

Financial Report

*Second Harvest Food Bank of
Greater New Orleans and Acadiana*

June 30, 2019



Bourgeois Bennett
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS
A LIMITED LIABILITY COMPANY

Financial Report

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Greater New Orleans and Acadiana*

June 30, 2019

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Archbishop or Administrator of the
Archdiocese of New Orleans and Board of Directors,
Second Harvest Food Bank of Greater New Orleans and Acadiana,
New Orleans, Louisiana.

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest"), a non-profit organization, which comprise the statements of financial position as of June 30, 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 controls 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the financial statements. Schedule 2 is presented for purposes of additional analysis and is required by Louisiana Revised Statute 24:513(A)(3) and is not a required part of the financial statements. Such information in Schedule 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on the supplemental information. The accompanying supplemental information is not intended to present Second Harvest's financial position and results of operations. The information in Schedule 2 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 in Schedule 2 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 December 16, 2019, on our consideration of Second Harvest'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 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 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's internal control over financial reporting and compliance.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana.
December 16, 2019.

STATEMENTS OF FINANCIAL POSITION

Second Harvest Food Bank of Greater New Orleans and Acadiana

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 139,953	\$ 373,135
Contributions receivable:		
Pledges	1,323,160	73,471
United Way	276,983	306,236
Give NOLA	55,610	37,529
Grants receivable	1,256,373	1,427,596
Other receivables	166,410	151,222
Prepaid and other assets	62,235	72,474
Investments	3,194,195	3,023,704
Inventory	7,566,142	4,870,687
Derivative asset	-	32,921
	<u>14,041,061</u>	<u>10,368,975</u>
Noncurrent Assets:		
Pledges receivable, noncurrent	3,774,260	-
Property and equipment - net	10,675,435	10,940,506
Investments	1,275,384	1,304,000
Other assets	24,357	22,627
	<u>15,749,436</u>	<u>12,267,133</u>
Total assets	<u>\$ 29,790,497</u>	<u>\$ 22,636,108</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	2019	2018
Current Liabilities:		
Accounts payable and accrued expenses	\$ 679,016	\$ 704,130
Capital lease obligations, current	96,309	74,451
Note payable, current	229,476	229,476
Due to Archdiocese of New Orleans	114	504,232
Derivative liability	27,383	-
Other liabilities	9,663	12,413
	<u>1,041,961</u>	<u>1,524,702</u>
Noncurrent Liabilities:		
Capital lease obligations, net of current amounts	468,673	425,868
Note payable, net of current maturities	3,136,178	3,365,655
	<u>4,646,812</u>	<u>5,316,225</u>
Net Assets:		
Without donor restrictions:		
Designated	2,229,008	2,096,219
Undesignated	15,142,204	12,664,383
	<u>17,371,212</u>	<u>14,760,602</u>
With donor restrictions	7,772,473	2,559,281
	<u>25,143,685</u>	<u>17,319,883</u>
Total liabilities and net assets	<u>\$ 29,790,497</u>	<u>\$ 22,636,108</u>

STATEMENT OF ACTIVITIES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Revenues and Other Support			
Public support:			
Donations of food, grocery, and other products from producers and brokers	\$ 36,217,860	\$ -	\$ 36,217,860
Contributions, donations, and grants	5,053,974	5,760,802	10,814,776
Contributed goods and services	12,000	-	12,000
United Way			
Southeast Louisiana:			
Allocations	-	45,000	45,000
Designations	77,605	-	77,605
St. Charles - allocations	-	170,800	170,800
St. John - allocations	-	30,000	30,000
Other - allocations	1,603	5,000	6,603
Special events	412,728	-	412,728
	<u>41,775,770</u>	<u>6,011,602</u>	<u>47,787,372</u>
Governmental financial assistance:			
U.S.D.A. commodities	20,954,419	-	20,954,419
U.S.D.A. administration	1,056,901	-	1,056,901
Fees and grants from other federal agencies	502,856	-	502,856
Non-Federal fees and grants	785,570	-	785,570
	<u>23,299,746</u>	<u>-</u>	<u>23,299,746</u>
Other Revenue			
Program generated	368,957	-	368,957
Investment income	94,630	47,282	141,912
Rental income	128,710	-	128,710
Other	165,857	-	165,857
Net assets released from restrictions	845,692	(845,692)	-
	<u>1,603,846</u>	<u>(798,410)</u>	<u>805,436</u>
Total other revenue	<u>1,603,846</u>	<u>(798,410)</u>	<u>805,436</u>
Total revenue	<u>66,679,362</u>	<u>5,213,192</u>	<u>71,892,554</u>

**Exhibit B-1
(Continued)**

	Without Donor Restrictions	With Donor Restrictions	Totals
Expenses			
Program services	61,280,187	-	61,280,187
Management and general	1,219,069	-	1,219,069
Fundraising	1,509,192	-	1,509,192
	<u>64,008,448</u>	<u>-</u>	<u>64,008,448</u>
Change in Net Assets Before Change in Liability on Interest Rate Swap Agreement	2,670,914	5,213,192	7,884,106
Change in liability on interest rate swap agreement (Note 15)	<u>(60,304)</u>	<u>-</u>	<u>(60,304)</u>
Change in Net Assets	2,610,610	5,213,192	7,823,802
Net Assets			
Beginning of year	<u>14,760,602</u>	<u>2,559,281</u>	<u>17,319,883</u>
End of year	<u>\$ 17,371,212</u>	<u>\$ 7,772,473</u>	<u>\$ 25,143,685</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Revenues and Other Support			
Public support:			
Donations of food, grocery, and other products from producers and brokers	\$ 44,300,699	\$ -	\$ 44,300,699
Contributions, donations, and grants	4,708,992	960,710	5,669,702
Contributed goods and services	48,111	-	48,111
United Way			
Southeast Louisiana:			
Allocations	-	50,000	50,000
Designations	80,827	-	80,827
Combined Federal Campaign	26,903	-	26,903
St. Charles - allocations	-	162,800	162,800
Acadiana - allocations	4,839	33,875	38,714
St. John - allocations	-	30,000	30,000
Other - allocations	-	17,896	17,896
Special events	399,589	-	399,589
	<u>49,569,960</u>	<u>1,255,281</u>	<u>50,825,241</u>
Total public support			
Governmental financial assistance:			
U.S.D.A. commodities	13,147,913	-	13,147,913
U.S.D.A. administration	759,003	-	759,003
H.U.D. - Community Development			
Block Grant	308,427	-	308,427
Fees and grants from other federal agencies	708,245	-	708,245
Non-Federal fees and grants	841,907	-	841,907
	<u>15,765,495</u>	<u>-</u>	<u>15,765,495</u>
Total governmental financial assistance			
Other Revenue			
Program generated	407,467	-	407,467
Investment income	250,291	122,213	372,504
Rental income	20,627	-	20,627
Other	175,736	-	175,736
Net assets released from restrictions	826,188	(826,188)	-
	<u>1,680,309</u>	<u>(703,975)</u>	<u>976,334</u>
Total other revenue			
	<u>67,015,764</u>	<u>551,306</u>	<u>67,567,070</u>
Total revenue			

