

**Harvest Hope Food Bank, Inc.
and Subsidiaries**

Report on Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

Harvest Hope Food Bank, Inc. and Subsidiaries

Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statement of Activities for the Year Ended June 30, 2018	4
Consolidated Statement of Activities for the Year Ended June 30, 2017	5
Consolidated Statements of Cash Flows	6
Consolidated Statement of Functional Expenses for the Year Ended June 30, 2018	7
Consolidated Statement of Functional Expenses for the Year Ended June 30, 2017	8
Notes to Consolidated Financial Statements	9-16
Schedule of Expenditures of Federal Awards	17
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 <i>Government Auditing Standards</i>	18-19
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	20-21
Schedule of Findings and Questioned Costs	22-23

Independent Auditor's Report

To the Board of Directors
Harvest Hope Food Bank, Inc. and Subsidiaries
Columbia, South Carolina

Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Harvest Hope Food Bank, Inc. and Subsidiaries (the Organization), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2018 and 2017, and its changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2019, on our consideration of the Organization's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Columbia, South Carolina
February 13, 2019

Harvest Hope Food Bank, Inc. and Subsidiaries

Consolidated Statements of Financial Position

As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 383,958	\$ 827,136
Inventory	1,813,530	1,178,391
Unconditional promises to give, net	-	88,188
Other assets	105,096	30,984
Property and equipment, net	3,450,677	3,496,142
Total assets	<u>\$ 5,753,261</u>	<u>\$ 5,620,841</u>
Liabilities		
Accounts payable	\$ 195,115	\$ 43,547
Accrued expenses	103,911	125,375
Deferred revenue	132,250	-
Notes payable	597,946	1,088,753
Total liabilities	<u>1,029,222</u>	<u>1,257,675</u>
Net assets		
Unrestricted		
Undesignated	4,578,847	3,982,317
Board designated	100,000	100,000
Temporarily restricted	45,192	280,849
Total net assets	<u>4,724,039</u>	<u>4,363,166</u>
Total liabilities and net assets	<u>\$ 5,753,261</u>	<u>\$ 5,620,841</u>

See Notes to Consolidated Financial Statements

Harvest Hope Food Bank, Inc. and Subsidiaries

Consolidated Statement of Activities

For the year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Support and revenues			
Public support			
Shared maintenance contributions and fees	\$ 889,958	\$ -	\$ 889,958
Program income	746,190	-	746,190
Support from United Way	174,297	-	174,297
Support from public contributions	3,556,715	1,042,433	4,599,148
Special events	526,751	-	526,751
Donated services, supplies and equipment	2,815	-	2,815
Donated inventory product	38,229,534	-	38,229,534
Total public support	<u>44,126,260</u>	<u>1,042,433</u>	<u>45,168,693</u>
Grants, federal funds and private donations			
Donated inventory product	5,710,284	-	5,710,284
Reimbursed costs from SC Department of Social Services	448,200	-	448,200
Commodity Supplemental Food Program	248,580	-	248,580
Grants	390,088	-	390,088
Total grants, federal funds and private donations	<u>6,797,152</u>	<u>-</u>	<u>6,797,152</u>
Other revenue			
Interest income	1,353	-	1,353
Miscellaneous	458,225	-	458,225
Total other revenue	<u>459,578</u>	<u>-</u>	<u>459,578</u>
Total support and revenues	<u>51,382,990</u>	<u>1,042,433</u>	<u>52,425,423</u>
Expenses			
Program services			
Hunger and nutrition education	1,906,001	-	1,906,001
Agency food distributions	41,146,507	-	41,146,507
Emergency food box program	8,088,051	-	8,088,051
Total program services	<u>51,140,559</u>	<u>-</u>	<u>51,140,559</u>
Supporting services			
Fundraising	440,800	-	440,800
Management and general	483,191	-	483,191
Total supporting services	<u>923,991</u>	<u>-</u>	<u>923,991</u>
Total expenses	<u>52,064,550</u>	<u>-</u>	<u>52,064,550</u>
Assets released from restrictions	1,278,090	(1,278,090)	-
Change in net assets	596,530	(235,657)	360,873
Net assets, beginning of year	4,082,317	280,849	4,363,166
Net assets, end of year	<u>\$ 4,678,847</u>	<u>\$ 45,192</u>	<u>\$ 4,724,039</u>

