

**SECOND HARVEST FOOD BANK
OF EAST CENTRAL INDIANA, INC.
MUNCIE, INDIANA**

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
DECEMBER 31, 2019 AND 2018

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WHITINGER & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Second Harvest Food Bank
of East Central Indiana, Inc.
Muncie, Indiana

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Second Harvest Food Bank of East Central Indiana, Inc. (a non-profit organization), which comprise the statement of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of East Central Indiana, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of indirect public support on page 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Additionally, the accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2020, on our consideration of Second Harvest Food Bank of East Central Indiana, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Second Harvest Food Bank of East Central Indiana, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest Food Bank of East Central Indiana, Inc.'s internal control over financial reporting and compliance.

Whitinger & Company LLC

Certified Public Accountants
Muncie, Indiana

September 4, 2020

FINANCIAL STATEMENTS

1.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 550,147	\$ 327,491
Accounts receivable	29,480	31,503
Pledges receivable, current net of discount (Note 5)	286,589	48,022
Grants receivable	83,626	18,533
Inventory (Note 4)	2,081,298	1,730,775
Prepaid expense	<u>4,695</u>	<u>3,563</u>
 Total Current Assets	 <u>\$ 3,035,835</u>	 <u>\$ 2,159,887</u>
 PROPERTY AND EQUIPMENT (Note 2)		
Land and building	\$ 2,693,412	\$ 2,647,311
Equipment and fixtures	395,694	340,382
Vehicles	<u>409,618</u>	<u>431,263</u>
	\$ 3,498,724	\$ 3,418,956
Less accumulated depreciation	<u>(1,489,022)</u>	<u>(1,424,634)</u>
 Total Property and Equipment	 <u>\$ 2,009,702</u>	 <u>\$ 1,994,322</u>
 OTHER ASSETS		
Pledges receivable, long-term net of discount (Note 5)	\$ 544,927	\$ 31,000
Beneficial interest in endowments (Note 6 and 8)	119,967	91,006
Certificates of deposit	23,272	23,126
Other assets	<u>7,800</u>	<u>6,140</u>
 Total Other Assets	 <u>\$ 695,966</u>	 <u>\$ 151,272</u>
 Total Assets	 <u><u>\$ 5,741,503</u></u>	 <u><u>\$ 4,305,481</u></u>

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Accounts payable	\$ 19,377	\$ 42,274
Accrued salaries, wages, and vacation	49,459	32,507
Payroll benefits payable	<u>301</u>	<u>586</u>
Total Current Liabilities	<u>\$ 69,137</u>	<u>\$ 75,367</u>
 OTHER LIABILITIES		
Deposits	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Total Liabilities	<u>\$ 70,137</u>	<u>\$ 76,367</u>
 NET ASSETS (Note 9)		
Without donor restrictions	\$ 4,602,940	\$ 3,979,086
With donor restrictions	<u>1,068,426</u>	<u>250,028</u>
Total Net Assets	<u>\$ 5,671,366</u>	<u>\$ 4,229,114</u>
Total Liabilities and Net Assets	<u><u>\$ 5,741,503</u></u>	<u><u>\$ 4,305,481</u></u>

3.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
PUBLIC SUPPORT AND REVENUE			
Direct Public Support			
Donated food	\$ 12,407,071		\$ 12,407,071
Contributions	557,005	\$ 1,221,243	1,778,248
Special events	66,482		66,482
Total Direct Public Support	<u>\$ 13,030,558</u>	<u>\$ 1,221,243</u>	<u>\$ 14,251,801</u>
Indirect Public Support			
Federal award programs (schedule)	\$ 293,782		\$ 293,782
Other grants (schedule)	360,016	\$ 24,758	384,774
Total Indirect Public Support	<u>\$ 653,798</u>	<u>\$ 24,758</u>	<u>\$ 678,556</u>
Total Public Support	<u>\$ 13,684,356</u>	<u>\$ 1,246,001</u>	<u>\$ 14,930,357</u>
Other Revenue			
Food and shared maintenance	\$ 353,809		\$ 353,809
Other program revenue	1,400		1,400
Net investment income (expense)	1,459	\$ 3,282	4,741
Gain (loss) on investments	(54)	25,679	25,625
Loss on disposal of equipment			
Miscellaneous income	6,170		6,170
Rent income	99,258		99,258
Total Other Revenue	<u>\$ 462,042</u>	<u>\$ 28,961</u>	<u>\$ 491,003</u>
Total Public Support and Revenue	<u>\$ 14,146,398</u>	<u>\$ 1,274,962</u>	<u>\$ 15,421,360</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of donor and time restrictions	<u>\$ 456,564</u>	<u>\$ (456,564)</u>	
EXPENSES			
Programs	\$ 13,308,557		\$ 13,308,557
Management and general	384,901		384,901
Fundraising	285,650		285,650
Total Expenses	<u>\$ 13,979,108</u>		<u>\$ 13,979,108</u>
CHANGE IN NET ASSETS	\$ 623,854	\$ 818,398	\$ 1,442,252
NET ASSETS, BEGINNING OF YEAR	<u>3,979,086</u>	<u>250,028</u>	<u>4,229,114</u>
NET ASSETS, END OF YEAR	<u>\$ 4,602,940</u>	<u>\$ 1,068,426</u>	<u>\$ 5,671,366</u>

See accompanying Notes to Financial Statements.