**Exhibit B-2
(Continued)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Expenses			
Program services	65,354,666	-	65,354,666
Management and general	1,259,155	-	1,259,155
Fundraising	1,344,390	-	1,344,390
	<u>67,958,211</u>	<u>-</u>	<u>67,958,211</u>
Change in Net Assets Before Change in Liability on Interest Rate Swap Agreement	(942,447)	551,306	(391,141)
Change in liability on interest rate swap agreement (Note 15)	<u>100,025</u>	<u>-</u>	<u>100,025</u>
Change in Net Assets	(842,422)	551,306	(291,116)
Net Assets			
Beginning of year	<u>15,603,024</u>	<u>2,007,975</u>	<u>17,610,999</u>
End of year	<u>\$ 14,760,602</u>	<u>\$ 2,559,281</u>	<u>\$ 17,319,883</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2019

	<u>Food Distribution</u>	<u>Social Enterprise</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 2,243,912	\$ 157,853	\$ 2,401,765	\$ 751,777	\$ 719,928	\$ 3,873,470
Employee benefits and taxes	577,231	30,837	608,068	213,646	159,820	981,534
Personnel development and recruitment	28,022	122	28,144	32,105	2,885	63,134
	<u>2,849,165</u>	<u>188,812</u>	<u>3,037,977</u>	<u>997,528</u>	<u>882,633</u>	<u>4,918,138</u>
Total salaries and related expenses	2,849,165	188,812	3,037,977	997,528	882,633	4,918,138
Food distribution	55,224,345	31,600	55,255,945	-	22	55,255,967
Mailings and solicitations	388,526	-	388,526	2,631	235,985	627,142
Occupancy	506,598	96,198	602,796	-	-	602,796
Transportation and freight	540,020	245	540,265	2,771	12,754	555,790
Depreciation	501,956	1,780	503,736	11,113	216	515,065
Professional fees and contract services	53,794	48,923	102,717	159,949	204,443	467,109
Other operating expenses	153,131	140,359	293,490	5,985	78,693	378,168
Insurance	230,478	881	231,359	-	-	231,359
Supplies	176,654	7,097	183,751	14,825	23,208	221,784
Equipment expenses	136,273	3,352	139,625	24,267	1,323	165,215
Special events	-	-	-	-	69,915	69,915
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,915</u>	<u>69,915</u>
Total expenses	<u>\$ 60,760,940</u>	<u>\$ 519,247</u>	<u>\$ 61,280,187</u>	<u>\$ 1,219,069</u>	<u>\$ 1,509,192</u>	<u>\$ 64,008,448</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2018

	<u>Food Distribution</u>	<u>Social Enterprise</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 2,419,653	\$ 115,379	\$ 2,535,032	\$ 733,497	\$ 567,872	\$ 3,836,401
Employee benefits and taxes	622,590	22,539	645,129	164,145	125,347	934,621
Personnel development and recruitment	86,228	420	86,648	25,059	4,198	115,905
	<u>3,128,471</u>	<u>138,338</u>	<u>3,266,809</u>	<u>922,701</u>	<u>697,417</u>	<u>4,886,927</u>
Total salaries and related expenses						
Food distribution	58,917,221	-	58,917,221	-	-	58,917,221
Mailings and solicitations	428,625	-	428,625	-	244,636	673,261
Occupancy	556,481	112,793	669,274	-	-	669,274
Transportation and freight	574,346	-	574,346	2,322	2,248	578,916
Depreciation	467,365	3,341	470,706	11,700	-	482,406
Professional fees and contract services	231,958	990	232,948	198,514	208,755	640,217
Other operating expenses	90,108	141,699	231,807	76,430	101,607	409,844
Insurance	161,704	-	161,704	-	-	161,704
Supplies	230,968	1,349	232,317	3,981	19,490	255,788
Equipment expenses	160,249	8,660	168,909	43,507	-	212,416
Special events	-	-	-	-	70,237	70,237
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,237</u>	<u>70,237</u>
Total expenses	<u>\$ 64,947,496</u>	<u>\$ 407,170</u>	<u>\$ 65,354,666</u>	<u>\$ 1,259,155</u>	<u>\$ 1,344,390</u>	<u>\$ 67,958,211</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 7,823,802	\$ (291,116)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Receipts of donated product and U.S.D.A. commodities	(57,172,279)	(57,448,612)
Distributions of donated product and U.S.D.A. commodities	54,418,091	57,803,957
Interest accumulated on balance due to Archdiocese of New Orleans	114	4,232
Bad debt	-	25,269
Depreciation	515,065	482,406
Unrealized and realized gains on investments, net (Gain) loss on sale of assets	(12,786) 4,123	(217,714) (8,307)
Revenues restricted for the acquisition of property and equipment:		
Capital campaign contributions	(5,705,947)	-
Change in (asset) liability on interest rate swap agreement	60,304	(100,025)
Changes in assets and liabilities:		
Receivables and pledges	64,435	(880,807)
Other assets	(1,730)	(420)
Prepaid expenses	10,239	(7,970)
Inventory	58,733	(26,414)
Accounts payable and accrued expenses	(25,114)	144,212
Other liabilities	(2,750)	12,413
	<u>34,300</u>	<u>(508,896)</u>
Net cash provided by (used in) operating activities	<u>34,300</u>	<u>(508,896)</u>

**Exhibit D
(Continued)**

	<u>2019</u>	<u>2018</u>
Cash Flows From Investing Activities		
Purchases of investments	(129,089)	(144,222)
Proceeds from sale of investments	-	250,000
Purchases of property and equipment	(110,598)	(1,036,476)
Proceeds from sale of property and equipment	500	9,000
	<u>(239,187)</u>	<u>(921,698)</u>
Cash Flows From Financing Activities		
Collections of capital campaign contributions restricted for the acquisition of property and equipment	784,770	-
Repayments of capital lease obligation	(79,356)	(69,444)
Borrowings from Archdiocese of New Orleans	-	500,000
Repayments to Archdiocese of New Orleans	(504,232)	-
Principal payments on notes payable	(229,477)	(229,476)
	<u>(28,295)</u>	<u>201,080</u>
Net Decrease in Cash and Cash Equivalents	(233,182)	(1,229,514)
Cash and Cash Equivalents		
Beginning of year	373,135	1,602,649
End of year	<u>\$ 139,953</u>	<u>\$ 373,135</u>
Supplemental Disclosure for Cash Flow Information		
Cash paid during the year for interest	<u>\$ 172,553</u>	<u>\$ 168,037</u>
Property acquired through capital leases	<u>\$ 144,019</u>	<u>\$ 569,763</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS**Second Harvest Food Bank of Greater New Orleans and Acadiana**

June 30, 2019 and 2018

Note 1 - NATURE OF ACTIVITIES

Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest"), a Louisiana non-profit corporation, is a certified member of Feeding America. Its mission is to lead the fight against hunger and build food security in South Louisiana by providing food access, advocacy, education and disaster response. Second Harvest provides distribution of food and related products to qualified charitable organizations. The Archbishop or Administrator of the Archdiocese of New Orleans (the "Archdiocese") is the sole member of Second Harvest.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Basis of Accounting**

The financial statements of Second Harvest are prepared on the accrual basis of accounting.

b. Use of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

c. Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, Second Harvest considers all unrestricted, highly liquid, short-term investments, including money market account deposits, commercial paper investments, and certificates of deposit purchased with an initial maturity of 90 days or less to be cash equivalents.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Allowance for Doubtful Accounts

Second Harvest uses the reserve method to recognize uncollectible accounts. The reserve is based on management's assessment of the collectability of specific accounts. Management monitors outstanding receivable balances and charges off to bad debt expense any balances that are determined to be uncollectible. There was no bad debt expense for the year ended June 30, 2019. Bad debt expense totaled \$25,269 for the year ended June 30, 2018. As of June 30, 2019 and 2018, there was no reserve for bad debt.

