



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

Winston-Salem, North Carolina

Consolidated Financial Statements
and Supplementary Information

Years Ended June 30, 2023 and 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 Consolidated 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 statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 consolidated 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 November 16, 2023, 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 their 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.

CARTER, P.C.

Asheville, North Carolina
November 16, 2023

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

Consolidated Statements of Financial Position
June 30, 2022 and 2022

	2023	2022
Assets		
Current assets:		
Cash and equivalents	\$ 9,463,421	\$ 8,983,364
Accounts receivable, net	567,422	521,707
Grants receivable	403,459	3,300,346
Other receivables	101,814	594,037
Promises to give, current portion	1,399,939	1,947,867
Prepaid expenses	122,242	402,421
Inventories	2,355,005	5,357,924
Other asset, current portion	70,000	70,000
Total current assets	14,483,302	21,177,666
Restricted cash	326,544	2,548,402
Promises to give, net of current portion	1,191,668	2,357,883
Note receivable	14,005,200	14,005,200
Operating lease right-of-use assets	679,204	
Other asset, net of current portion	1,115,488	1,166,934
Beneficial interest in endowment funds	854,333	800,277
Property and equipment	24,731,832	21,598,428
Total assets	\$ 57,387,571	\$ 63,654,790
Liabilities and net assets		
Current liabilities:		
Current portion of operating lease liabilities	\$ 74,615	\$
Current maturities of notes payable	70,000	70,000
Accounts payable and accrued expenses	723,917	3,759,599
Grants payable		160,353
Deferred revenue	458,132	849,071
Total current liabilities	1,326,664	4,839,023
Operating lease liabilities, net of current portion	608,481	
Notes payable, net of current maturities	19,474,151	19,466,106
Total liabilities	21,409,296	24,305,129
Net assets:		
Without donor restrictions	31,382,209	23,055,397
With donor restrictions	4,596,066	16,294,264
Total net assets	35,978,275	39,349,661
Total liabilities and net assets	\$ 57,387,571	\$ 63,654,790

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, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues			
Contributions and private grants	\$ 6,734,334	\$ 1,755,721	\$ 8,490,055
United Way	82,378		82,378
Government grants	5,193,812		5,193,812
Donated food products	56,970,698	532,341	57,503,039
In-kind contributions	15,694		15,694
Special events income	992,541		992,541
Handling fees	2,047,734		2,047,734
Catering	807,543		807,543
Community meals	1,024,978		1,024,978
Restaurant	188,761		188,761
Manor	200,645		200,645
School	346,185		346,185
Other income	80,450		80,450
Net assets released from restrictions	<u>14,040,317</u>	<u>(14,040,317)</u>	
Total public support and revenues	<u>88,726,070</u>	<u>(11,752,255)</u>	<u>76,973,815</u>
Expenses			
Program services	77,026,285		77,026,285
Supporting services	<u>3,474,101</u>		<u>3,474,101</u>
Total expenses	<u>80,500,386</u>		<u>80,500,386</u>
Increase (decrease) in net assets before other income (expenses)	<u>8,225,684</u>	<u>(11,752,255)</u>	<u>(3,526,571)</u>
Other income (expenses)			
Investment income, net	135,703	6,535	142,238
Net gains on beneficial interest in endowment funds		47,522	47,522
Loss on sale of property and equipment	<u>(34,575)</u>		<u>(34,575)</u>
Total other income	<u>101,128</u>	<u>54,057</u>	<u>155,185</u>
Increase (decrease) in net assets	8,326,812	(11,698,198)	(3,371,386)
Net assets at beginning of year	<u>23,055,397</u>	<u>16,294,264</u>	<u>39,349,661</u>
Net assets at end of year	<u>\$ 31,382,209</u>	<u>\$ 4,596,066</u>	<u>\$ 35,978,275</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 Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Public support and revenues			
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	1,032,985		1,032,985
Community meals	819,167		819,167
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>
 Expenses			
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 other income (expenses)	<u>5,883,180</u>	<u>2,608,606</u>	<u>8,491,786</u>
 Other income (expenses)			
Investment income, net	69,628	(10,676)	58,952
Net losses on beneficial interest 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, 2023