2018			
Without Donor Restrictions	With Donor Restrictions	Total	Change
\$ 10,785,112		\$ 10,785,112	\$ 1,621,959
508,167	\$ 83,000	591,167	1,187,081
147,076		147,076	(80,594)
<u>\$ 11,440,355</u>	<u>\$ 83,000</u>	<u>\$ 11,523,355</u>	<u>\$ 2,728,446</u>
\$ 74,232		\$ 74,232	\$ 219,550
250,615	\$ 41,543	292,158	92,616
<u>\$ 324,847</u>	<u>\$ 41,543</u>	<u>\$ 366,390</u>	<u>\$ 312,166</u>
\$ 11,765,202	\$ 124,543	\$ 11,889,745	\$ 3,040,612
\$ 467,517		\$ 467,517	\$ (113,708)
13,350		13,350	(11,950)
1,285	\$ 31	1,316	3,425
	(12,825)	(12,825)	38,450
(8,821)		(8,821)	8,821
629		629	5,541
94,836		94,836	4,422
<u>\$ 568,796</u>	<u>\$ (12,794)</u>	<u>\$ 556,002</u>	<u>\$ (64,999)</u>
\$ 12,333,998	\$ 111,749	\$ 12,445,747	\$ 2,975,613
\$ 267,796	\$ (267,796)		
\$ 12,529,997		\$ 12,529,997	\$ 778,560
305,057		305,057	79,844
233,697		233,697	51,953
<u>\$ 13,068,751</u>		<u>\$ 13,068,751</u>	<u>\$ 910,357</u>
\$ (466,957)	\$ (156,047)	\$ (623,004)	<u>\$ 2,065,256</u>
4,446,043	406,075	4,852,118	
<u>\$ 3,979,086</u>	<u>\$ 250,028</u>	<u>\$ 4,229,114</u>	

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Programs	Management and General	Fundraising	Total
Salaries	\$ 489,372	\$ 212,398	\$ 106,441	\$ 808,211
Payroll related expense	80,440	34,912	17,496	132,848
 Total Salaries and Related Expenses	 \$ 569,812	 \$ 247,310	 \$ 123,937	 \$ 941,059
 Donated food distributed	 12,027,205			 12,027,205
Direct food distribution costs	152,274			152,274
Program - Forward STEPS	15,183			15,183
Program - Poverty Simulation	450			450
Grant expense and special projects	3,165			3,165
Telephone	7,194	3,597	2,531	13,322
Professional fees	71,367	35,683	25,110	132,160
Equipment lease	49,869	7,612	2,791	60,272
Postage	1,894	947	666	3,507
Printing	1,325	662	466	2,453
Office expense	7,313	3,657	2,573	13,543
Utilities	90,281	9,028	1,003	100,312
Buildings and ground maintenance	74,213	7,421	825	82,459
Commercial property insurance	11,727	5,863	4,126	21,716
General supplies	7,267	657	73	7,997
Equipment maintenance	12,552	1,508	355	14,415
Vehicle expense	70,931	9,334	2,705	82,970
Conferences and meetings		19,808		19,808
Organization dues		14,758		14,758
Mileage	8,965	5,478	2,158	16,601
Miscellaneous expense	11,173	100		11,273
Advertising	1,207		1,028	2,235
Interest expense		159		159
Direct fundraising			101,370	101,370
Special events			12,675	12,675
 Total Expenses Before Depreciation	 \$ 13,195,367	 \$ 373,582	 \$ 284,392	 \$ 13,853,341
 Depreciation expense	 113,190	 11,319	 1,258	 125,767
 Total Expenses	 \$ 13,308,557	 \$ 384,901	 \$ 285,650	 \$ 13,979,108