e. Investments

Second Harvest records investments in the investment pool with the Catholic Foundation of the Archdiocese of New Orleans at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. Unrealized gains and losses on investments are recorded as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or law. Interest earned on donor restricted investments is reported based on the existence or absence of donor-imposed restrictions. Realized gains and losses on the sales of securities are determined using the specific-identification method. A decline in the fair value of investments below cost that is deemed to be other than temporary, results in a charge to the change in net assets and the establishment of a new cost basis for the investment.

f. Inventory

Second Harvest's inventory is comprised of donated food and grocery products, U.S.D.A. commodities, and purchased food and grocery products. Donated food and U.S.D.A. commodities inventory, including food received, distributed and undistributed, is valued using the estimated fair value as determined by the Feeding America Product Valuation Survey prepared by KPMG, LLP on an annual basis. The report provides the average wholesale value of products donated to the network and is considered to be a reasonable basis upon which to estimate these amounts. The average wholesale value used was \$1.62 and \$1.68 per pound for assorted donations and \$1.52 and \$1.57 per pound for food only donations for the years ended June 30, 2019 and 2018, respectively.

Purchased food inventory is recorded at cost. As of June 30, 2019 and 2018, there was no obsolete inventory.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Derivative Instruments

Second Harvest has a derivative instrument that is used as a hedge to the variable interest rate loan issued by a financial institution (Note 15).

Second Harvest follows Topic 815, *Derivatives and Hedges*, which requires Second Harvest to recognize all of its derivative instruments as either assets or liabilities on the Statements of Financial Position at fair value. The accounting for the change in fair value of the derivative instrument is recognized as a component of change in net assets without donor restrictions in the Statements of Activities.

h. Property and Equipment

Second Harvest has adopted the policy of capitalizing all expenditures for depreciable assets where the unit cost exceeds \$10,000. Property is stated at cost or at fair market value on the date of donation for donated assets. Depreciation of these assets is provided over their estimated useful lives, which ranges from three years to 50 years, on a straight-line basis. Repairs and maintenance are charged to expense as incurred; major renewals and replacements and betterments are capitalized.

For the years ended June 30, 2019 and 2018, depreciation expense totaled \$515,065 and \$482,406, respectively.

i. Financial Statement Presentation

Net assets are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Support, revenue, and expenses for general operations.

Net Assets With Donor Restrictions - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period or contributions subject to donor-imposed restrictions and that are to be held in perpetuity by Second Harvest.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Contributions and Revenue Recognition

Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in net assets with donor restrictions. Other support and/or contributions not restricted are recorded as net assets without donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as support without donor restrictions. The value of contributed goods and services has been recorded as support and revenue and expense in the period received, provided there is an objective basis for measurement of the value of such goods and services, and they are significant and form an integral part of the efforts of the program.

Contributions receivable are recognized when the donor makes a promise to give to Second Harvest that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give as of June 30, 2019 and 2018.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Such donations are reported as support without donor restrictions unless the donor has restricted the donated assets to a specific purpose. There were no donated assets received for the years ended June 30, 2019 and 2018.

k. Functional Allocation of Expenses

Most of the expenses can be directly allocated to programs or supporting functions. The financial statements also report certain categories of expenses that are attributable to both programs and supporting functions. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, employee benefits, and taxes which are allocated based on the number of employees by program or supporting function and mailings and solicitations which are allocated based on the portion attributable to each function.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Donated Services

Support arising from donated services is recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation.

There were no donated advertising services for the year ended June 30, 2019. During the year ended June 30, 2018 Second Harvest recognized \$22,165, for donated advertising services. The related advertising costs were expensed as incurred.

The donated volunteer services in Second Harvest's functional areas were 53,838 hours for the year ended June 30, 2019 and 61,230 hours for the year ended June 30, 2018. The services provided for the years ended June 30, 2019 and 2018 do not meet either criterion described above. The computation of the value of these services represents the amount of compensation, which would be paid if non-volunteer personnel were to occupy these positions. The 53,838 hours for the year ended June 30, 2019 and 61,230 hours for the year ended June 30, 2018 that do not meet either of the recognition criteria described above have not been recognized in the accompanying financial statements. The value for donated volunteer services for the years ended June 30, 2019 and 2018 was \$1,191,973 and \$1,511,769, respectively.

m. Income Taxes

Second Harvest operates as a non-profit corporation pursuant to section 501(c)(3) of the Internal Revenue Code. As such, Second Harvest is subject to income tax only on unrelated business taxable income.

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosures of uncertain tax positions recognized in an entity's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. As of June 30, 2019 and 2018, management of Second Harvest believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years ended June 30, 2016 and later remain subject to examination by the taxing authorities.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Recently Issued Accounting Standards

Presentation of Financial Statements for Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities"*, which changes the current guidance for assets classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profits to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The former option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and support functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the balance sheet date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. The ASU is effective for annual reporting periods beginning after December 15, 2017. Second Harvest has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard to the financial statements as of and for the year ended June 30, 2018.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Recently Issued Accounting Standards (Continued)

Leases

In February 2016, the FASB issued ASU 2016-02, "*Leases*" (*Topic 842*). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. Second Harvest is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows*" (*Topic 230*). ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in ASU 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Second Harvest is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Recently Issued Accounting Standards (Continued)

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, "*Revenue from Contracts with Customers*" (*Topic 606*), which provides a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes most current revenue recognition models. Subsequent to the issuance of ASU 2014-09, the FASB issued several additional ASUs which amended and clarified the guidance and deferred the effective date. The ASU is effective for annual reporting periods beginning after December 15, 2018, with certain early adoption provisions available. Second Harvest is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

o. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through December 16, 2019, which is the date the financial statements were available to be issued.

p. Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Note 3 - GRANTS RECEIVABLE

The grants receivable balances as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Baptist Community Ministries	\$ 325,001	\$ 464,130
U.S.D.A. distribution fees	179,990	83,658
Methodist Health System Foundation	160,000	240,000
Feeding America and Starbucks	150,000	-
Department of Children and Family Services	106,046	-
Department of Education - Summer Food Service Program	102,453	155,549
Joe W. and Dorothy Dorsett Brown Foundation	100,000	100,000
Other grants	107,883	4,985
Emeril Lagasse Foundation	25,000	-
Jefferson Parish - Department of Housing and Urban Development - Community Development Block Grant	-	308,427
United Healthcare	-	60,000
Walmart Foundation	-	6,110
City of Lafayette Consolidated Government	-	4,737
	\$ 1,256,373	\$ 1,427,596
Totals		

Note 4 - PLEDGES RECEIVABLE

Promises of donors to make contributions to Second Harvest are included in the financial statements as pledges receivable and contributions after discounting projected future cash flows to present value using a discount rate of 5% as determined by management to be a market rate of interest.

Note 4 - PLEDGES RECEIVABLE (Continued)

Pledges receivable as of June 30, 2019 and 2018 consist of the following:

	2019	2018
In less than one year	\$ 1,323,160	\$ 73,471
One to five years	4,346,916	-
Totals	5,670,076	73,471
Unamortized discount	(572,656)	-
Net pledges receivable	\$ 5,097,420	\$ 73,471

Second Harvest started a capital campaign during the year ended June 30, 2019 to help fund renovations to the warehouse. The pledges receivable balance includes approximately \$5,400,000 of capital campaign pledges before the amortized discount.