	Supporting Services				Total
	Program Services	Management & General	Fundraising Expenses	Total Supporting Services	
Salaries and wages	\$ 4,154,030	\$ 686,073	\$ 617,461	\$ 1,303,534	\$ 5,457,564
Payroll taxes	291,510	50,037	44,372	94,409	385,919
Employee benefits	790,990	73,571	119,741	193,312	984,302
Contract services	<u>672,052</u>	<u>2,839</u>	<u>2,078</u>	<u>4,917</u>	<u>676,969</u>
Total salaries and related	5,908,582	812,520	783,652	1,596,172	7,504,754
Operational	66,920,993				66,920,993
Transportation	647,301				647,301
Occupancy	1,329,557	166,195	166,195	332,390	1,661,947
Agency grants	393,025				393,025
Administrative	211,182	241,012	112,159	353,171	564,353
Training and travel	117,505	39,681	45,882	85,563	203,068
Office supplies	103,594	100,545	100,545	201,090	304,684
Telephone	23,796	23,097	23,097	46,194	69,990
Postage	59,939	58,177	58,177	116,354	176,293
Advertising and marketing	19,971	19,971	162,334	182,305	202,276
Outreach and education	288,405		288,406	288,406	576,811
Special events			38,428	38,428	38,428
Miscellaneous	<u>176,449</u>	<u>7,856</u>	<u>7,856</u>	<u>15,712</u>	<u>192,161</u>
Total expenses before interest and depreciation	76,200,299	1,469,054	1,786,731	3,255,785	79,456,084
Interest	168,731	27,001	27,001	54,002	222,733
Depreciation	<u>657,255</u>	<u>82,157</u>	<u>82,157</u>	<u>164,314</u>	<u>821,569</u>
Total expenses	<u>\$ 77,026,285</u>	<u>\$ 1,578,212</u>	<u>\$ 1,895,889</u>	<u>\$ 3,474,101</u>	<u>\$ 80,500,386</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 Services	Management & General	Fundraising Expenses	Total Supporting 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 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 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	\$ 74,900,315	\$ 1,432,688	\$ 2,052,207	\$ 3,484,895	\$ 78,385,210

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

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

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (3,371,386)	\$ 10,018,779
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	821,569	275,077
Amortization of operating lease right-of-use assets	63,827	
Bad debt expense		477,428
Present value adjustment	(86,174)	(101,810)
Amortization of discount on other assets	(18,554)	
Amortization of debt issuance costs	59,491	45,591
Amortization of discount on notes payable	18,554	
Receipts of donated inventory	(57,503,039)	(62,065,791)
Disbursements of donated inventory	59,889,228	60,572,187
Gains (losses) on sale of property and equipment	34,575	(1,537,283)
Net gains (losses) on beneficial interest in endowment funds	(47,522)	69,242
Receipt of donated stock	(66,721)	(481,893)
Contributions restricted for long-term purposes	(20,845)	(1,853,111)
Changes in working capital - sources (uses):		
Accounts receivable	(45,715)	(304,031)
Grants receivable	2,896,887	(2,946,149)
Other receivables	492,223	(534,764)
Promises to give	1,800,317	888,549
Prepaid expenses	280,179	(171,385)
Inventories	616,730	(452,467)
Other asset	70,000	
Accounts payable and accrued expenses	(3,035,682)	2,434,325
Grants payable	(160,353)	160,353
Deferred revenue	(390,939)	(1,953,889)
Operating lease liabilities	(59,935)	
Net cash provided by operating activities	2,236,715	2,538,958
Cash flows from investing activities		
Disbursement of funds in exchange for note receivable		(14,005,200)
Proceeds from sale of investments	66,721	481,893
Contributions to beneficial interest in endowment funds	(14,889)	(3,000)
Distribution from beneficial interest in endowment funds	1,531	1,356
Change in beneficial interest in endowment funds	6,824	10,676
Proceeds from sale of property and equipment	13,500	2,789,341
Purchases of property and equipment	(4,003,048)	(18,266,456)
Net cash used by investing activities	(3,929,361)	(28,991,390)

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

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

Consolidated Statements of Cash Flows (continued)
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from financing activities		
Contributions restricted for long-term purposes	\$ 20,845	\$ 1,853,111
Proceeds from notes payable		27,652,185
Principal repayments on notes payable	<u>(70,000)</u>	<u>(9,398,604)</u>
Net cash provided (used) by financing activities	<u>(49,155)</u>	<u>20,106,692</u>
Decrease in cash and equivalents and restricted cash	(1,741,801)	(6,345,740)
Cash and equivalents and restricted cash at beginning of year	<u>11,531,766</u>	<u>17,877,506</u>
Cash and equivalents and restricted cash at end of year	<u>\$ 9,789,965</u>	<u>\$ 11,531,766</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 144,688</u>	<u>\$ 1,024</u>
Schedule of noncash investing and financing activities		
Other asset acquired through issuance of note payable	<u>\$ _____</u>	<u>\$ 1,236,934</u>
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 743,031</u>	<u>\$ _____</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, 2023 and 2022

Note 1 - Nature of Organization and 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, catering, and community meals 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 Providence Culinary 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 - Nature of Organization and 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 statements 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 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Estimates

The preparation of consolidated 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, operating lease right-of-use assets, beneficial interest in endowment funds, operating lease liabilities, 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 provision for uncollectible promises to give 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.

Amounts reported for operating lease right-of-use assets and operating lease liabilities approximate fair value due to present value adjustments provided by the lessor or determined by the Organization's incremental borrowing rate.