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Programs	Management and General	Fundraising	Total
Salaries	\$ 474,288	\$ 152,509	\$ 65,796	\$ 692,593
Payroll related expense	78,240	33,575	13,230	125,045
 Total Salaries and Related Expenses	 \$ 552,528	 \$ 186,084	 \$ 79,026	 \$ 817,638
 Donated food distributed	 11,112,342			 11,112,342
Direct food distribution costs	330,582			330,582
Program - Forward STEPS	8,720			8,720
Program - Poverty Simulation	975			975
Telephone	7,204	3,602	2,535	13,341
Professional fees	48,434	24,217	17,041	89,692
Equipment lease	32,579	4,589	1,496	38,664
Postage	2,289	1,144	805	4,238
Printing	4,467	2,234	1,572	8,273
Office expense	7,537	3,768	2,652	13,957
Utilities	93,075	9,307	1,034	103,416
Buildings and ground maintenance	57,385	5,739	638	63,762
Commercial property insurance	9,838	4,919	3,462	18,219
General supplies	12,470	1,038	116	13,624
Equipment maintenance	14,602	2,635	1,163	18,400
Vehicle expense	58,959	7,680	2,174	68,813
Conferences and meetings		15,164		15,164
Organization dues		13,212		13,212
Mileage	6,822	4,169	1,642	12,633
Miscellaneous expense	730	2,760	12,111	15,601
Donation of composting equipment	54,148			54,148
Advertising	2,706		2,306	5,012
Interest expense		1,642		1,642
Direct fundraising	63		89,334	89,397
Special events			13,351	13,351
 Total Expenses Before Depreciation	 \$ 12,418,455	 \$ 293,903	 \$ 232,458	 \$ 12,944,816
 Depreciation expense	 111,542	 11,154	 1,239	 123,935
 Total Expenses	 \$ 12,529,997	 \$ 305,057	 \$ 233,697	 \$ 13,068,751

7.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from food distribution services	\$ 355,832	\$ 477,895
Cash received from poverty alleviation services	7,199	17,560
Cash received from grants and contributions	1,674,216	1,133,088
Cash paid to suppliers and employees	(1,800,957)	(1,839,096)
Rent received	99,258	94,836
Interest received	7,728	4,127
Interest paid	<u>(159)</u>	<u>(1,642)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 343,117</u>	<u>\$ (113,232)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for buildings and improvements	\$ (46,101)	\$ (45,210)
Purchase of equipment	(95,047)	(109,817)
Change in endowment funds	(3,337)	(276)
Proceeds from the sale of donated investments	<u>24,024</u>	<u></u>
Net Cash Used For Investing Activities	<u>\$ (120,461)</u>	<u>\$ (155,303)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	\$ 30,000	
Payments on loan	<u>(30,000)</u>	<u>\$ (125,000)</u>
Net Cash Used For Financing Activities	<u>\$ -0-</u>	<u>\$ (125,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 222,656	\$ (393,535)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>327,491</u>	<u>721,026</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 550,147</u></u>	<u><u>\$ 327,491</u></u>

RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES

	<u>2019</u>	<u>2018</u>
CHANGE IN NET ASSETS	\$ 1,442,252	\$ (623,004)
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Depreciation expense	\$ 125,767	\$ 123,935
(Gain) loss on investments	(25,625)	12,825
Loss on disposal of equipment		8,821
Donation of composting equipment		54,148
Interest earned on long-term certificates of deposit	(144)	(116)
Other in-kind donations received	(25,684)	(6,140)
Cash flows provided by (used for) asset changes:		
Accounts receivable	2,023	10,378
Pledges receivable	(752,494)	46,500
Grants receivable	(65,093)	(7,696)
Inventory	(350,523)	315,750
Prepaid expense	(1,132)	445
Cash flows provided by (used for) liability changes:		
Accounts payable	(22,897)	(46,050)
Accrued salaries, wages, and vacation	16,952	(3,147)
Payroll benefits payable	(285)	119
Total Adjustments	<u>\$ (1,099,135)</u>	<u>\$ 509,772</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 343,117</u>	<u>\$ (113,232)</u>
NON-CASH OPERATING ACTIVITIES		
Donated food received	\$ 12,407,071	\$ 10,785,112
Donated food distributed	<u>(12,027,205)</u>	<u>(11,112,342)</u>
	<u>\$ 379,866</u>	<u>\$ (327,230)</u>
NON-CASH INVESTING ACTIVITIES		
Donation of composting equipment		\$ (54,148)
Other in-kind donations received	<u>\$ 25,684</u>	<u>6,140</u>
	<u>\$ 25,684</u>	<u>\$ (48,008)</u>

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Second Harvest Food Bank of East Central Indiana, Inc. (the Organization) is a regional food bank located in Muncie, Indiana. The Organization's programs are focused toward the goals of eliminating poverty, addressing food insecurity, and reducing childhood hunger. Its mission is to provide a coordinated approach to alleviating hunger in East Central Indiana.

