

**CHATTANOOGA AREA FOOD
BANK, INC.**

FINANCIAL REPORT

JUNE 30, 2023

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CHATTANOOGA AREA FOOD BANK, INC.
ROSTER OF THOSE CHARGED WITH
GOVERNANCE AND MANAGEMENT OFFICIALS

Jennifer Cookston, Board of Directors – Chairman

Jennifer McIntyre, Board of Directors – Vice Chairman

James Catanzaro, Jr. Board of Directors – Secretary

Phil Harris, Board of Directors – Treasurer

Mercedes Bartow, Board of Directors

Celeste Bandy Weaver, Board of Directors

Megan Flynn, Board of Directors

Peterson Hostetler, Board of Directors

Maeghan Jones, Board of Directors

Martha Leiper, Board of Directors

Betsey Kirk McCall, Board of Directors

Declan O’Connell, Board of Directors

Rob Reagan, Board of Directors

Tracey Smith, Board of Directors

Daniel Yim, Board of Directors

Melissa Blevins, President & CEO

Tim Maddox, CFO



Independent Auditor's Report

To the Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Chattanooga Area Food Bank, Inc. (a nonprofit organization) (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chattanooga Area Food Bank, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Chattanooga Area Food Bank, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Chattanooga Area Food Bank, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Chattanooga Area Food Bank, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chattanooga Area Food Bank, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the Roster of Those Charged with Governance and Management Officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2024, on our consideration of Chattanooga Area Food Bank, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Chattanooga Area Food Bank, Inc.'s internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
January 18, 2024

CHATTANOOGA AREA FOOD BANK, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 6,314,008	\$ 8,341,278
Inventories	1,699,106	1,249,318
Accounts receivable, net	202,291	200,054
Contributions receivable	68,065	497,465
Grant receivable	423,806	323,366
Investments	2,061,552	-
Prepaid expenses and other assets	201,706	55,092
Land, building and equipment, net	<u>4,709,599</u>	<u>3,719,609</u>
 Total assets	 <u>\$ 15,680,133</u>	 <u>\$14,386,182</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 480,757	\$ 526,585
Accrued liabilities	<u>255,754</u>	<u>85,091</u>
 Total liabilities	 <u>736,511</u>	 <u>611,676</u>
NET ASSETS		
Without donor restrictions	13,320,053	11,962,385
With donor restrictions	<u>1,623,569</u>	<u>1,812,121</u>
 Total net assets	 <u>14,943,622</u>	 <u>13,774,506</u>
 Total liabilities and net assets	 <u>\$ 15,680,133</u>	 <u>\$14,386,182</u>

The Notes to Financial Statements are an integral part of these statements.

CHATTANOOGA AREA FOOD BANK, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Support:			
Contributed nonfinancial assets	\$ 23,096,182	\$ -	\$ 23,096,182
Contributed financial assets	4,236,406	447,369	4,683,775
Grants - foundations and corporations	1,693,278	950,088	2,643,366
Grants - state	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Total support	<u>29,225,866</u>	<u>1,397,457</u>	<u>30,623,323</u>
Revenue:			
Shared maintenance fees	2,830,815	-	2,830,815
Commodity service revenue - USDA	326,752	-	326,752
Commodity service revenue - other	73,457	-	73,457
Agency fees	969	-	969
Interest income	79,870	-	79,870
Investment income, net of investment expenses	25,020	-	25,020
Miscellaneous income	<u>2,879</u>	<u>-</u>	<u>2,879</u>
Total revenue	<u>3,339,762</u>	<u>-</u>	<u>3,339,762</u>
Net assets released from restrictions	<u>1,586,009</u>	<u>(1,586,009)</u>	<u>-</u>
Total support and revenue	<u>34,151,637</u>	<u>(188,552)</u>	<u>33,963,085</u>
Expenses:			
Program services:			
Food distribution services	<u>30,955,141</u>	<u>-</u>	<u>30,955,141</u>
Supporting services:			
Management and general	831,914	-	831,914
Fund-raising	<u>1,006,914</u>	<u>-</u>	<u>1,006,914</u>
Total supporting services	<u>1,838,828</u>	<u>-</u>	<u>1,838,828</u>
Total expenses	<u>32,793,969</u>	<u>-</u>	<u>32,793,969</u>
Increase (decrease) in net assets	1,357,668	(188,552)	1,169,116
Net assets, beginning of year	<u>11,962,385</u>	<u>1,812,121</u>	<u>13,774,506</u>
Net assets, end of year	<u>\$ 13,320,053</u>	<u>\$ 1,623,569</u>	<u>\$ 14,943,622</u>