Note 5 - INVESTMENTS

Investments of the various agencies of the Archdiocese are held in pooled assets and separately invested portfolios. Pooled assets represent funds that are invested in a commingled portfolio of investments, as opposed to separately invested assets. Investments in such pooled assets consist primarily of debt and equity securities and mutual fund investments. The amounts recorded in the Statements of Financial Position represent Second Harvest's share of the pool.

The following summarizes the market value of investments and the investment return as of and for the years ended June 30, 2019 and 2018:

	2019	2018
Investment balances	\$ 4,469,579	\$ 4,327,704
Unrealized gain on investments	\$ 48,169	\$ 235,914
Realized loss on investments	(35,383)	(18,200)
Interest and dividend income	12,786	217,714
Investment income	\$ 141,912	\$ 372,504

Note 5 - INVESTMENTS (Continued)

The current and long-term values of investments are \$3,194,195 and \$1,275,384, respectively, as of June 30, 2019, and \$3,023,704 and \$1,304,000, respectively, as of June 30, 2018.

Note 6 - FAIR VALUE MEASUREMENTS

FASB ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value. Fair value concepts are applied in recording investments.

FASB ASC 820 establishes a fair value hierarchy which prioritizes inputs to valuation techniques used to measure fair value. The term "inputs" refers broadly to the assumptions that market participants would use in pricing an asset or liability. Inputs may be based on independent market data ("observable inputs") or they may be internally developed ("unobservable inputs"). The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad categories. These levels include Level 1, unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, directly or indirectly observable inputs other than quoted prices for the asset or liability, such as the quoted market prices for similar assets or liabilities; and Level 3, unobservable inputs for use when little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments of Second Harvest are held in pooled assets managed by the Archdiocese. The investments are valued on information provided by the Archdiocese. These investments are reported at net asset value (NAV) which approximates fair value and have no lockup provisions.

Investments measured at fair value using the NAV practical expedient have not been categorized in the fair value hierarchy and have no fixed redemption frequency, notice periods, or unfunded commitments as of June 30, 2019 and 2018.

The methods described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Second Harvest believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 6 - FAIR VALUE MEASUREMENTS (Continued)

As of June 30, 2019 and 2018, there were no assets measured at fair value on a non-recurring basis.

Note 7 - INVENTORY

Undistributed food and grocery products as of June 30, 2019 and 2018 consist of the following:

	2019		2018	
	Dollars	Pounds	Dollars	Pounds
Donated and purchased	\$3,267,056	2,081,695	\$4,070,085	2,627,252
U.S.D.A. commodities	4,299,086	2,811,572	800,602	509,938
Totals	<u>\$7,566,142</u>	<u>4,893,267</u>	<u>\$4,870,687</u>	<u>3,137,190</u>

Note 8 - SECOND HARVEST FOOD AND GROCERY PRODUCTS RECEIVED AND DISTRIBUTED

Second Harvest receipts and distribution of food and grocery products for the years ended June 30, 2019 and 2018 were as follows:

	2019		2018	
	Dollars	Pounds	Dollars	Pounds
Receipts:				
Donated product	\$36,217,860	22,593,049	\$44,300,699	26,650,747
Purchased product	1,373,546	679,409	987,174	1,076,639
U.S.D.A. commodities	20,954,419	13,785,802	13,147,913	8,374,467
Totals	<u>\$58,545,825</u>	<u>37,058,260</u>	<u>\$58,435,786</u>	<u>36,101,853</u>
Distributions,				
net of adjustments:				
Donated product	\$36,962,156	23,049,111	\$44,008,960	26,505,110
Purchased product	1,432,279	768,904	960,760	1,028,667
U.S.D.A. commodities	17,455,935	11,484,168	13,794,997	8,816,954
Totals	<u>\$55,850,370</u>	<u>35,302,183</u>	<u>\$58,764,717</u>	<u>36,350,731</u>

Note 9 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2019 and 2018 is as follows:

	2019	2018
Building and improvements	\$ 8,969,098	\$ 8,969,098
Land	1,960,000	1,960,000
Vehicles	2,269,162	2,078,114
Furniture, fixtures, and equipment	2,162,735	2,149,746
Construction in progress	155,590	127,968
Leasehold improvements	56,843	56,843
	15,573,428	15,341,769
Less: accumulated depreciation	(4,897,993)	(4,401,263)
Totals	\$10,675,435	\$10,940,506

Note 10 - CAPITAL LEASE OBLIGATIONS

Second Harvest has capital leasing arrangements for vehicles with varying imputed interest rates from approximately 4.5% to 5.8%. The leases require monthly payments, including interest, ranging from \$1,096 to \$2,025. The leases mature in months ranging from June 2023 through March 2026. The following is a schedule of capitalized costs and accumulated depreciation acquired through capital lease as of June 30, 2019 and 2018.

	2019	2018
Capitalized costs	\$713,782	\$569,763
Accumulated depreciation	(168,892)	(80,446)
Net book value	\$544,890	\$489,317

Depreciation expense on equipment acquired through the capital leases totaled \$88,446 and \$80,446 for the years ended June 30, 2019 and 2018, respectively.

Capitalized costs are included in the totals of vehicles in Note 9.

Interest expense on the capital lease obligations totaled \$26,233 and \$26,605 for the years ended June 30, 2019 and 2018, respectively.

Note 10 - CAPITAL LEASE OBLIGATIONS (Continued)

Future minimum payments under the capital lease obligations as of June 30, 2019 are as follows:

Year Ending June 30,	
2020	\$123,818
2021	123,818
2022	123,818
2023	123,818
2024	108,566
Thereafter	45,999
Total future payments	649,837
Less amount representing interest	(84,855)
Present value of net future payments	\$564,982

Note 11 - DESIGNATION OF NET ASSETS WITHOUT DONOR RESTRICTIONS

On March 6, 2013, the Board of Directors passed a resolution which approved the adoption of the Operating Reserve Policy. The Operating Reserve Policy of Second Harvest is designed to ensure the stability of Second Harvest's mission and ongoing operations. The Operating Reserve is intended to provide a source of funds for situations such as extraordinary expenses that arise, reserve variability, unanticipated losses of funding, or other unexpected financial events. The Operating Reserve is not intended to replace a permanent loss of funds or eliminate an ongoing budget deficit. Second Harvest's Operating Reserve will be supported by investments in the form of cash deposits or publicly traded investments to be available based on Finance Committee recommendations and Board of Directors' approvals. As of June 30, 2019 and 2018, the Operating Reserve requirements were \$2,229,008 and \$2,096,219, respectively.

Note 12 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes.

	2019	2018
Subject to expenditure for specified purpose:		
Capital campaign (See Note 4)	\$ 5,399,163	\$ -
Therapeutic food pantry	517,087	704,130
Food distribution program	201,000	246,771
Mobile pantry program	165,800	60,800
Backpack program	140,000	132,000
Food sourcing	50,900	-
School pantry program	13,139	101,580
Kids Café program	10,000	-
Fundraising	-	10,000
	<u>6,497,089</u>	<u>1,255,281</u>
Endowment fund	<u>1,275,384</u>	<u>1,304,000</u>
Total net assets with donor restrictions	<u>\$ 7,772,473</u>	<u>\$ 2,559,281</u>

During the years ended June 30, 2019 and 2018, net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or passage of time specified by donors.