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 9.

Cash and Equivalents

For purposes of the consolidated statements 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.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

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.

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.

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.

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. Notes 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. 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 - Nature of Organization and 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 years ended June 30, 2023 and 2022, was \$1.93 and \$1.92, respectively.

Inventory items received from the U.S. Department of Agriculture (USDA) are recorded at the value assigned by USDA. If a value is not assigned, the inventory and related food revenue and amounts distributed are valued using the Survey. There were no unassigned inventory values for the years ended June 30, 2023 and 2022, respectively.

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 fair value 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.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

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 statements of activities.

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 in-kind contributions at the estimated fair value at the date of the gift. The Organization reports gifts of property and equipment as in-kind 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 14.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Donated Services

Donated services are recognized as in-kind 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 14.

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 statements of financial position. The Organization received \$334,968 and \$709,741 in advance payments on cost-reimbursable grants that have not been recognized as of June 30, 2023 and 2022, respectively. 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 for approximately \$6,467,000 through the American Rescue Plan Act. As of June 30, 2023, the Organization has incurred qualifying expenditures related to this funding of approximately \$3,560,000.

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 statements of activities and are included in deferred revenue in the consolidated statements of financial position. Freight costs associated with food distribution are recorded as transportation expenses in the accompanying consolidated statements of functional expenses.

Catering, community meals, 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.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

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 years ended June 30, 2023 and 2022, was \$202,276 and \$164,251, respectively.

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.

Reclassification

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements.

Newly Adopted Accounting Pronouncements

During the year ended June 30, 2023, the Organization adopted the requirements of the following standards set by the Financial Accounting Standards Board (FASB).

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, (ASU 2016-02) which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify: ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the consolidated statement of financial position.

The Organization elected to adopt these ASUs effective July 1, 2022. The Organization did not adjust the prior period consolidated statement of financial position.

An election has been made to apply the short-term lease exception to all leases with a term of 12 months or less. Short-term lease costs do not reflect ongoing short-term lease commitments which are described in Note 11.

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (continued)

Newly Adopted Accounting Pronouncements (continued)

The Organization applied the package of practical expedients allowed by the standard, upon adoption of ASU 2016-02. The Organization did not reassess:

- Whether any expired or existing contracts are or contain leases under the new definition;
- The lease classification of any expired or existing leases; or
- Whether previously capitalized costs continue to qualify as initial direct costs.

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the Organization recognized an operating lease liability of \$743,031, which represents the present value of the remaining operating lease payments, discounted using the Organization's incremental borrowing rate of 4.75% or rate implicit in the lease. A right-of-use asset in the amount of \$743,031, was also recorded at that time.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 is intended to improve financial reporting about credit losses on certain receivable balances. The new standard will be effective beginning July 1, 2023. The Organization is in the process of evaluating the effect this guidance will have on its consolidated financial statements and related disclosures.

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*. ASU 2023-01 provides guidance on determining if an arrangement between entities under common control qualifies as a lease and the accounting treatment of that arrangement if the agreement qualifies as a lease. Additionally, the ASU provides guidance on the accounting for leasehold improvements related to related party leases. The new standard will be effective beginning July 1, 2024. The Organization is in the process of evaluating the effect this guidance will have on its consolidated financial statements and related disclosures.

Note 2 - Net Assets

Net assets are described as follows:

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions:		
Undesignated	\$ 11,432,812	\$ 9,954,695
Investment in property and equipment	18,067,881	8,109,212
Investment in inventories	1,796,161	4,906,135
Board designated for capital maintenance	<u>85,355</u>	<u>85,355</u>
Net assets without donor restrictions	<u>31,382,209</u>	<u>23,055,397</u>

Note 2 - Net Assets (continued)

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions:		
Subject to expenditure for specified purpose or period:		
Backpack program	\$ 340,047	\$ 487,172
Capacity building	185,356	
Capital campaign		13,233,019
Community meals	38,000	
Endowment earnings for operations	711,858	672,691
Equitable food access	496,172	
Food purchases	88,008	
Food distribution	33,000	
Greensboro facilities	438,487	772,082
Mobile market	113,142	
Nutrition for children	95,500	10,000
Passage of time	1,281,680	307,117
Senior meals	100,000	150,000
Summer feeding		49,000
Trauma and resilience		60,000
USDA food programs	<u>532,341</u>	<u>425,597</u>
Total subject to expenditure for specified purpose or period	4,453,591	16,166,678
Not subject to spending policy or appropriation:		
Investment in perpetuity - endowment funds	<u>142,475</u>	<u>127,586</u>
Net assets with donor restrictions	<u>4,596,066</u>	<u>16,294,264</u>
<u>Total net assets</u>	<u>\$ 35,978,275</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.