The Organization operates a central warehousing facility which solicits food donations, holds the inventory and distributes the food through sales and donations to organizations that in turn give the food to the hungry. Food is distributed to qualified 501(c)(3) charities, known as member agencies and to the public through Organization sponsored initiatives. Most food received by the Organization is donated from the food industry although some food comes from the community. A small amount of food is purchased. Commodities from the United States Department of Agriculture (USDA) are also made available to member agencies. Other support consists of grants received from governments and nonprofit organizations as well as donations from individuals.

In October 2016, the Organization merged with the Delaware County based program, TEAMwork for Quality Living, providing a focus toward poverty alleviation within the community. The merger has enabled the Organization to provide families with not only food resources, but also resources that assist in becoming self-sufficient.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting records of Second Harvest Food Bank of East Central Indiana, Inc. are maintained on the accrual basis of accounting.

Financial Statement Presentation

The Organization prepares its financial statements in accordance with Financial Accounting Standards Board ("FASB") *Accounting Standards Codification ("ASC")*. FASB ASC 958-10-65, *Presentation of Financial Statements of Not-for-Profit Entities* establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset categories: "net assets without donor restrictions" and "net assets with donor restrictions".

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor- (or certain grantor-) imposed restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Inventory

Inventory consists of food and other grocery products that are valued at cost except for donated food which is reflected at fair market value based on Feeding America's Product Valuation Survey Methodology. The Organization evaluates perishable products on a continuing basis for spoilage and records a loss if spoilage occurs. No provision for estimated spoilage of inventory has been made, as management believes all inventory will be utilized prior to any spoilage.

Property and Equipment

Property and equipment are stated at cost as of the date of purchase or at fair value as of the date of donation. It is the Organization's policy to capitalize expenditures for these items in excess of \$1,000. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense was \$125,767 and \$123,935 in 2019 and 2018, respectively.

Building and improvements	15 to 39 years
Equipment and fixtures	5 to 10 years
Vehicles	5 to 10 years

When assets are sold or disposed, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss on the disposition is reflected in activities. Expenditures for maintenance and repairs are expensed when incurred. Expenditures that result in the enhancement of the value of the assets involved are treated as additions to property and equipment.

Accounts Receivable

The Organization's accounts receivable balance consists of amounts billed or billable for goods provided. Interest is not charged on outstanding balances.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Uncollectible Accounts*

Uncollectible receivables are charged directly against revenue when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America. For the years ended December 31, 2019 and 2018, there were no bad debts written off.

Support and Revenue

In accordance with FASB ASC 958, *Not-for-Profit Entities*, contributions received are recorded as support “without donor restrictions” and “with donor restriction”, depending on the existence and/or nature of any donor restrictions. FASB ASC 605-205-15 *Accounting for Contributions Received and Made*, requires that “unconditional promises to give” be recorded as receivables and revenue; and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor restrictions.

Contributions are generally available for unrestricted use in the various activities undertaken by the Organization unless specifically restricted by the donor. Contributions received as restricted by the donor for a specific purpose are reported as restricted until such time as the donor’s restriction expires. Restrictions are normally removed when the contributions are expended for the purpose restricted by the donor or the project for which the contributions were specifically donated is completed.

Donated food is recorded as support at its estimated fair market value. Fair market value is based on Feeding America’s Product Valuation Survey Methodology. Commodities received through the USDA are valued based on price listings set forth by the USDA. Donated food and commodities are recorded as inventory at the estimated fair market value until distributed.

Donated Services

The Organization receives donated services from unpaid volunteers who assist the Organization in the food sorting activities. Approximately 26,943 volunteer hours were utilized during 2019. Contributed services have not been recognized in the accompanying statements of activities because the criteria for recognition in the financial statements have not been satisfied.

Functional Allocation of Expenses

The Organization’s principal activities are food distribution and poverty alleviation. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among program and supporting services benefited. The financial statements may report certain categories of expense that are attributed to more than one program or supporting function.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Functional Allocation of Expenses (continued)

Expenses are allocated to each program based on direct expenditures incurred. Program expenditures relating to more than one function are allocated based on estimates made by management according to periodic time, utilized space, and other expense studies. Program expenses are those related to food distribution, education, and resources. Management and general expenses relate to administrative expenses associated to those programs and are allocated based on estimates of time and effort considered by management to be reasonable. Fundraising relates to direct cost of special events and development activities carried on by the Organization as well as the allocation of employees' salaries, when applicable, and other costs involved in fundraising and special events.

Income Taxes

The Organization is exempt from income taxes under *Section 501(c)(3)* of the *Internal Revenue Code*. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of *Section 509(a)* of the *Internal Revenue Code*.

The Organization's federal and state income tax returns are subject to examination by taxing authorities, generally for three years after they were filed.