	2019	2018
Food distribution program	\$ 246,770	\$ 225,312
Therapeutic food pantry	218,643	-
Backpack program	132,000	150,000
School pantry program	101,580	247,163
Transfer from endowment	75,899	71,213
Mobile pantry program	60,800	15,800
Fundraising	10,000	-
Community wellness program	-	51,700
Kids Café program	-	45,000
Cooking Matters program	-	10,000
Warehouse operations	-	10,000
	<u>\$ 845,692</u>	<u>\$ 826,188</u>
Totals	<u>\$ 845,692</u>	<u>\$ 826,188</u>

Note 13 - ENDOWMENT

The Board of Directors (the "Board") of Second Harvest is of the belief that they have a strong fiduciary duty to manage the assets of Second Harvest's endowment in the most prudent manner possible. The Board recognizes that the intent of the endowment is to protect the donor with respect to expenditures from endowments. If this intent is clearly expressed by the donor, whether the intent is in a written gift instrument or not, the intent of the donor is followed. Earnings, including appreciation, that are not required by the donor to be reinvested in corpus are maintained in net assets without donor restrictions.

The Endowments. Second Harvest's endowment fund consists of a restricted fund established for the purpose of generating income to support general operations. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During the year ended June 30, 2000, the donor amended the "Agreement to Donate" dated August 26, 1997, which revised the method of distributing the earnings to Second Harvest, whereby 5% of the average market value of the investment for the last twelve fiscal quarters is allowed to be distributed annually to Second Harvest. All amounts in excess of the 5% distribution are to be reinvested as corpus. The amended "Agreement to Donate" also required that the principal balance should not be reduced below \$1,000,000.

Interpretation of Relevant Law. Second Harvest is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions because those net assets cannot be spent, except as distributed according to the preceding paragraph. Second Harvest has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to the endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, Second Harvest considers a fund to be underwater if the fair value of the fund is less than the sum of:

- the original value of initial and subsequent gift amounts donated to the fund, and
- accumulations to the permanent endowment, made in accordance with donor's amended "Agreement to Donate".

Note 13 - ENDOWMENT (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions is classified as net assets without donor restrictions in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Second Harvest considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of Second Harvest and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Second Harvest
- The investment policies of Second Harvest

The composition of endowment net assets with donor restrictions as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Original donor-restricted gift amount required to be maintained in perpetuity by donor	\$ 1,000,000	\$ 1,000,000
Accumulated investment gains	<u>275,384</u>	<u>304,000</u>
With donor restrictions	<u>\$ 1,275,384</u>	<u>\$ 1,304,000</u>

Note 13 - ENDOWMENT (Continued)

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Endowment net assets,			
Beginning of year	\$286,665	\$1,304,000	\$1,590,665
Earnings	2,619	59,194	61,813
Fees	(2,619)	(11,911)	(14,530)
Transfers	<u>75,899</u>	<u>(75,899)</u>	<u>-</u>
Endowment net assets,			
End of year	<u>\$362,564</u>	<u>\$1,275,384</u>	<u>\$1,637,948</u>
	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
Endowment net assets,			
Beginning of year	\$215,452	\$1,253,000	\$1,468,452
Earnings	2,274	135,432	137,706
Fees	(2,274)	(13,219)	(15,493)
Transfers	<u>71,213</u>	<u>(71,213)</u>	<u>-</u>
Endowment net assets,			
End of year	<u>\$286,665</u>	<u>\$1,304,000</u>	<u>\$1,590,665</u>

Underwater Endowment Funds. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or SPMIFA requires Second Harvest to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur after the investment of contributions with perpetual duration. There were no such deficiencies in endowment net assets with donor restrictions as of June 30, 2019 and 2018.

Note 13 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters. Second Harvest follows the investment and spending policies of the Archdiocese through the Catholic Foundation as mandated by the "Agreement to Donate" for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term.

Strategies Employed for Achieving Objectives. The endowment's assets are invested in the Archdiocese of New Orleans' investment pool, as previously described. Second Harvest's spending and investment policies work together to achieve this objective.

Spending Policy and How Investment Objectives Relate to the Spending Policy. Spending is approved by the Board, based on the needs of Second Harvest.

Note 14 - AVAILABILITY OF FINANCIAL ASSETS

Second Harvest is substantially supported by contributions and grants on an unrestricted and restricted basis. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Second Harvest must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Second Harvest's liquidity management, management established a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Management established guidelines for making decisions related to managing short-term cash reserves and other investments in a prudent manner.

Second Harvest's Board of Directors also designates a portion of any operating surplus for a particular purpose. The Board of Directors designated reserves can be changed and made available for immediate use in the event of an urgent liquidity need.

The following reflects Second Harvest's financial assets as of June 30, 2019, reduced by amounts not available for general use because of donor-imposed restrictions.

Note 14 - AVAILABILITY OF FINANCIAL ASSETS (Continued)

Financial assets:		
Cash and cash equivalents	\$ 139,953	
Contributions receivable	5,430,013	
Grants receivable	1,256,373	
Other receivables	166,410	
Investments	<u>4,469,579</u>	
Total financial assets as of		
June 30, 2019	11,462,328	
Less amounts unavailable for general expenditures		
within one year, due to:		
Donor imposed restrictions:		
Restricted by donors with purpose restrictions	(6,497,089)	
Endowment fund	<u>(1,275,384)</u>	
Financial assets available to meet cash needs for		
general expenditures within one year before		
board designations		3,689,855
Less board designations		<u>(2,229,008)</u>
Financial assets available to meet cash needs		
for general expenditures within one year		<u>\$ 1,460,847 ⁽¹⁾</u>

⁽¹⁾ According to Feeding America, members shall demonstrate cash reserves without restrictions equal to or greater than an average quarter's cash operating expenses (based on the previous fiscal year audited financial statements excluding donated product, government purchased food and pass-through funds). Management believes this requirement is met.

Note 15 - NOTES PAYABLE AND INTEREST RATE SWAP AGREEMENT

On January 21, 2011, Second Harvest entered into a mortgage loan agreement totaling \$5,100,000. The loan was payable in monthly principal and interest amounts of \$31,703 at an interest rate of 4.22% beginning March 2011 through January 2016 with all remaining principal and interest due February 2016.

Note 15 - NOTES PAYABLE AND INTEREST RATE SWAP AGREEMENT (Continued)

On February 5, 2014, Second Harvest refinanced the mortgage loan balance of \$4,589,528. The loan is payable in monthly principal amounts of \$19,123 plus interest at a variable rate of interest (2.440% and 1.982% as of June 30, 2019 and 2018, respectively) based on USD-LIBOR BBA plus a base rate of 1.50% (3.940% and 3.482% as of June 30, 2019 and 2018, respectively) beginning March 2014 through February 2021 with all remaining principal and interest due February 2021. The loan is collateralized with land, building, and improvements. The loan balance as of June 30, 2019 and 2018 was \$3,365,654 and \$3,595,131, respectively.

In conjunction with this note, Second Harvest entered into an interest rate swap agreement with the financial institution whereby the current notional amount (\$3,365,654 as of June 30, 2019) bears interest at a fixed rate of 2.25% minus a variable interest rate based on the USD-LIBOR BBA (2.440% and 1.982% as of June 30, 2019 and 2018, respectively). The swap agreement is designed to hedge the risk of changes in interest rate payments on the refinanced mortgage loan.

Second Harvest has recognized an (unfavorable) favorable position with the counterparty in the amount of \$(27,383) and \$32,921 as a derivative (liability) asset on the Statements of Financial Position as of June 30, 2019 and 2018, respectively, and recorded an unrealized loss of \$60,304 and an unrealized gain of \$100,025 on the Statements of Activities for the years ended June 30, 2019 and 2018, respectively.