See Notes to Consolidated Financial Statements

Harvest Hope Food Bank, Inc. and Subsidiaries

Consolidated Statement of Activities

For the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Support and revenues			
Public support			
Shared maintenance contributions and fees	\$ 832,174	\$ -	\$ 832,174
Program income	803,765	-	803,765
Support from United Way	170,812	41,156	211,968
Support from public contributions	3,403,011	478,784	3,881,795
Special events	1,094,620	21,200	1,115,820
Donated services, supplies and equipment	22,500	-	22,500
Donated inventory product	38,710,516	-	38,710,516
Total public support	<u>45,037,398</u>	<u>541,140</u>	<u>45,578,538</u>
Grants, federal funds and private donations			
Donated inventory product	7,594,839	-	7,594,839
Reimbursed costs from SC Department of Social Services	448,611	-	448,611
Commodity Supplemental Food Program	139,715	-	139,715
Grants	118,948	94,525	213,473
Total grants, federal funds and private donations	<u>8,302,113</u>	<u>94,525</u>	<u>8,396,638</u>
Other revenue			
Interest income	2,988	-	2,988
Miscellaneous	218,128	-	218,128
Total other revenue	<u>221,116</u>	<u>-</u>	<u>221,116</u>
Total support and revenues	<u>53,560,627</u>	<u>635,665</u>	<u>54,196,292</u>
Expenses			
Program services			
Hunger and nutrition education	1,737,960	-	1,737,960
Agency food distributions	43,486,232	-	43,486,232
Emergency food box program	8,426,950	-	8,426,950
Total program services	<u>53,651,142</u>	<u>-</u>	<u>53,651,142</u>
Supporting services			
Fundraising	397,965	-	397,965
Management and general	436,778	-	436,778
Total supporting services	<u>834,743</u>	<u>-</u>	<u>834,743</u>
Total expenses	<u>54,485,885</u>	<u>-</u>	<u>54,485,885</u>
Assets released from restrictions	925,456	(925,456)	-
Change in net assets	198	(289,791)	(289,593)
Net assets, beginning of year	4,082,119	570,640	4,652,759
Net assets, end of year	<u>\$ 4,082,317</u>	<u>\$ 280,849</u>	<u>\$ 4,363,166</u>

See Notes to Consolidated Financial Statements

Harvest Hope Food Bank, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 360,873	\$ (289,593)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	281,184	264,439
Forgiveness of notes payable	(449,000)	-
(Decrease) increase in allowance for uncollectible pledges	(72,559)	36,109
Changes in deferred amounts		
Unconditional promises to give, net	160,747	35,359
Inventory	(635,139)	25,064
Other assets	(74,112)	(23,093)
Accounts payable	151,568	(197,460)
Accrued expenses	(21,464)	(1,386)
Deferred revenue	132,250	(63,357)
Net cash used for operating activities	<u>(165,652)</u>	<u>(213,918)</u>
<i>Investing activities</i>		
Purchases of property and equipment	(235,719)	(429,440)
Net cash used for investing activities	<u>(235,719)</u>	<u>(429,440)</u>
<i>Financing activities</i>		
Payments on notes payable	(41,807)	(96,800)
Net cash used for financing activities	<u>(41,807)</u>	<u>(96,800)</u>
Net change in cash and cash equivalents	<u>(443,178)</u>	<u>(740,158)</u>
<i>Cash and cash equivalents, beginning of year</i>	<u>827,136</u>	<u>1,567,294</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 383,958</u>	<u>\$ 827,136</u>
<i>Supplemental cash flow information</i>		
Cash paid for interest	<u>\$ 27,103</u>	<u>\$ 26,939</u>
<i>Noncash investing and financing activities</i>		
Forgiveness of notes payable	<u>\$ 449,000</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements

Harvest Hope Food Bank, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the year ended June 30, 2018