Shipping and Handling

Shipping and handling costs are expensed as incurred under program expense and are included within direct food distribution costs. For the years ended December 31, 2019 and 2018, shipping and handling costs were \$36,203 and \$65,650, respectively.

Advertising

The Organization expenses advertising costs as incurred. For the years ended December 31, 2019 and 2018, advertising costs amounted to \$2,235 and \$5,012, respectively. Advertising costs are reported within the statement of functional expenses.

Date of Management's Review

Management has evaluated subsequent events through the date on which the financial statements were made available to be issued. The date is the same as the independent auditor's report date.

Reclassification

Certain prior year amounts have been reclassified to conform to current year presentation.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Recent Accounting Pronouncements*

In May 2014, the FASB issued *ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)*. The amendments in this *ASU* create *Topic 606, Revenue from Contracts with Customers*, and supersede the revenue requirements in *Topic 605, Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the *Industry Topics of the Accounting Standards Codification* (the *Codification*). In summary, the core principle of *Topic 606* is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this *ASU* are effective for the Organization for annual reporting periods beginning January 1, 2020. Management is evaluating the potential impact of this new guidance on the financial statements.

In February 2016, the FASB issued *ASU No. 2016-02, Leases (Topic 842)*. The standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the statements of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard will be effective for fiscal years beginning January 1, 2021. Management is evaluating the potential impact of this new guidance on the financial statements.

In June 2018, the FASB issued *ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for contributions received by the Organization for annual reporting periods beginning January 1, 2020, and for contributions made by the Organization for periods beginning January 1, 2020, with early adoption permitted. Management is evaluating the potential impact of this new guidance on the financial statements.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

3. **LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018, are comprised as follows:

	2019	2018
Operating Financial Assets:		
Cash and cash equivalents	\$ 471,276	\$ 247,491
Accounts receivable	29,480	31,503
Grants receivable	83,626	18,533
Certificates of deposit	23,272	23,126
	<u>\$ 607,654</u>	<u>\$ 320,653</u>

Reconciliation of Net Assets Without Donor Restrictions
to Financial Assets Available to Meet Cash Needs:

Net assets without donor restrictions	\$ 4,602,940	\$ 3,979,086
Less:		
Inventory	(2,081,298)	(1,730,775)
Prepaid expense	(4,695)	(3,563)
Property and equipment, net	(2,009,702)	(1,994,322)
Donated investments	(7,800)	(6,140)
Add:		
Discount on pledge receivable	38,072	
Accounts payable	19,377	42,274
Accrued salaries, wages, and vacation	49,459	32,507
Payroll benefits payable	301	586
Deposits	1,000	1,000
	<u>\$ 607,654</u>	<u>\$ 320,653</u>

The Organization's annual operating cash needs are determined during their budgeting process. General expenditures include management and general, program, and fundraising expenses expected to be paid in a subsequent year. Cash is monitored daily and evaluated by management.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

4. **INVENTORY**

Inventory consisted of the following at December 31, 2019 and 2018:

	2019	2018
Donated food	\$ 1,457,226	\$ 1,448,376
Purchased food	24,378	39,252
USDA commodities	599,694	243,147
Total	<u>\$ 2,081,298</u>	<u>\$ 1,730,775</u>

5. **PLEDGES RECEIVABLE**

Pledges receivable at December 31, 2019 and 2018, represent unconditional promises to give as follows:

	2019	2018
Unconditional promises to give	\$ 869,588	\$ 79,022
Less unamortized discount	(38,072)	
Net Pledge Receivables	<u>\$ 831,516</u>	<u>\$ 79,022</u>

Pledges receivable are due as follows:

	2019	2018
Due within less than one year	\$ 286,589	\$ 48,022
Due within one to five years (less unamortized discount)	544,927	31,000
	<u>\$ 831,516</u>	<u>\$ 79,022</u>

Pledges can be both unrestricted and donor-restricted in nature. Pledges receivable with due dates extending beyond one year are discounted at the prime interest rate. The applicable interest rate at December 31, 2019 was 4.75%. A discount was not taken in 2018. Uncollectible pledges are not expected to be significant; accordingly, no provision has been made for uncollectible amounts. Amortization of the discount is reported in the statement of activities as public support revenue.