Future principal and interest payments to be made on the note and swap agreement are as follows:

	Principal	Interest	Totals
2020	\$ 229,476	\$122,268	\$ 351,744
2021	3,136,178	76,732	3,212,910
	\$3,365,654	\$199,000	\$3,564,654

Interest expense on the note payable and swap agreement for the years ended June 30, 2019 and 2018 was \$146,320 and \$141,432, respectively.

The mortgage agreement contains certain covenants, including the maintenance of certain financial ratios. As of June 30, 2019 and 2018, management of Second Harvest was not aware of any violations of the covenants.

Note 16 - DUE TO ARCHDIOCESE OF NEW ORLEANS

During the year ended June 30, 2018, Second Harvest borrowed \$500,000 from the Archdiocese of New Orleans. The loan has no stipulated repayment terms and bears interest at a variable rate. The loan bears interest at a rate of 4.6% as of June 30, 2019 and 2018. Second Harvest accrued \$4,232 of unpaid interest on the loan during the year ended June 30, 2018 which was added to the loan balance. The loan has a balance of \$114 as of June 30, 2019.

Note 17 - RETIREMENT PLAN

Second Harvest offers a 401(k) retirement plan for its employees. Employees electing to participate in the plan are required to contribute a minimum of 3% of their salaries, and may elect to contribute up to a 75% maximum, effective July 1, 2017. The plan requires Second Harvest to contribute 3.5% of the participants' salaries. The retirement plan expense also includes an additional 2% contribution by Second Harvest to cover administrative costs and employee benefit costs including life insurance, disability insurance, and other benefits. Any remaining funds from the additional 2% contribution may be used as a discretionary employer contribution to the plan.

The plan administrator is the Archdiocese. The plan trustee is Voya. Second Harvest contributed \$197,610 (retirement \$125,724, benefits \$71,886) and \$197,091 (retirement \$126,529, benefits \$70,562), for the years ended June 30, 2019 and 2018, respectively.

Note 18 - LEASES

Second Harvest as Lessee

Second Harvest leases warehouse and office space in Lafayette under an operating lease. The current lease agreement is for the period January 1, 2018 through December 31, 2022. Monthly payments on the lease are \$8,349. Monthly lease payments were \$8,572 for the period January 1, 2013 through December 31, 2017. Second Harvest also leases four trucks under operating leases. The current lease agreements are for the period July 1, 2014 through June 30, 2025. Monthly payments on the leases are \$6,949. Rent expense for the years ended June 30, 2019 and 2018 was \$183,578 and \$184,914, respectively.

Note 18 - LEASES (Continued)

As of June 30, 2019, minimum future obligations under operating leases having an initial lease term of one year or more are as follows:

Year Ending June 30,	Amounts
2020	\$183,575
2021	183,575
2022	148,716
2023	91,650
2024	23,696
Thereafter	10,062
Total	\$641,274

Second Harvest as Lessor

Second Harvest leased approximately 22,400 square feet of warehouse space for the period April 1, 2018 through April 30, 2021. Monthly lease payments begin at \$8,213 and escalate annually to \$8,661 in the last year of this lease.

Second Harvest leased approximately 8,000 square feet of warehouse space for the period October 1, 2018 through September 30, 2019. Monthly lease payments were \$1,450 under this lease. Second Harvest also leased 10,000 square feet of warehouse space for a term of four months from June 20, 2018 through October 19, 2018. Monthly lease payments were \$4,200.

Rental income was \$128,710 and \$20,627 for the years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019, future rentals to be received under operating leases having an initial lease term of one year or more are as follows:

Year Ending June 30,	Amount
2020	\$106,606
2021	86,613
Total	\$193,219

Note 19 - SIGNIFICANT CONTRACTS AND GRANTS

For the years ended June 30, 2019 and 2018, \$22,709,193 and \$14,650,112, respectively, (which includes \$697,873 and \$743,196, respectively, of revenue included in non-Federal fees and grants on the Statements of Activities) of Second Harvest's governmental financial assistance was from the U.S. Department of Agriculture. Management believes that Second Harvest is in compliance with the provisions of these contracts and grants and that the findings of an audit, if any, would not have a material impact on the financial statements.

Note 20 - RISK MANAGEMENT

Second Harvest is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no settled claims that exceeded this commercial coverage during the years ended June 30, 2019 and 2018.

Note 21 - CONCENTRATIONS OF CREDIT RISK

Second Harvest maintains deposits with local financial institutions. Accounts at these institutions are insured by the U.S. Federal Deposit Insurance Corporation up to \$250,000 per account. The balances at times may exceed federally insured limits. As of June 30, 2019, there were no cash balances in excess of insured amounts.

Note 22 - RISKS AND UNCERTAINTIES

Investment securities are exposed to various risks, such as interest rate, currency, credit, and market volatility. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in risk in the near term would materially affect the fair market value of investments held by Second Harvest.

Note 23 - BOARD OF DIRECTORS COMPENSATION

The members of Second Harvest's Board were not compensated during the years ended June 30, 2019 and 2018.

Note 24 - RELATED PARTY TRANSACTIONS

The Archdiocese, through the operations of the Administrative Offices, serves as a conduit in providing insurance coverage to Second Harvest. The Administrative Office assesses premiums to Second Harvest based on relevant factors for each type of coverage. In the normal course of operations, the Archdiocese will make available to Second Harvest specific assistance in the form of internet services. Second Harvest is assessed separately for this assistance.

Second Harvest paid the Archdiocese \$276,074 and \$224,749 for general liability, property coverage, workmen's compensation, and vehicle insurances for the years ended June 30, 2019 and 2018, respectively, and \$1,914 for internet service for the year ended June 30, 2018. Second Harvest did not pay the Archdiocese for internet service for the year ended June 30, 2019.

Note 25 - SUBSEQUENT EVENT

Subsequent to year end, Second Harvest obtained a \$2,000,000 line of credit from the Archdiocese. The line of credit has no stipulated repayment terms and bears interest of 4.6%.

SUPPLEMENTAL INFORMATION

**SCHEDULE OF SUPPORT, REVENUE, AND EXPENSES PREPARED
FOR THE UNITED WAY OF SOUTHEAST LOUISIANA**

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2019
(Unaudited)