Note 3 - Liquidity and Availability of Financial Assets (continued)

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

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash and equivalents	\$ 9,789,965	\$ 11,531,766
Accounts receivable, net	567,422	521,707
Grants receivable	403,459	3,300,346
Other receivables	101,814	594,037
Promises to give, net	2,591,607	4,305,750
Inventories	2,355,005	5,357,924
Note receivable	14,005,200	14,005,200
Beneficial interest in endowment funds	854,333	800,277
Total financial assets	<u>30,668,805</u>	<u>40,417,007</u>
Amounts not available for general expenditure:		
Board designated capital maintenance	(85,355)	(85,355)
Net assets with donor restrictions	(4,596,066)	(16,294,264)
Donated food inventories to be distributed	(1,648,674)	(4,122,885)
Add back: restricted promises to give, current portion	554,551	1,947,867
Total amounts not available for general expenditure	<u>(5,775,544)</u>	<u>(18,554,637)</u>
Net financial assets available to meet cash needs for general expenditures within one year	<u>\$ 24,893,261</u>	<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 less a provision for uncollectible promises to give. The note receivable is recorded at the amount expected to be received based on contractual terms without conditions.

The following table provides information about contract assets:

<u>At June 30</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Accounts receivable:			
Accounts receivable	\$ 575,472	\$ 533,699	\$ 229,668
Less, allowance for doubtful accounts	<u>(8,050)</u>	<u>(11,992)</u>	<u>(1,992)</u>
Accounts receivable	<u>567,422</u>	<u>521,707</u>	<u>227,676</u>
Grants receivable	<u>403,459</u>	<u>3,300,346</u>	<u>354,197</u>

Note 4 - Contract Assets and Liabilities (continued)

<u>At June 30</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Promises to give:			
Due in less than one year	\$ 1,399,939	\$ 1,947,867	\$ 1,448,271
One to five years	1,579,163	2,733,529	4,421,674
More than five years	<u>200,000</u>	<u>300,000</u>	<u> </u>
Total promises to give	3,179,102	4,981,396	5,869,945
Less, allowance for uncollectible promises to give	(465,451)	(467,428)	
Less, discount to net present value at 3%	<u>(122,044)</u>	<u>(208,218)</u>	<u>(310,028)</u>
Promises to give, net	<u>2,591,607</u>	<u>4,305,750</u>	<u>5,559,917</u>
Note receivable with quarterly interest only payments at 0.93%, balloon payment of all outstanding principal and interest due December 2047	<u>14,005,200</u>	<u>14,005,200</u>	<u> </u>
<u>Total contract assets</u>	<u>\$ 17,567,688</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 statements 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>Years Ended June 30</u>	<u>2023</u>	<u>2022</u>
Grants payable, beginning of year	\$ 160,353	\$
Grant fund paid	(160,353)	
Grant funds awarded		160,353
Grants payable, end of year		160,353
Deferred revenue:		
Conditional grants, beginning of year	709,741	2,383,600
Revenue recognized during the year that was included in conditional grants	(709,741)	(2,383,600)
Increase in conditional grants due to cash received during year	334,968	709,741
Conditional grants, end of year	334,968	709,741
Agency credits, beginning of year	94,383	379,733
Credits applied to agency balances	(88,553)	(303,308)
Deposits received and credits issued to agencies	59,816	17,958
Agency credits, end of year	65,646	94,383
Customer deposits, beginning of year	44,947	39,627
Revenue recognized during the year that was included in customer deposits	(44,947)	(39,627)
Increase in customer deposits due to cash received during year	57,518	44,947
Customer deposits, end of year	57,518	44,947
Total deferred revenue	458,132	849,071
<u>Total contract liabilities</u>	<u>\$ 458,132</u>	<u>\$ 1,009,424</u>

Note 5 - Inventories

Major classes of food inventories are as follows:

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Regular donated	\$ 1,648,674	\$ 4,122,885
USDA donated product	532,341	425,597
Grant purchased		463,549
Purchased	111,643	184,476
Providence	35,844	25,195
Backpack	26,503	26,192
Summer feeding		110,030
<u>Total inventories</u>	<u>\$ 2,355,005</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. The 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>2023</u>	<u>2022</u>
Other asset	\$ 1,680,000	\$ 1,750,000
Less, discount to net present value at 3%	<u>(494,512)</u>	<u>(513,066)</u>
Total other asset, net	1,185,488	1,236,934
Less, current portion	<u>(70,000)</u>	<u>(70,000)</u>
<u>Long-term other asset, net</u>	<u>\$ 1,115,488</u>	<u>\$ 1,166,934</u>

Note 7 - Property and Equipment

Property and equipment consist of the following:

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Land	\$ 1,331,026	\$
Land improvements	137,232	
Buildings and improvements	19,620,099	
Leasehold improvements	343,393	388,499
Warehouse equipment	2,677,335	1,926,041
Office furniture and equipment	1,449,500	534,158
Vehicles	626,968	507,449
Software	107,647	114,348
Construction in progress		<u>20,107,125</u>
	<u>26,293,200</u>	<u>23,577,620</u>
Less, accumulated depreciation	<u>(1,561,368)</u>	<u>(1,979,192)</u>
<u>Property and equipment</u>	<u>\$ 24,731,832</u>	<u>\$ 21,598,428</u>

Depreciation expense for the years ended June 30, 2023 and 2022, was \$821,569 and \$275,077, respectfully.