Description	Program Services				Supporting Services			
	Hunger and Nutrition Education	Agency Food Distributions	Emergency Food Box Program	Total	Fundraising	Management and General	Total	Total
Donated and purchased food distributed	\$ -	\$ 37,499,145	\$ 6,617,496	\$ 44,116,641	\$ -	\$ -	\$ -	\$ 44,116,641
Salaries and related expenses	507,067	1,992,050	325,972	2,825,089	398,410	398,409	796,819	3,621,908
Professional fees	229,883	257,748	188,086	675,717	6,966	13,932	20,898	696,615
Supplies	53,990	60,534	44,174	158,698	1,636	3,272	4,908	163,606
Telephone	24,690	27,683	20,201	72,574	748	1,496	2,244	74,818
Postage and freight	119,435	133,912	97,720	351,067	3,619	7,239	10,858	361,925
Building insurance	25,539	28,635	20,896	75,070	774	1,548	2,322	77,392
Utilities	120,527	135,136	98,613	354,276	3,652	7,305	10,957	365,233
Uniforms	1,939	2,174	1,587	5,700	59	119	178	5,878
Building and grounds maintenance	267,219	299,609	218,634	785,462	8,098	16,195	24,293	809,755
Printing	58,446	65,530	47,819	171,795	1,771	3,541	5,312	177,107
Conferences and meetings	35,820	40,162	29,307	105,289	1,085	2,171	3,256	108,545
Travel and entertainment	60,839	68,214	49,777	178,830	1,844	3,687	5,531	184,361
Volunteer recognition expenses	3,601	4,037	2,946	10,584	109	218	327	10,911
Bad debts	-	86,810	-	86,810	-	-	-	86,810
Rent	160,124	179,533	131,010	470,667	4,852	9,704	14,556	485,223
Dues to national affiliate	10,931	12,256	8,943	32,130	331	662	993	33,123
Vehicle expense	88,415	99,132	72,339	259,886	2,679	5,358	8,037	267,923
Miscellaneous	7,075	7,933	5,789	20,797	214	429	643	21,440
Dues and subscriptions	23,835	26,724	19,502	70,061	722	1,445	2,167	72,228
Bank charges	4,891	5,484	4,002	14,377	148	296	444	14,821
Total before interest and depreciation	1,804,266	41,032,441	8,004,813	50,841,520	437,717	477,026	914,743	51,756,263
Interest expense	8,944	10,028	7,318	26,290	271	542	813	27,103
Depreciation and amortization	92,791	104,038	75,920	272,749	2,812	5,623	8,435	281,184
Total interest, depreciation, and amortization	101,735	114,066	83,238	299,039	3,083	6,165	9,248	308,287
Total expenses	\$ 1,906,001	\$ 41,146,507	\$ 8,088,051	\$ 51,140,559	\$ 440,800	\$ 483,191	\$ 923,991	\$ 52,064,550

See Notes to Consolidated Financial Statements

Harvest Hope Food Bank, Inc. and Subsidiaries
Consolidated Statement of Functional Expenses
For the year ended June 30, 2017