FORM 1

FUNCTIONAL BUDGET SPREADSHEET 2018 - 2019		AGENCY	ADMINISTRATION FUNDRAISING	TOTAL	PROGRAM SERVICES
			Management and General	PROGRAM SERVICES	Second Harvest
		1	2	3	4
REVENUE:					
1	4200 BOARD GENERATED SELF SUPPORT	\$ -	\$ -	\$ -	\$ -
2	4008 4016 4031..4053 CLIENT GENERATED SELF SUPPORT	5,490,135	-	5,490,135	5,490,135
3	4061-4069 GOVERNMENT GRANTS/CONTRACTS	23,299,746	-	23,299,746	23,299,746
4	4010..4013 4017..4019 OTHER FOUNDATIONS OR NATIONAL GRANTS	31,422	-	31,422	31,422
5	4081-4450 OTHER REVENUE	6,511,383	-	6,511,383	6,511,383
6	5005-5019 IN-KIND/NON-CASH CONTRIBUTIONS	36,229,860	-	36,229,860	36,229,860
7	TOTAL SELF GENERATED REVENUE	71,562,546	-	71,562,546	71,562,546
8	4072 UNITED WAY DESIGNATIONS AND ALLOCATIONS	77,605	-	77,605	77,605
9	4071 CFC DESIGNATIONS	-	-	-	-
10	4073 4075 4076 4078 OTHER UNITED WAY GRANTS	207,403	-	207,403	207,403
11	TOTAL REVENUE	71,847,554	-	71,847,554	71,847,554
12	4074 UNITED WAY GNO REQUEST	45,000	-	45,000	45,000
13	GRAND TOTAL REVENUE	\$ 71,892,554	\$ -	\$ 71,892,554	\$ 71,892,554
EXPENSES:					
14	6005-6019 SALARIES	\$ 3,873,470	\$ 1,471,705	\$ 2,401,765	\$ 2,401,765
15	6020-6029 BENEFITS	696,327	272,163	424,164	424,164
16	6040-6049 TAXES	285,207	101,303	183,904	183,904
17	6300-6399 OCCUPANCY EXPENSES	602,796	-	602,796	602,796
18	6400-6499 TRAVEL AND TRANSPORTATION EXPENSE	543,790	15,525	528,265	528,265
19	6500-6599 ex 6503 OFFICE SUPPLIES	101,004	38,033	62,971	62,971
20	6107-6115 PRINTING	23,899	3,794	20,105	20,105
21	6700..6849 6503 DIRECT ASSISTANCE TO INDIVIDUALS	530,681	58,452	472,229	472,229
22	6050-6106 6117- 6299 6600-6699 OTHER 7000-7099 7200- 9999 6850-6899	1,601,961	111,049	1,490,912	1,490,912
23	7100-7199 IN-KIND/NON-CASH CONTRIBUTIONS	55,019,296	-	55,019,296	55,019,296
24	6900-6999 BOARD GENERATED SELF SUPPORT	730,017	656,237	73,780	73,780
25	GRAND TOTAL EXPENSES	\$ 64,008,448	\$ 2,728,261	\$ 61,280,187	\$ 61,280,187
26	NET DIFFERENCE	\$ 7,884,106	\$ (2,728,261)	\$ 10,612,367	\$ 10,612,367

EXPENSES ANALYSIS:

27-Total Direct Program Expenses	\$ 61,280,187
28-Percent of Total Program Expenses	100%
29-Distribution of M & G Expenses	\$ 2,728,261
30-Grand Total Program Expenses	\$ 64,008,448
31-Projected Undup. People Served	210,000
32-Cost per Person	\$ 305

See Accountant's Disclaimer of Opinion.

**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER**

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2019

Agency Head Name: Natalie Jayroe, CEO

Purpose

Salary	\$ 147,063
Benefits - insurance	5,802
Benefits - retirement	4,923
Benefits - other	2,813
Car allowance	0
Vehicle provided by government	0
Per diem	0
Reimbursements	192
Travel	1,517
Registration fees	2,952
Conference travel	5,336
Continuing professional education fees	1,204
Housing	0
Unvouchered expenses	0
Special meals	0
	<hr/>
	\$ 171,802
	<hr/> <hr/>

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

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

To the Archbishop or Administrator of the
Archdiocese of New Orleans and Board of Directors,
Second Harvest Food Bank of Greater New Orleans and Acadiana,
New Orleans, Louisiana.

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 Greater New Orleans and Acadiana (a nonprofit organization) ("Second Harvest"), which comprise the statement of financial position as of June 30, 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 December 16, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest'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's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, as described in the accompanying Schedule of Findings and Questioned Costs (Section II, 2019-001) that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Second Harvest's Response to Findings

Second Harvest's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Second Harvest's response was not subject 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 Second Harvest's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Second Harvest's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bougeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana.
December 16, 2019.

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

To the Archbishop or Administrator of the
Archdiocese of New Orleans and Board of Directors,
Second Harvest Food Bank of Greater New Orleans and Acadiana,
New Orleans, Louisiana.

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Greater New Orleans and Acadiana's ("Second Harvest") (a nonprofit organization) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of Second Harvest's major federal programs for the year ended June 30, 2019. Second Harvest'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'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'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 opinions on compliance for each major federal program. However, our audit does not provide a legal determination of Second Harvest's compliance.

Opinion on Each Major Federal Program

In our opinion, Second Harvest 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, 2019.

Report on Internal Control Over Compliance

Management of Second Harvest is responsible for establishing and maintaining effective internal control over compliance with requirements referred to above. In planning and performing our audit, we considered Second Harvest's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing our opinion on compliance for each major 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'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control 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 and therefore material weaknesses or significant deficiencies may exist that have not been identified. 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.

Purpose of This Report

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.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana.
December 16, 2019.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2019

<u>Federal Grantor / Pass-Through Agency / Program Title</u>	<u>Federal CFDA Number</u>	<u>Passed-through to Subrecipients (Food Commodities)</u>	<u>Federal Expenditures</u>
United States Department of Agriculture:			
<u>Pass-through Programs From:</u>			
<u>Louisiana Department of Agriculture and Forestry:</u>			
<i>Food Distribution Cluster</i>			
Emergency Food Assistance Program (Food Commodities)	10.569	\$ 17,455,935	\$ 20,954,419
Emergency Food Assistance Program (Administrative Costs)	10.568		<u>1,056,901</u>
Total Food Distribution Cluster			22,011,320
<u>Louisiana Department of Education:</u>			
Child and Adult Care Food Program	10.558		125,864
Summer Food Service Program	10.559		114,737
<u>Louisiana Department of Children and Family Services:</u>			
Supplemental Nutrition Assistance Program	10.561		186,926
United States Department of Homeland Security:			
Emergency Food Assistance Program National Board Program	97.024		<u>75,329</u>
Total expenditures of federal awards		<u>\$ 17,455,935</u>	<u>\$ 22,514,176</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2019

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest"). Second Harvest's reporting entity is defined in Note 1 to the financial statements for the year ended June 30, 2019. All federal awards received directly from federal agencies are included on the schedule, as well as federal awards passed-through other government agencies.

b. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to Second Harvest's financial statements for the year ended June 30, 2019.

c. Payments to Subrecipients

There were no payments to subrecipients for the year ended June 30, 2019. Food commodities of \$20,954,419 were passed-through to subrecipients

Note 2 - RELATIONSHIP TO FINANCIAL STATEMENTS

Federal revenues of \$22,514,176 are reported on the Statement of Activities and classified as fees and grants from other federal agencies of \$502,856, U.S. Department of Agriculture commodities of \$20,954,419, and U.S. Department of Agriculture administration of \$1,056,901.

Note 3 - FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule of Expenditures of Federal Awards at the average wholesale value of the commodities received and disbursed. Non-monetary assistance included on the Schedule of Expenditures of Federal Awards was \$20,954,419 for the year ended June 30, 2019.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2019

Section I - Summary of Auditor's Results

a) Financial Statements

Type of report issued on the financial statements: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be a material weakness? Yes None reported

Noncompliance material to financial statements noted? Yes No

b) Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be a material weakness? Yes No

Type of auditor's report issued on compliance for major programs: Qualified

- Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance? Yes No

Section I - Summary of Auditors' Results (Continued)

c) Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.569	Emergency Food Assistance Program (Food Commodities)
10.568	Emergency Food Assistance Program (Administrative Costs)

Dollar threshold used to distinguish
between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes X No

**Section II - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements**

Internal Control Over Financial Reporting

2019-001 Financial Reporting and Accounting

Criteria - Adequate internal controls relating to monitoring the financial condition and operations of Second Harvest, require accurate inventory valuation and proper grant revenue recognition.