Note 8 - 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 9 - 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>Years Ended June 30</u>	<u>2023</u>	<u>2022</u>
Level 3 inputs, beginning of the year	\$ 800,277	\$ 878,551
Contributions	14,889	3,000
Distributions	(1,531)	(1,356)
Interest and dividends	1,022	611
Investment fees	(7,846)	(11,287)
Net gain (losses)	<u>(47,522)</u>	<u>(69,242)</u>
<u>Level 3 inputs, end of year</u>	<u>\$ 854,333</u>	<u>\$ 800,277</u>

Note 10 - 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.

Note 10 - Endowment Funds (continued)

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 and classified as net assets with donor restrictions (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.

The remaining portion of the donor-restricted endowment funds that is not retained in perpetuity is subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. 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 over the long-term. 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.

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, 2023 and 2022.

Note 10 - Endowment Funds (continued)

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

<u>At June 30, 2023</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Net Assets</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$	\$ 421,485	\$ 421,485
Accumulated investment gains	<u> </u>	<u>432,848</u>	<u>432,848</u>
<u>Total funds</u>	<u>\$</u>	<u>\$ 854,333</u>	<u>\$ 854,333</u>

<u>At June 30, 2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Net Assets</u>
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$	\$ 406,596	\$ 406,596
Accumulated investment gains	<u> </u>	<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, 2023</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, beginning of year	\$	\$ 800,277	\$ 800,277
Contributions		14,889	14,889
Investment returns, net		40,698	40,698
Appropriation for expenditure	<u> </u>	<u>(1,531)</u>	<u>(1,531)</u>
<u>Endowment net assets, end of year</u>	<u>\$</u>	<u>\$ 854,333</u>	<u>\$ 854,333</u>

Note 10 - Endowment Funds (continued)

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

Note 11 - Leases

The Organization leases warehouse space, office equipment, and trucks under non-cancellable operating lease agreement with a weighted average remaining lease term of seven years. The discount rate for the operating leases was provided by the lessor of 33.11% to 46.32% or determined using the Organization's incremental borrowing rate of 4.75% to 6.25% for the year ended June 30, 2023. The weighted average discount rate for the operating leases is 11.56% for the year ended June 30, 2023. The lease agreements include variable payments based on maintenance and usage rates which are not determinable at lease commencement and are not included in the measurement of the lease assets and liabilities.

The following is a schedule of future minimum lease payments under the operating lease agreements:

<u>Years Ending June 30</u>	<u>Payments</u>
2024	\$ 148,188
2025	149,132
2026	150,091
2027	151,064
2028	113,726
Thereafter	<u>251,498</u>
Total payments	963,699
Less, imputed interest	<u>(280,603)</u>
<u>Total operating lease liabilities</u>	<u>\$ 683,096</u>

Note 11 - Leases (continued)

The following summarize the line items in the accompanying consolidated statement of functional expenses which include the components of lease costs:

<u>Year Ended June 30</u>	<u>2023</u>
Short-term and immaterial operating leases included in occupancy	\$ 190,054
Operating lease costs included in occupancy	<u>735,239</u>
<u>Total lease costs</u>	<u>\$ 925,293</u>

The Organization also leases office space, warehouse space, warehouse equipment, vehicles, trucks, trailers, and office equipment under non-cancelable operating lease agreements. The Organization assessed whether an arrangement qualifies as a lease (i.e., conveys the right to control the use of an identified asset for a period of time in exchange for consideration) during the year ended June 30, 2023, when FASB ASU 2016-02, *Leases* was adopted. The Organization has elected to apply the short-term lease exception to all leases with a term of 12 months or less. Leases with a remaining term of 12 months or less, or those that are considered immaterial, are not recorded in the consolidated statements of financial position. Management has determined all remaining operating leases meet this criterion and has not recognized operating lease agreements as operating lease liabilities. Lease expense is recognized for these leases on a straight-line basis over the lease term. These leases require various monthly payments and expire through June 2026.

The following is a schedule of future minimum lease payments under short-term and immaterial lease agreements:

<u>Years Ending June 30</u>	
2024	\$ 43,071
2025	21,939
2026	6,676
2027	
2028	
<u>Total</u>	<u>\$ 71,686</u>

Previous Guidance

Total lease expense under all non-cancellable leases for the year ended June 30, 2022, was \$943,575.