Description	Program Services				Supporting Services			
	Hunger and Nutrition Education	Agency Food Distributions	Emergency Food Box Program	Total	Fundraising	Management and General	Total	Total
Donated and purchased food distributed	\$ -	\$ 40,149,033	\$ 7,085,123	\$ 47,234,156	\$ -	\$ -	\$ -	\$ 47,234,156
Salaries and related expenses	457,103	1,795,760	293,852	2,546,715	359,152	359,151	718,303	3,265,018
Professional fees	128,152	143,685	104,851	376,688	3,883	7,767	11,650	388,338
Supplies	46,659	52,315	38,176	137,150	1,414	2,828	4,242	141,392
Telephone	27,213	30,511	22,265	79,989	825	1,649	2,474	82,463
Postage and freight	60,876	68,255	49,807	178,938	1,845	3,689	5,534	184,472
Building insurance	25,538	28,634	20,895	75,067	774	1,548	2,322	77,389
Utilities	117,907	132,199	96,469	346,575	3,573	7,146	10,719	357,294
Uniforms	1,856	2,081	1,518	5,455	56	113	169	5,624
Building and grounds maintenance	292,446	327,894	239,274	859,614	8,862	17,724	26,586	886,200
Printing	109,490	122,762	89,583	321,835	3,318	6,635	9,953	331,788
Conferences and meetings	42,637	47,805	34,885	125,327	1,292	2,584	3,876	129,203
Travel and entertainment	58,406	65,486	47,787	171,679	1,770	3,540	5,310	176,989
Volunteer recognition expenses	567	636	464	1,667	17	34	51	1,718
Bad debts	-	105,324	-	105,324	-	-	-	105,324
Rent	161,257	180,804	131,938	473,999	4,887	9,773	14,660	488,659
Dues to national affiliate	5,236	5,871	4,284	15,391	159	317	476	15,867
Vehicle expense	81,914	91,843	67,021	240,778	2,482	4,965	7,447	248,225
Miscellaneous	13,205	14,806	10,804	38,815	400	800	1,200	40,015
Dues and subscriptions	7,763	8,704	6,352	22,819	235	471	706	23,525
Bank charges	3,580	4,014	2,929	10,523	108	217	325	10,848
Total before interest and depreciation	1,641,805	43,378,422	8,348,277	53,368,504	395,052	430,951	826,003	54,194,507
Interest expense	8,890	9,967	7,274	26,131	269	539	808	26,939
Depreciation	87,265	97,843	71,399	256,507	2,644	5,288	7,932	264,439
Total interest and depreciation	96,155	107,810	78,673	282,638	2,913	5,827	8,740	291,378
Total expenses	\$ 1,737,960	\$ 43,486,232	\$ 8,426,950	\$ 53,651,142	\$ 397,965	\$ 436,778	\$ 834,743	\$ 54,485,885

See Notes to Consolidated Financial Statements

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies

Description of Organization:

Harvest Hope Food Bank, Inc. (the Organization), is a nonprofit organization incorporated on January 21, 1981, under the laws of the State of South Carolina. The mission of the Organization is to provide for the needs of hungry people by gathering and sharing quality food with dignity, compassion and education through a network of private, nonprofit agencies, and to provide services through a variety of programs. The Organization acts as a collection center for surplus and salvageable food obtained through donations from processors, wholesalers, retailers and brokers. The food is then distributed to qualifying organizations who, in return, contribute funds based on a cost per pound of food obtained to help fund operations. This contribution is known as "shared maintenance." The emergency food box program, which supplies food to families in crisis situations, is funded almost entirely with contributions from other organizations and the general public.

The Organization owns 100% of Harvest Hope House, LLC (the LLC). This limited liability company was formed for the purpose of selling a home received as a donation. There was no activity in the LLC for the years ended June 30, 2018 and 2017.

The Organization owns 100% of House for Harvest Hope, LLC (the LLC). This limited liability company was formed for the purpose of building a home for resale. There was no activity in the LLC for the years ended June 30, 2018 and 2017.

Consolidation:

The consolidated financial statements of the Organization include the accounts of Harvest Hope Food Bank, Inc. and its two wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of accounting:

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of presentation:

The Organization is required to report information regarding its financial position and activities according to three classes of net assets. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Basis of presentation (continued):

All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restriction. The Organization had no permanently restricted net assets at June 30, 2018 and 2017.

Cash and cash equivalents:

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less.

Inventory and donated food products:

The Organization receives food products governed by the United States Department of Agriculture (USDA) through the USDA's disbursing agent. Total food products received through USDA was approximately 13% and 16% of total food donations for the years ended June 30, 2018 and 2017, respectively. The food product is valued by prices determined by the USDA. Other donated food products reflected in the consolidated financial statements are valued at a rate per pound, which is determined by Feeding America, the Organization's national affiliate. The donated inventory balance, and associated revenues and expenses, as of June 30, 2018 and 2017, have been priced at the Feeding America rates of \$1.68 and \$1.73, per pound, respectively. Donated food products are recorded as support and revenue when received and recorded as expense when disbursed. Food products purchased are recorded at purchase price when received and disbursed at the same purchase price, if distinguishable. Certain purchased products are commingled and packaged with donated products; these items are revalued using the Feeding America rate per pound and disbursed at the Feeding America cost.