6. **BENEFICIAL INTEREST IN ENDOWMENTS**

The Organization has established nine endowment funds with community foundations in East Central Indiana. The Organization transferred monies from its investment portfolios to establish the funds. At the time of the transfer, the Organization granted variance power to the foundations. That power gives the foundation the right to distribute the investment income to another not-for-profit organization of its choice if the Organization ceases to exist or if the governing board of the foundation votes that support of the Organization is no longer necessary or is inconsistent with the mission and purposes of the community foundation. At December 31, 2019 and 2018, the endowment funds had values of \$119,967 and \$91,006, respectively.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

7. **FAIR VALUE MEASUREMENTS**

The following table presents the fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Beneficial interest in endowments	\$ 119,967		\$ 119,967	
Donated food inventory	1,457,226		1,457,226	
USDA commodities	599,694		599,694	
	<u>\$ 2,176,887</u>	<u>\$ -0-</u>	<u>\$ 2,176,887</u>	<u>\$ -0-</u>
December 31, 2018				
Beneficial interest in endowments	\$ 91,007		\$ 91,007	
Donated food inventory	1,448,376		1,448,376	
USDA commodities	243,147		243,147	
	<u>\$ 1,782,530</u>	<u>\$ -0-</u>	<u>\$ 1,782,530</u>	<u>\$ -0-</u>

FASB ASC 820, Fair Value, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under *FASB ASC 820* are described as follows:

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

7. **FAIR VALUE MEASUREMENTS** (continued)

Level 1 Fair Value Measurements – Inputs that utilize unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Fair Value Measurements – Inputs that are other than unadjusted quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date. (The fair value of the Organization’s beneficial interest in endowment funds is based on valuations provided by the participating community foundations. The fair value of the Organization’s donated food inventories and USDA commodities is based on Feeding America’s Product Valuation Survey Methodology.)

Level 3 Fair Value Measurements – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions as there is little, if any, related market activity.

8. **ENDOWMENT**

The Organization’s endowments consist of nine individual funds established to support the charitable purposes of the Organization. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the nature of the endowment restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Indiana act of the *Uniform Prudent Management of Institutional Funds* (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as donor-restricted net assets (a) the original value of the gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 fund that is not classified as perpetual is still considered donor-restricted until those amounts are appropriated for expenditure by the foundation in a manner consistent with the standard of prudence prescribed by the Act. The Organization is subject to the investment and spending policies of each community foundation.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

8. **ENDOWMENT** (continued)

Endowment Net Assets

	Without Donor Restriction	With Donor Restriction		Total
		Spendable	Perpetual	
Beneficial interest in endowments	\$ 0	\$ 37,832	\$ 82,135	\$ 119,967
Total Endowment Funds	<u>\$ 0</u>	<u>\$ 37,832</u>	<u>\$ 82,135</u>	<u>\$ 119,967</u>

Changes in endowment net assets for the year ended December 31, 2019, were as follows:

	Without Donor Restriction	With Donor Restriction		Total
		Spendable	Perpetual	
Endowment net assets at December 31, 2018	\$ 0	\$ 8,871	\$ 82,135	\$ 91,006
Contributions			-0-	-0-
Investment return				
Investment income		6,412		6,412
Investment expense		(3,130)		(3,130)
Net realized gain		2,648		2,648
Net unrealized gain		23,031		23,031
Appropriation of endowment assets for expenditures		<u>0</u>		<u>0</u>
Endowment Net Assets at December 31, 2019	<u>\$ 0</u>	<u>\$ 37,832</u>	<u>\$ 82,135</u>	<u>\$ 119,967</u>

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

8. **ENDOWMENT** (continued)

Endowment Net Assets (continued)

	Without Donor Restriction	With Donor Restriction		Total
		Spendable	Perpetual	
Beneficial interest in endowments	\$ 0	\$ 8,871	\$ 82,135	\$ 91,006
Total Endowment Funds	\$ 0	\$ 8,871	\$ 82,135	\$ 91,006

Changes in endowment net assets for the year ended December 31, 2018, were as follows:

	Without Donor Restriction	With Donor Restriction		Total
		Spendable	Perpetual	
Endowment net assets at December 31, 2017	\$ 0	\$ 21,918	\$ 81,635	\$ 103,553
Contributions			500	500
Investment return				
Investment income		2,959		2,959
Investment expense		(2,927)		(2,927)
Net realized gain		1,290		1,290
Net unrealized loss		(14,115)		(14,115)
Appropriation of endowment assets for expenditures		(254)		(254)
Endowment Net Assets at December 31, 2018	\$ 0	\$ 8,871	\$ 82,135	\$ 91,006

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

8. **ENDOWMENT** (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level of donor-restricted assets required to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported as a reduction in the donor-restricted perpetual net assets. At December 31, 2019 there was no deficiency within the endowment funds. At December 31, 2018 the balance of this deficiency was \$7,958. Deficiencies are a result of unfavorable market declines and distributions in excess of principal over the past years.

