conformity with U.S. GAAP.

**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2022

Section II - Financial Statement Findings (continued)

Finding 2022-002 - Net Asset Restrictions (continued)

*Cause:* Procedures are not sufficiently in place to identify, track, and report the receipt and release of all restricted donor contributions.

*Recommendation:* Procedures should be implemented to identify, track, and report the receipt and release of all restricted donor contributions.

*Views of Responsible Officials and Planned Corrective Actions:* Management agrees with this finding and will adhere to the Corrective Action Plan.

Finding 2022-003 - General Journal Entries

SIGNIFICANT DEFICIENCY

*Criteria:* Procedures should be in place to have all general journal entries reviewed and approved by an appropriate member of management on a regular basis to prevent errors and unauthorized transactions from occurring within the accounting records.

*Condition:* Procedures for the review and approval of general journal entries are not sufficiently in place.

*Effect:* Transactions could be mishandled due to errors or fraud that could result in loss of assets or the reporting of misleading financial information.

*Cause:* Strains caused by the COVID-19 Pandemic and personnel transitions resulted in management performing procedures typically performed by other employees.

*Recommendation:* Internal control procedures should be implemented whereby all general journal entries are reviewed and approved by someone of equal or higher rank within the Organization. The individual assigned with approval responsibility should possess appropriate accounting knowledge to properly determine the accuracy and necessity of the adjustment.

*Views of Responsible Officials and Planned Corrective Actions:* Management agrees with this finding and will adhere to the Corrective Action Plan.

Section III - Federal Award Findings and Questioned Costs

None reported.



Corrective Action Plan  
For the Year Ended June 30, 2022

Section II - Financial Statement Findings

Finding 2022-001 - Account Reconciliations

MATERIAL WEAKNESS

Name of Contact Person: Josh Fuller

Corrective Action: Implemented procedures to adjust pledge receivable balances on a monthly basis to account for new pledges made and payments made on outstanding pledges. In addition, all receivable and related revenue accounts will be reviewed during the monthly financial statement preparation to ensure balances are properly stated.

Completion Date: November 22, 2022

Finding 2022-002 - Net Asset Restrictions

MATERIAL WEAKNESS

Corrective Action: Implemented an excel based grant tracking system that includes pertinent information such as the grantor, grant name, date of contribution notification, date the contribution was physically received, contribution amount, amount of contribution spent to date for restricted purpose, remainder of restricted funds, grant code (unique identifier), and grant period.

Completion Date: November 30, 2022

Finding 2022-003 - General Journal Entries

SIGNIFICANT DEFICIENCY

Name of Contact Person: Josh Fuller

Corrective Action: Implemented procedure to ensure that all general journal entries are reviewed and approved by someone of equal or higher rank within the organization. This process is to be done monthly during the financial statement preparation process. A signed general journal ledger will serve as proof of review.

Completion Date: November 22, 2022

Section III - Federal Award Findings and Questioned Costs

None reported.



**SECOND HARVEST FOOD BANK OF NORTHWEST NORTH CAROLINA, INC.  
AND AFFILIATES**

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2022

No findings were reported for the year ended June 30, 2021.

No findings were reported for the year ended June 30, 2020.