Property and equipment:

Property and equipment are stated at cost, if purchased. Donations of property and equipment are recorded as support at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, as follows:

Building and improvements	15 - 40 years
Furniture and equipment	3 - 10 years
Software	3 years
Autos and trucks	5 - 10 years

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Contributions:

Contributions are recognized when the donor makes a promise to give that, in substance, is unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Deferred revenue results from funds received from temporarily restricted reimbursement grants for which expenses have not yet been incurred, as well as from unearned revenue from exchange transactions.

Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restrictions. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires or is met in the reporting period in which the support is recognized.

Promises to give:

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount rate used to determine the present value of the estimated future cash flows was 3.25% in both 2018 and 2017.

The Organization uses the allowance method to determine uncollectible unconditional promises to give when deemed necessary. The allowance is based on prior years' experience and management's analysis of specific promises made.

Marketable securities:

In the normal course of business, the Organization may receive donations of stock and securities as contributions from donors. These stocks and securities are valued at fair value on the date received since it is the Organization's policy to convert such contributions to cash as soon as possible. The Organization adjusts securities held at year end, if any, to fair value.

Compensated absences:

The Organization accounts for compensated absences (vacation pay), whereby a liability is recorded for employees' vested rights to receive compensation for future absences attributable to services already performed. No liability for sick pay is recorded since the rights to receive such pay are contingent on future services.

Donated services and supplies:

The Organization receives a substantial amount of services donated by many individuals volunteering their time to the Organization's program services and fundraising events. No amounts have been recognized in the accompanying consolidated statements of activities for these donated services because the criteria for recognition of such volunteer efforts have not been met. The Organization has recorded donated supplies of \$2,815 and \$22,500 for the years ended June 30, 2018 and 2017, respectively.

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Concentration of credit risk:

The Organization places its cash and cash equivalents with high quality financial institutions. At times, deposits with financial institutions may exceed Federal Deposit Insurance Corporation insurance limits.

Income taxes:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be substantiated upon examination by the IRS. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Use of estimates:

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of results of operations during the reporting period. Actual results could differ from those estimates and assumptions.

Functional allocation of expenses:

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimate of the time spent by the individuals in each functional category as well as each department's allocation of expenses.

Advertising:

Costs incurred for producing and communicating advertising and promotional material are expensed when incurred. The total promotional costs were \$19,693 and \$6,158 in 2018 and 2017, respectively.

Contingencies:

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Organization but which will only be resolved when one or more future events occur or fail to occur. The Organization's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgement. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 1. Summary of Significant Accounting Policies, Continued

Contingencies, continued:

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss is determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Reclassifications:

Certain prior year consolidated financial statement amounts have been reclassified to conform to the current year presentation.

Recently issued accounting pronouncements:

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for the fiscal year beginning July 1, 2020. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In August 2016, the FASB issued guidance to make targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments will be effective for the fiscal year beginning July 1, 2018. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance in ASU 2014-09 will be effective for the Organization for the fiscal year beginning July 1, 2018. The Organization is currently evaluating the impact of this new guidance on its consolidated financial statements.

Subsequent events:

These consolidated financial statements have not been updated for subsequent events after February 13, 2019, the date these consolidated financial statements were available to be issued.

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 2. Unconditional Promises to Give

Unconditional promises to give include the following at June 30:

	<u>2018</u>	<u>2017</u>
Operating campaign	\$ 103,630	\$ 264,377
Allowance for uncollectible pledges	(103,630)	(176,189)
Net unconditional promises to give	<u>\$ -</u>	<u>\$ 88,188</u>

Note 3. Inventory

Inventory consists of the following at June 30:

	<u>Valuation</u> <u>Basis</u>	<u>2018</u>	<u>2017</u>
Donated items	Pounds	\$ 1,405,902	\$ 863,168
Donated items	USDA	281,893	267,525
Purchased items	Cost	<u>125,735</u>	<u>47,698</u>
		<u>\$ 1,813,530</u>	<u>\$ 1,178,391</u>