Condition - An inaccurate valuation calculation was used to record ending inventory and grant revenue was recorded in the incorrect period.

Cause - Second Harvest did not accurately record inventory and grant revenue.

Effect - Material audit adjustments were required to adjust inventory and grant revenue and receivables.

Recommendation - Second Harvest should implement internal control procedures to ensure the accurate valuation of inventory and grant revenue recognition in order to provide the Board of Directors accurate financial information on an interim and annual basis.

Views of responsible officials of the auditee when there is disagreement with the findings, to the extent practical. - None.

(Continued)

**Section II - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements (Continued)**

Compliance and Other Matters

There were no compliance findings material to the financial statements reported during the audit for the year ended June 30, 2019.

Section III - Federal Award Findings and Questioned Costs

Internal Control and Compliance Material to Federal Awards

There were no findings or questioned costs reported during the audit of the financial statements for the year ended June 30, 2019 related to internal control and compliance material to federal awards.

REPORTS BY MANAGEMENT

**SCHEDULE OF PRIOR YEAR FINDINGS AND
QUESTIONED COSTS**

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2019

**Section I - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements**

Internal Control Over Financial Reporting

No material weaknesses were noted during the audit of the financial statements for the year ended June 30, 2018.

No significant deficiencies were noted during the audit of the financial statements for the year ended June 30, 2018.

Compliance and Other Matters

A compliance finding material to the financial statements reported during the audit for the year ended June 30, 2018. See corrective action below.

Section II - Internal Control and Compliance Material to Federal Awards

2018-001 Information on the Federal Program

Recommendation - We recommended that Second Harvest follow the procurement requirements in accordance with its federal grant prior to awarding building projects.

Management's Response/Corrective Action - Resolved. In response to this finding, Second Harvest was following the instructions of Jefferson Parish and was working under very tight timelines in which the projects had to be bid and completed. Jefferson Parish came on site and reviewed the projects, bids, invoices and copies of the checks. The documentation was approved by Jefferson Parish and the payment was processed. Second Harvest has taken corrective actions by familiarizing itself with the federal procurement regulations and revising their procurement procedures to be in compliance with those regulations. Second Harvest will follow the procurement requirements of federal grants prior to awarding projects.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2018.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2019

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

2019-001 Financial Reporting and Accounting

Recommendation - Second Harvest should implement internal control procedures to ensure the accurate valuation of inventory and grant revenue recognition in order to provide the Board of Directors accurate financial information on an interim and annual basis.

Management's Corrective Action - In response to the inventory valuation finding, Second Harvest has taken the appropriate steps to ensure the timely recording and balancing of inventory valuation entries. In response to the finding on recognition of grant revenue and receivable, Second Harvest has updated the policies and procedures to address how we evaluate and record reimbursable government funds.

Compliance and Other Matters

There were no compliance findings material to the financial statements reported during the audit for the year ended June 30, 2019.

Section II - Internal Control and Compliance Material to Federal Awards

Internal Control and Compliance Material to Federal Awards

There were no findings or questioned costs reported during the audit of the financial statements for the year ended June 30, 2019 related to internal control and compliance material to federal awards.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2019.

STATEWIDE AGREED-UPON PROCEDURES (R.S. 24:513)

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Archbishop or Administrator of the
Archdiocese of New Orleans and Board of Directors,
Second Harvest Food Bank of Greater New Orleans and Acadiana,
New Orleans, Louisiana.

We have performed the procedures enumerated below, which were agreed to by the management of Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest") and the Louisiana Legislative Auditor, State of Louisiana, solely to assist the specified users of the report in evaluating management's assertions about the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures (SAUPs) accompanying the annual financial statements of Second Harvest for the year ended June 30, 2019 and to determine whether the C/C areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures are free of obvious errors and omissions. Management of Second Harvest is responsible for its C/C areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures. The sufficiency of these procedures is solely the responsibility of the specified parties in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that were performed and our findings are as follows:

Written Policies and Procedures

- 1. Obtain Second Harvest's written policies and procedures and report whether those written policies and procedures address each of the following categories and subcategories as applicable:**

We obtained the written policies and verified that they addressed the areas as follows:

- a) **Budgeting, including preparing, adopting, monitoring, and amending the budget.**

No exceptions were noted.

Written Policies and Procedures (Continued)

- b) Purchasing, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Louisiana Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes, if any.**

No exceptions were noted.

- c) Disbursements, including processing, reviewing, and approving.**

No exceptions were noted.

- d) Receipts/collections, including receiving, recording, and preparing deposits.**

No exceptions were noted.

- e) Payroll/Personnel, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.**

No exceptions were noted.

- f) Contracting, including (1) types of services requiring written contracts; (2) standard terms and conditions; (3) legal review; (4) approval process; and (5) monitoring process.**

No exceptions were noted.

- g) Credit Cards (and debit cards, fuel cards, P-Cards, if applicable), including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage.**

No exceptions were noted.

- h) Travel and expense reimbursement, including (1) allowable expenses; (2) dollar thresholds by category of expense; (3) documentation requirements; and (4) required approvers.**

No exceptions were noted.

Written Policies and Procedures (Continued)

- i) **Ethics, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121; (2) actions to be taken if an ethics violation takes place; (3) system to monitor possible ethics violations; and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofit organizations.**

Not applicable.

- j) **Debt Service, including (1) debt issuance approval; (2) EMMA reporting requirements; (3) debt reserve requirements; and (4) debt service requirements.**

Not applicable.

- k) **Disaster Recovery/Business Continuity, including (1) identification of critical data and frequency of data backups; (2) storage of backups in a separate physical location isolated from the network; (3) periodic testing/verification that backups can be restored; (4) use of antivirus software on all systems; (5) timely application of all available system and software patches/updates; and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.**

No exceptions were noted.

Board (or Finance Committee)

Testing is not applicable as there were no findings in the prior year SAUPs.

Bank Reconciliations

Testing is not applicable as there were no findings in the prior year SAUPs.

Collections

Testing is not applicable as there were no findings in the prior year SAUPs.

Nonpayroll Disbursements

Testing is not applicable as there were no findings in the prior year SAUPs.

Travel and Expense Reimbursement

Testing is not applicable as there were no findings in the prior year SAUPs.

Credit Cards/Debit Cards/Fuel Cards/P-cards

Testing is not applicable as there were no findings in the prior year SAUPs.

Contracts

Testing is not applicable as there were no findings in the prior year SAUPs.

Payroll and Personnel

Testing is not applicable as there were no findings in the prior year SAUPs.

Other

- 2. Obtain a listing of misappropriations of public funds or assets during the fiscal period, and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that Second Harvest reported the misappropriations(s) to the legislative auditor and district attorney of the parish in which Second Harvest is domiciled.**

Performance: Inquired of management and reviewed various audit documentation for any signs of misappropriations of public funds or assets.

Exceptions: There were no exceptions noted.

- 3. Observe and report whether Second Harvest has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.**

Performance: We verified that Second Harvest has posted on its premises the notice required by R.S. 24:523.1.

Exceptions: There were no exceptions noted.

- 4. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.**

We did not observe or otherwise identify any exceptions regarding management's representations in the procedures above.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of Government Auditing Standards. We are not engaged to, and did not perform an examination, or review, the objective of which would be the expression of an opinion or conclusion, respectively, on management's assertions. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Second Harvest, the Louisiana Legislature, and the Louisiana Legislative Auditor, and it is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
December 16, 2019.