Note 12 - Notes Payable

Notes payable is described as follows:

<u>At June 30</u>	<u>2023</u>	<u>2022</u>
Noninterest bearing note payable due in 25 annual installments of \$70,000 through January 2047 to a local government agency in lieu of property taxes	\$ 1,680,000	\$ 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	3,620,000
92 quarterly principal and interest payments of \$73,617 beginning March 2029 through December 2051	6,043,600	6,043,600
92 quarterly principal and interest payments of \$52,885 beginning March 2029 through December 2051	4,341,600	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	1,280,000
92 quarterly principal and interest payments of \$26,815 beginning March 2029 through December 2051	2,201,400	2,201,400
92 quarterly principal and interest payments of \$18,739 beginning March 2029 through December 2051	<u>1,538,400</u>	<u>1,538,400</u>
	20,705,000	20,775,000
Less, unearned discount on notes payable	(494,512)	(513,066)
Less, unamortized debt issuance costs	<u>(666,337)</u>	<u>(725,828)</u>
Total notes payable	19,544,151	19,536,106
Less, current maturities	<u>(70,000)</u>	<u>(70,000)</u>
<u>Notes payable, net</u>	<u>\$ 19,474,151</u>	<u>\$ 19,466,106</u>

Note 12 - Notes Payable (continued)

Principal maturities on notes payable are as follows:

<u>Years Ending June 30</u>	
2024	\$ 70,000
2025	70,000
2026	70,000
2027	70,000
2028	70,000
Thereafter	20,355,000
Less, unearned discount on notes payable	(494,512)
Less, unamortized debt issuance costs	<u>(666,337)</u>
<u>Principal payments on notes payable</u>	<u>\$ 19,544,151</u>

Interest costs charged to operations consist of the following:

<u>Years Ended June 30</u>	<u>2023</u>	<u>2022</u>
Interest costs incurred:		
Interest payments	\$ 192,251	\$ 129,724
Interest on product financing arrangements	59,491	45,591
Implied interest on noninterest bearing note payable	<u>18,554</u>	<u> </u>
Total interest costs	270,296	175,315
Decrease as a result of capitalizing interest as a cost of construction	<u>(47,563)</u>	<u>(174,291)</u>
<u>Interest charged to operations</u>	<u>\$ 222,733</u>	<u>\$ 1,024</u>

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 at 4% for the years ended June 30, 2023 and 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 \$136,753 and \$94,629 for the years ended June 30, 2023 and 2022, respectfully.

Note 14 - 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.

Note 14 - In-kind Contributions (continued)

In-kind contributions are summarized as follows:

<u>Year Ended June 30, 2023</u>			
	<u>Fair Value</u>	<u>Usage in Program</u>	<u>Donor Restriction</u>
In-kind contributions:			
Supplies	<u>\$ 15,694</u>	Fundraising	None
Donated food products:			
USDA food receipts	6,391,178	Program	Food dist. to eligible recipients
Privately donated food	<u>51,111,861</u>	Program	None
Total donated food products	<u>57,503,039</u>		
Total contributions of nonfinancial assets	<u>\$ 57,518,733</u>		
<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 15 - Commitments and Contingencies

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.

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.

Note 16 - Concentrations of Credit Risk

Uninsured Cash Balances

The Organization maintains its cash and equivalents at financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. Generally, cash balances will exceed the FDIC insurance limits or be partially uninsured.

Investment Risk

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.

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 years ended June 30, 2023 and 2022, was \$9,577,567 and \$16,595,212, respectfully. Grants receivable from this grantor was \$282,066 and \$3,163,448 at June 30, 2023 and 2022, respectfully. Deferred revenue from this grantor was \$312,468 and \$704,741 at June 30, 2023 and 2022, respectively.

Note 16 - Concentrations of Credit Risk (continued)

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 three such donor for the year ended June 30, 2023, were \$750,000, \$700,000, and \$359,625. Promises to give from two such donors for the year ended June 30, 2022, were \$800,000 and \$750,000.

Note 17 - Related Party Transactions

The Organization operates as a member of Feeding America. Contributions received from Feeding America were \$418,008 and \$225,000 for the years ended June 30, 2023 and 2022, respectively. Purchases made from Feeding America were \$97,768 and \$122,998 for the years ended June 30, 2023 and 2022, respectively. Membership dues paid to Feeding America were \$28,120 and \$16,722 for the years ended June 30, 2023 and 2022, respectively.

Contributions from board members totaled \$21,637 and \$74,589, during the years ended June 30, 2023 and 2022, respectively. Outstanding promises to give from Board members were \$18,367 and \$206,856, as of June 30, 2023 and 2022, respectively.