Note 4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 679,134	\$ 679,134
Building and improvements	3,351,802	3,328,768
Furniture and equipment	1,810,521	1,721,935
Software	462,561	469,110
Autos and trucks	1,111,558	1,008,108
Website development	<u>8,000</u>	<u>8,000</u>
	7,423,576	7,215,055
Less accumulated depreciation and amortization	<u>3,972,899</u>	<u>3,718,913</u>
	<u>\$ 3,450,677</u>	<u>\$ 3,496,142</u>

Depreciation and amortization expense totaled \$281,184 and \$264,439 for the years ended June 30, 2018 and 2017, respectively.

Note 5. Board Designated Net Assets

The Board of Directors has established a contingency operating reserve of \$100,000. This reserve is internally designated to fund future operating expenses of the Organization.

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 6. Notes Payable

Notes payable consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Mortgage payable to a bank in monthly installments of \$5,312 including interest of 4%; due March 2030. This note is secured by real estate.	\$ 597,946	\$ 639,753
Mortgage payable to U.S. Foods, Inc.; After the January 2015 refinancing, was payable in monthly installments of \$5,000 without interest for 60 months. A balloon payment was due August 2017, however outstanding balance of note was forgiven by U.S. Foods, Inc. in July 2017. This note was secured by real estate.	-	449,000
	<u>\$ 597,946</u>	<u>\$ 1,088,753</u>

Maturities of notes payable in each of the years following June 30, 2018 are as follows:

2019	\$ 40,615
2020	42,269
2021	43,992
2022	45,784
2023	47,649
Thereafter	377,637
	<u>\$ 597,946</u>

Note 7. Retirement Plan

The Organization implemented a retirement plan during fiscal year 2016 under Section 401(k) of the Internal Revenue Code. Under this plan, eligible employees may elect to defer a portion of their salaries until future years. The Organization will make a 25% matching contribution of the first 6% of base compensation that a participant contributes to the plan. The Organization contributed \$15,294 and \$16,829 to the plan for the years ended June 30, 2018 and 2017, respectively.

Note 8. Related Party Transactions

The Organization had transactions and balances with affiliates and related parties as follows for the years ended June 30:

<u>Nature of Transactions</u>	<u>2018</u>	<u>2017</u>
Receipt of donated USDA inventory from the South Carolina Food Bank Association, Inc.	<u>\$ 5,710,284</u>	<u>\$ 7,594,839</u>
Receipt of donated USDA funds from the South Carolina Food Bank Association, Inc.	<u>\$ 448,200</u>	<u>\$ 448,611</u>

The Organization is affiliated with the South Carolina Food Bank Association, Inc. through various officers and members of its Board of Directors. There were no accounts receivable or payable with the South Carolina Food Bank Association, Inc. as of June 30, 2018 and 2017.

Harvest Hope Food Bank, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Note 9. Funds Held By Central Carolina Community Foundation

The Organization entered into an agreement with the Central Carolina Community Foundation (CCCF), a nonprofit agency, to create a charitable endowment fund for the purpose of investing and managing designated scholarship funds. Under the terms of this agreement, the fund is the property of CCCF, and CCCF has final authority over the operation and administration of the fund. The balance of the fund was \$199,625 and \$194,490 at June 30, 2018 and 2017, respectively.

Note 10. Commitments and Contingencies

The Organization leases warehouse and office space at several locations to support its operations. These leases vary in monthly payments from \$1,900 to \$5,500 and have varying expiration dates through February 28, 2023.

The Organization leases equipment such as postage machines, copiers, vehicles and a fork lift from various vendors. These equipment leases require monthly payments from \$125 to \$7,066 with various lease expiration dates through January 6, 2021.

In addition to the operating leases noted above, the Organization has entered into several service and maintenance agreements for its various locations. Agreement terms vary by location.