9. **NET ASSETS**

Donor-restricted net assets as of December 31, 2019 and 2018, consist of:

	<u>2019</u>	<u>2018</u>
Permanent endowment funds	\$ 82,135	\$ 82,135
Permanent endowment funds with deficiencies		(8,259)
Accumulated earnings from endowment funds	37,832	17,130
Unexpended grants and donations	<u>948,459</u>	<u>159,022</u>
Total	<u>\$ 1,068,426</u>	<u>\$ 250,028</u>

At December 31, 2019 and 2018, the cash and cash equivalent balances on the statement of financial position included donor-restricted net assets totaling \$78,870 and \$80,000, respectively.

10. **OPERATING LEASES**

The Organization leases office equipment under non-cancelable lease agreements and vehicles as needed. The future minimum lease payments under the non-cancelable operating lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 54,094
2021	43,671
2022	20,923
2023	20,443
2024	<u>18,739</u>
	<u>\$ 157,870</u>

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

NOTES TO FINANCIAL STATEMENTS

10. **OPERATING LEASES** (continued)

Total rent expense for the years ended December 31, 2019 and 2018, was \$60,272 and \$38,664, respectively.

The Organization receives rent from leases of warehouse space (on a month-to-month basis) and farm ground. Rent income for the years ended December 31, 2019 and 2018, was \$99,258 and \$94,836, respectively.

11. **SIMPLE IRA**

The Organization maintains a SIMPLE IRA plan for participating employees. The Organization's contributions to the plan as the employer were \$6,245 and \$6,125 in 2019 and 2018, respectively.

12. **CONCENTRATION RISK**

The Organization maintains its cash balances in four financial institutions located in Muncie, Indiana. The balances at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Throughout the year, there may be times that balances in the bank may exceed the FDIC limit. At December 31, 2019, the Organization had no uninsured cash balances with these financial institutions.

For the years of 2019 and 2018, respectively, the Organization received food donations from the U.S. Department of Agriculture through The Emergency Food Assistance Program (TEFAP) which approximated 29% and 19% of its total direct support.

13. **SUBSEQUENT EVENTS**

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization declared that the outbreak constituted a "Public Health Emergency of International Concern." The outbreak has disrupted supply chains and affected production and sales across a range of industries. The extent of the impact of the outbreak on the Organization's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on donors, employees and vendors all of which are uncertain and cannot be predicted. The extent of impact to financial condition or results of operations is uncertain.

SUPPLEMENTAL INFORMATION

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

SCHEDULE OF GRANT REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Federal Award Programs		
State of Indiana - USDA Commodities	\$ 293,782	\$ 74,232
	<u>\$ 293,782</u>	<u>\$ 74,232</u>
Other Grants		
United Way of Delaware County	\$ 24,758	\$ 11,043
United Way of Jay County	4,000	4,000
Indiana State Department of Agriculture	23,430	24,570
Community Foundation of Wabash County	6,500	4,000
Community Foundation of Madison County	16,000	6,085
Community Foundation of Muncie and Delaware County	25,000	30,000
Community Foundation of Henry County	7,223	7,573
Community Foundation of Portland		5,000
Community Foundation of Randolph County	9,700	10,000
Ball Brothers Foundation	25,000	30,000
Community Champions Fund	5,000	12,500
Duke Energy Foundation	20,000	
Feeding America	96,513	34,879
Ford Meter Box Foundation, Inc.		2,500
Gaither Charitable Foundation	10,000	10,000
Gannett Foundation	2,500	
MutualBank Charitable Foundation	10,000	17,500
Old National Bank Foundation	7,500	
SIA Foundation	13,000	
Shafer Foundation	15,000	15,000
The Boren Foundation	51,000	30,000
The Glick Fund	10,000	7,500
Tyson Foods, Inc.		28,000
The Walmart Foundation	1,150	
Miscellaneous grants	1,500	2,008
	<u>\$ 384,774</u>	<u>\$ 292,158</u>

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<i>Food Distribution Cluster</i>			
U.S. Department of Agriculture			
Pass-through Programs From:			
Indiana State Department of Health			
The Emergency Food Assistance Program - Administrative Costs	10.568	29184	\$ 196,389
	10.568	38146	<u>18,981</u>
			<u>\$ 215,370</u>
The Emergency Food Assistance Program - Food Commodities	10.569		<u>\$ 3,855,671</u>
Total Food Distribution Cluster			<u>\$ 4,071,041</u>
<i>Other Programs</i>			
U.S. Department of Agriculture			
Pass-through Programs From:			
Indiana State Department of Health			
The Trade Mitigation Program Administrative Costs	10.178	36098	<u>\$ 78,412</u>
Total Pass-through Programs			<u>\$ 4,149,453</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,149,453</u></u>

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019****NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Second Harvest Food Bank of East Central Indiana, Inc. under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

NOTE C – INDIRECT COST RATE

Second Harvest Food Bank of East Central Indiana, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE D – FOOD DONATIONS

Food received through the U.S. Department of Agriculture is valued at estimated cost provided by the program. At December 31, 2019, the Organization had food commodities from the program totaling \$599,694 in inventory.