Note 18 - 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 and Affiliates' Return of Organization Exempt From Income Tax (Form 990s) for the years ended June 30, 2022, 2021, and 2020, are subject to examination by the IRS, generally for three years after they were filed.

Note 19 - Subsequent Events

Management has evaluated subsequent events through November 16, 2023, which is the date the consolidated financial statements were available to be issued.

In August 2023, the Organization received a bequest of approximately \$1,290,000.

SUPPLEMENTARY INFORMATION

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

Consolidating Statement of Financial Position
June 30, 2023

	SHFB	Providence	SHFB HQ	Eliminations	Total
Assets					
Current assets:					
Cash and equivalents	\$ 7,206,518	\$ 1,451,984	\$ 804,919	\$	\$ 9,463,421
Accounts receivable	63,513	503,909			567,422
Grants receivable	403,459				403,459
Other receivables	61,278	19,212	21,324		101,814
Promises to give, current portion	1,399,939				1,399,939
Prepaid expenses	122,242				122,242
Inventories	2,319,161	35,844			2,355,005
Other asset, current	70,000				70,000
Accounts receivable - affiliate	1,846,919			(1,846,919)	
Total current assets	13,493,029	2,010,949	826,243	(1,846,919)	14,483,302
Restricted cash			326,544		326,544
Promises to give, net	1,191,668				1,191,668
Note receivable	14,005,200				14,005,200
Operating lease right- of-use assets	679,204				679,204
Other asset, net	1,115,488				1,115,488
Beneficial interest in endowment funds	854,333				854,333
Property and equipment	1,604,368	139,884	22,987,580		24,731,832
Total assets	\$ 32,943,290	\$ 2,150,833	\$ 24,140,367	\$ (1,846,919)	\$ 57,387,571
Liabilities and net assets					
Current liabilities:					
Operating lease liabilities, current	\$ 74,615	\$	\$	\$	\$ 74,615
Notes payable, current	70,000				70,000
Accounts payable and accrued expenses	412,288	283,876	27,753		723,917
Deferred revenue	400,614	57,518			458,132
Accounts payable - affiliate	1,846,919		1,846,919	(1,846,919)	
Total current liabilities	957,517	341,394	1,874,672	(1,846,919)	1,326,664
Operating lease liab, net	608,481				608,481
Notes payable, net	1,115,488		18,358,663		19,474,151
Total liabilities	2,681,486	341,394	20,233,335	(1,846,919)	21,409,296
Net assets:					
W/O donor restrictions	25,821,238	1,653,939	3,907,032		31,382,209
With donor restrictions	4,440,566	155,500			4,596,066
Total net assets	30,261,804	1,809,439	3,907,032		35,978,275
Total liabilities and net assets	\$ 32,943,290	\$ 2,150,833	\$ 24,140,367	\$ (1,846,919)	\$ 57,387,571

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

Consolidating Statement of Activities
Year Ended June 30, 2023

	<u>SHFB</u>	<u>Providence</u>	<u>SHFB HQ</u>	<u>Eliminations</u>	<u>Total</u>
Changes in net assets without donor restrictions:					
Public support and revenues					
Contributions and private grants	\$ 6,637,456	\$ 96,878	\$	\$	\$ 6,734,334
United Way	82,378				82,378
Government grants	4,076,253	1,117,559			5,193,812
Donated food products	56,970,698				56,970,698
In-kind contributions	258,713	1,842,586	4,665,000	(6,750,605)	15,694
Special events income	992,541				992,541
Handling fees	2,089,950			(42,216)	2,047,734
Catering		807,543			807,543
Community meals		1,032,361		(7,383)	1,024,978
Restaurant		188,761			188,761
Manor		200,645			200,645
School	308,983	37,202			346,185
Rental income			373,187	(373,187)	
Other income	78,341	2,109			80,450
Net assets released from restrictions	<u>4,676,073</u>	<u>169,000</u>	<u>9,195,244</u>		<u>14,040,317</u>
Total public support and revenues	<u>76,171,386</u>	<u>5,494,644</u>	<u>14,233,431</u>	<u>(7,173,391)</u>	<u>88,726,070</u>
Expenses					
Program services	78,732,495	4,569,045	898,136	(7,173,391)	77,026,285
Supporting services	<u>2,675,355</u>	<u>573,005</u>	<u>225,741</u>		<u>3,474,101</u>
Total expenses	<u>81,407,850</u>	<u>5,142,050</u>	<u>1,123,877</u>	<u>(7,173,391)</u>	<u>80,500,386</u>
Increase (decrease) in net assets without donor restrictions before other income (expenses)	<u>(5,236,464)</u>	<u>352,594</u>	<u>13,109,554</u>		<u>8,225,684</u>
Other income (expenses)					
Interest income, net	135,703				135,703
Loss on sale of property and equipment	<u>(34,575)</u>				<u>(34,575)</u>
Total other income (expenses)	<u>101,128</u>				<u>101,128</u>
Increase (decrease) in net assets without donor restrictions	<u>(5,135,336)</u>	<u>352,594</u>	<u>13,109,554</u>		<u>8,326,812</u>