Future minimum commitments for the above leases, on an annual basis, are as follows for fiscal years ending June 30:

2019	\$	401,400
2020		365,465
2021		209,940
2022		110,040
2023		<u>73,360</u>
	\$	<u>1,160,205</u>

Harvest Hope Food Bank, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2018

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Food Distribution Cluster		
U.S. Department of Agriculture		
Passed through S.C. Department of Social Services		
Commodity Supplemental Food Program	10.565	\$ 248,580
Emergency Food Assistance Program (Administrative Costs)	10.568	448,200
Emergency Food Assistance Program (Food Commodities)	10.569	<u>5,710,284</u>
Total Food Distribution Cluster		<u>6,407,064</u>
Total U.S. Department of Agriculture		<u>6,407,064</u>
Emergency Food and Shelter Program Cluster		
Federal Emergency Management Agency		
Passed through Department of Homeland Security		
The Emergency Food and Shelter National Board Program	97.024	<u>58,777</u>
Total Emergency Food and Shelter Program Cluster		<u>58,777</u>
Total Federal Emergency Management Agency		<u>58,777</u>
		<u>\$ 6,465,841</u>

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Organization under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net position or cash flows of the Organization.

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting as applicable to governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**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***

The Board of Directors
Harvest Hope Food Bank, Inc. and Subsidiaries
Columbia, South Carolina

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 consolidated financial statements of Harvest Hope Food Bank, Inc. and Subsidiaries (the Organization), which comprise the consolidated statement of financial position as of and for the year ended June 30, 2018, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

The Organization's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
February 13, 2019

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Directors
Harvest Hope Food Bank, Inc. and Subsidiaries
Columbia, South Carolina

Report on Compliance for Each Major Federal Program

We have audited Harvest Hope Food Bank, Inc. and Subsidiaries (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization'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 the Organization'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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization, 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, 2018.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



Columbia, South Carolina
February 13, 2019

Harvest Hope Food Bank, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

I. Summary of Auditor's Results

Financial Statements

- | | |
|---|------------|
| (a.) Type of auditor's report: | Unmodified |
| (b.) Internal control over financial reporting: | |
| 1) Material weaknesses identified: | No |
| 2) Significant deficiencies identified that are not considered to be material weaknesses: | Yes |
| (c.) Noncompliance material to financial statements noted: | No |

Federal Awards

- | | |
|---|---------------|
| (a.) Internal control over major programs: | |
| 1) Material weaknesses identified: | No |
| 2) Significant deficiencies identified that are not considered to be material weaknesses: | None reported |
| (b.) Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| (c.) Audit findings that are required to be reported in accordance with Section 510(a) of the Uniform Guidance: | No |
| (d.) Identification of major program: | |

<u>CFDA Numbers</u>	<u>Name of federal program or cluster</u>
---------------------	---

10.565, 10.568, 10.569	Food Distribution Cluster
------------------------	---------------------------

- | | |
|---|-----------|
| (e.) Dollar threshold used to distinguish between type A and type B Programs: | \$750,000 |
| (f.) Auditee qualified as low risk auditee? | Yes |

II. Findings – Financial Statement Audit

2018-001 – Reconciliation of General Ledger Accounts to Subsidiary Ledgers

Significant Deficiency

Condition and criteria: As of June 30, 2018, certain subsidiary ledgers were not in agreement with the general ledger. Internal controls over financial reporting should be in place to provide reasonable assurance that financial statements are complete and accurate.

Effect: Reconciliations quickly identify errors and needed corrections. If reconciliations are performed infrequently, errors and adjustments can occur, resulting in the need for significant corrections when the reconciliations are performed.

Harvest Hope Food Bank, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs

For the year ended June 30, 2018

II. Findings – Financial Statement Audit, Continued

2018-001 – Reconciliation of General Ledger Accounts to Subsidiary Ledgers

Cause: There are insufficient controls over the monthly reconciliation process.

Auditor's recommendation: The Organization should adopt a policy requiring monthly reconciliation of all significant accounts to their subsidiary ledgers in order to ensure accuracy of the monthly financial statements and underlying subsidiary ledgers. Any reconciling differences should be corrected before the books are closed for the month end.

Auditee's response: Management agrees with recommendation and started implementing these changes for fiscal year 2019.

III. Findings and Questioned Costs Relating to Federal Awards

None noted

IV. Summary Schedule of Prior Audit Findings

None noted