SPECIAL REPORTS



WHITINGER & COMPANY^{LLC}
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Board of Directors
Second Harvest Food Bank of
East Central Indiana, Inc.
Muncie, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of East Central Indiana, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank of East Central Indiana, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank of East Central Indiana, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Food Bank of East Central Indiana, Inc.'s internal control.

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

Our consideration of the 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of East Central Indiana, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.'S RESPONSE TO FINDINGS

Second Harvest Food Bank of East Central Indiana, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Second Harvest Food Bank of East Central Indiana, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Certified Public Accountants
Muncie, Indiana

September 4, 2020



WHITINGER & COMPANY^{LLC}
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Board of Directors
Second Harvest Food Bank of
East Central Indiana, Inc.
Muncie, Indiana

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Second Harvest Food Bank of East Central Indiana, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank of East Central Indiana, Inc.'s major federal programs for the year ended December 31, 2019. Second Harvest Food Bank of East Central Indiana, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Second Harvest Food Bank of East Central Indiana, Inc.'s compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Second Harvest Food Bank of East Central Indiana, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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



Certified Public Accountants
Muncie, Indiana

September 4, 2020

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued.	Unmodified	
Internal control over financial reporting: Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> X </u> yes	_____ none reported
Noncompliance material to financial statements noted?	<u> X </u> yes	_____ no

Federal Awards

Internal control over major federal programs: Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	<u> X </u> none reported
Type of auditor's report issued on compliance for major programs.	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with <i>2 CFR Section 200.516(a)</i> ?	_____ yes	<u> X </u> no

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Section 1 - Summary of Auditor's Results (continued)

Identification of major programs:

<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Name of Federal Program or Cluster</u>
10.568	29184	The Emergency Food Assistance Program - Administrative Costs
10.568	38146	
10.569	----	The Emergency Food Assistance Program - Food Commodities

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes X no

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019****Section 2 - Financial Statement Findings****Finding 2019-001 - Capitalization of Equipment Costs**

Federal Program Information: Not Applicable

Criteria: FASB Accounting Standards Codification *ASC 360, Property, Plant, and Equipment*, notes that the historical costs of acquiring an asset includes the costs necessary to bring the asset to the condition and location necessary for its intended use. The Organization has an established policy to capitalize asset purchases and installation costs of \$1,000 or greater.

Condition: The Organization has in place, an established policy to capitalize asset purchases with costs of \$1,000 or greater. During 2019, material capital expenditures and the costs associated with placing the acquired items into service were posted to the general ledger as an expense rather than being recorded as an asset of the company.

Cause: The likely cause of the finding stems from: 1) a lack in personnel training regarding the Organization's internal policies, and 2) a breakdown in communication regarding capital purchases with personnel responsible for maintaining the fixed asset inventory.

Effect: An overstatement of Organization's expenses totaling \$84,254 resulted from the misposting of computer equipment, software and implementation costs, and building improvements as an expense.

Questioned Costs: Capital assets totaling \$84,254 were posted to the general ledger as expense for the year rather than classifying them as property or equipment.

Recommendation: We propose Organization management and staff periodically focus on the review of internal accounting policies for appropriate application and revision.

Views of Responsible Officials and Planned Corrective Actions:

The Organization's management and accounting personnel concur with this finding and have applied these procedures over the subsequent calendar year.

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section 3 - Federal Awards Findings and Questioned Costs

No matters were reported

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section 2 – Financial Statement Findings

Finding: 2019-001 – Capitalization of Equipment Costs

Name of the contact person: Tim Kean, President & CEO

Corrective Action: Organization management reviewed and reaffirmed their established internal capitalization policies. Staff positions were assigned specific duties to coordinate record keeping and approvals.

Proposed Completion Date: September 30, 2020

SECOND HARVEST FOOD BANK OF EAST CENTRAL INDIANA, INC.**SCHEDULE OF PRIOR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019****Finding 2018-001 - Procurement, Suspension, and Debarment Policy**

Federal Program Information: CFDA 10.568 and 10.569 - The Emergency Food Assistance Program

Finding: The Organization does not have a written policy related to procurement and has not established formal procedures related to suspension and debarment.

Recommendation: We recommend the Organization align their written procurement, suspension, and debarment policy with section 200.320 of the *CFR* and implement a system of internal controls to address the federal compliance requirements.

Status: Resolved. Management has implemented their corrective action plan.