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

Consolidating Statement of Activities (continued)
Year Ended June 30, 2023

	<u>SHFB</u>	<u>Providence</u>	<u>SHFB HQ</u>	<u>Eliminations</u>	<u>Total</u>
Changes in net assets with donor restrictions:					
Public support and revenues					
Contributions and private grants	\$ 1,700,221	\$ 55,500	\$	\$	\$ 1,755,721
Donated food products	532,341				532,341
Net assets released from restrictions	<u>(4,676,073)</u>	<u>(169,000)</u>	<u>(9,195,244)</u>		<u>(14,040,317)</u>
Total public support and revenues	<u>(2,443,511)</u>	<u>(113,500)</u>	<u>(9,195,244)</u>		<u>(11,752,255)</u>
Other income					
Interest income, net	6,535				6,535
Net losses on beneficial interest in endowment funds	<u>47,522</u>				<u>47,522</u>
Total other income	<u>54,057</u>				<u>54,057</u>
Decrease in net assets with donor restrictions	<u>(2,389,454)</u>	<u>(113,500)</u>	<u>(9,195,244)</u>		<u>(11,698,198)</u>
Increase (decrease) in net assets	(7,524,790)	239,094	3,914,310		(3,371,386)
Net assets (deficit) at beginning of year	<u>37,786,594</u>	<u>1,570,345</u>	<u>(7,278)</u>		<u>39,349,661</u>
Net assets at end of year	<u>\$ 30,261,804</u>	<u>\$ 1,809,439</u>	<u>\$ 3,907,032</u>	<u>\$</u>	<u>\$ 35,978,275</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, 2023, 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 November 16, 2023.

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.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

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*.

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
November 16, 2023

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, 2023. 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, 2023.

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
November 16, 2023

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

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2023

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Expenditures</u>	<u>Pass- through to Subrecipients</u>
Federal Awards				
<u>U.S. Department of Agriculture</u>				
Food and Nutrition Service:				
Passed through N.C. Department of Agriculture and Consumer Services - Food Distribution Division:				
Food Distribution Cluster:				
Emergency Food Assistance Program (Food Commodities)	10.569	22-009-2009 & 23-024-2002	\$ 4,654,748	\$ 4,191,974
COVID-19 - Emergency Food Assistance Program (Food Commodities)	10.569	22-009-2009 & 23-024-2002 22-009-2009	1,629,686	1,629,686
Emergency Food Assistance Program (Administrative Costs)	10.568	& 23-024-2002 22-009-2009	681,103	
COVID-19 - Emergency Food Assistance Program (Administrative Costs)	10.568	& 23-024-2002	<u>352,013</u>	
Total Food Distribution Cluster			<u>7,317,550</u>	<u>5,821,660</u>
Passed through N.C. Department of Health and Human Services - Division of Public Health:				
Child and Adult Food Program	10.558	09578	384,199	
Passed through YMCA of Northwest North Carolina:				
Child and Adult Food Program	10.558	8337	<u>123,811</u>	
Total Child and Adult Food Program			<u>508,010</u>	
Passed through N.C. Department of Health and Human Services - Division of Child and Family Well-Being:				
SNAP Cluster:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	43045 & 45192	<u>363,822</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, 2023

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Expenditures</u>	<u>Pass- through to Subrecipients</u>
Federal Awards (continued)				
<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	\$ <u>277,958</u>	\$ _____
Total U.S. Department of Agriculture			<u>8,467,340</u>	<u>5,821,660</u>
<u>U.S. Department of the Treasury</u>				
Passed through N.C. Department of Agriculture and Consumer Services - Food Distribution Division:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	200005733	2,153,273	
Passed through Forsyth County, North Carolina:				
Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP0271	<u>12,991</u>	
Total Coronavirus State and Local Fiscal Recovery Funds			<u>2,166,264</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:				
COVID-19 - Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	2101NCSSC6-00 & 2101NCHDC05	<u>318,600</u>	
Total expenditures of federal awards			<u>\$ 10,952,204</u>	<u>\$ 5,821,660</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, 2023

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>State/Pass-through Grantor's Number</u>	<u>Expenditures</u>	<u>Pass- through to Subrecipients</u>
State Awards				
<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>	\$ <u> </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, 2023. 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 (continued)
Year Ended June 30, 2023

Section II - Financial Statement Findings

None reported.

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, 2023

Reported findings for the year ended June 30, 2022:

Finding 2022-001 - Account Reconciliations

Status: Corrected.

Finding 2022-002 - Net Asset Restrictions

Status: Corrected.

Finding 2022-003 - General Journal Entries

Status: Corrected.

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