The Notes to Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Support:			
Contributed nonfinancial assets	\$ 27,838,712	\$ -	\$ 27,838,712
Contributed financial assets	4,376,660	458,714	4,835,374
Grants - foundations and corporations	1,532,693	818,718	2,351,411
Grants - state	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total support	<u>33,848,065</u>	<u>1,277,432</u>	<u>35,125,497</u>
Revenue:			
Shared maintenance fees	1,813,111	-	1,813,111
Commodity service revenue - USDA	428,940	-	428,940
Commodity service revenue - other	48,650	-	48,650
Agency fees	12,500	-	12,500
Miscellaneous income	<u>1,530</u>	<u>-</u>	<u>1,530</u>
Total revenue	<u>2,304,731</u>	<u>-</u>	<u>2,304,731</u>
Net assets released from restrictions	<u>2,005,708</u>	<u>(2,005,708)</u>	<u>-</u>
Total support and revenue	<u>38,158,504</u>	<u>(728,276)</u>	<u>37,430,228</u>
Expenses:			
Program services:			
Food distribution services	<u>34,893,580</u>	<u>-</u>	<u>34,893,580</u>
Supporting services:			
Management and general	764,375	-	764,375
Fund-raising	<u>760,509</u>	<u>-</u>	<u>760,509</u>
Total supporting services	<u>1,524,884</u>	<u>-</u>	<u>1,524,884</u>
Total expenses	<u>36,418,464</u>	<u>-</u>	<u>36,418,464</u>
Increase (decrease) in net assets	1,740,040	(728,276)	1,011,764
Net assets, beginning of year	<u>10,222,345</u>	<u>2,540,397</u>	<u>12,762,742</u>
Net assets, end of year	<u>\$ 11,962,385</u>	<u>\$ 1,812,121</u>	<u>\$ 13,774,506</u>

The Notes to Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2023

	Program Services		Supporting Services		Total Expenses
	Food Distribution	Management and General	Fund-raising		
Cost of food distribution	\$ 27,483,878	\$ -	\$ -		\$27,483,878
Freight and packaging	404,361	-	-		404,361
Salaries	1,609,097	411,573	374,932		2,395,602
Employee benefit	179,540	49,562	40,760		269,862
Payroll taxes	114,775	30,392	28,091		173,258
Special events	-	-	15,341		15,341
Warehouse supplies and expenses	174,794	-	-		174,794
Vehicle expense	187,797	-	-		187,797
Utilities	73,521	24,507	-		98,028
Office supplies	10,745	5,334	5,258		21,337
Advertising	-	1,865	34,681		36,546
Printing and postage	3,940	1,307	1,385		6,632
Telephone	36,823	4,332	2,166		43,321
Rental expenses	90,083	2,395	-		92,478
Repairs and maintenance	70,528	8,297	4,149		82,974
Miscellaneous	226	52,487	121,993		174,706
Bad debt expense	4,545	-	-		4,545
Contracted services	-	-	59,188		59,188
Professional services	-	75,013	-		75,013
Dues and subscriptions	60,566	10,329	7,945		78,840
Education and training	2,639	2,640	2,639		7,918
Fund-raising	-	-	298,627		298,627
Programs	16,729	-	-		16,729
Travel and lodging	2,646	9,244	9,759		21,649
Insurance	100,802	33,601	-		134,403
Total expenses before depreciation	30,628,035	722,878	1,006,914		32,357,827
Depreciation	327,106	109,036	-		436,142
Total expenses	\$ 30,955,141	\$ 831,914	\$ 1,006,914		\$32,793,969

The Notes to Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

	Program Services	Supporting Services		Total Expenses
	Food Distribution	Management and General	Fund-raising	
Cost of food distribution	\$ 31,828,445	\$ -	\$ -	\$31,828,445
Freight and packaging	260,720	-	-	260,720
Salaries	1,437,900	370,137	292,463	2,100,500
Employee benefit	189,022	33,442	21,353	243,817
Payroll taxes	94,587	27,539	22,169	144,295
Special events	-	-	29,346	29,346
Warehouse supplies and expenses	277,129	-	-	277,129
Vehicle expense	169,221	-	-	169,221
Utilities	75,729	25,243	-	100,972
Office supplies	19,768	6,589	-	26,357
Advertising	-	14,978	12,473	27,451
Printing and postage	9,555	1,124	562	11,241
Telephone	21,131	2,486	1,243	24,860
Rental expenses	62,225	10,981	-	73,206
Repairs and maintenance	53,447	6,288	3,144	62,879
Miscellaneous	182	33,891	1,467	35,540
Bad debt expense	2,882	960	-	3,842
Contracted services	-	-	42,315	42,315
Professional services	-	112,371	-	112,371
Dues and subscriptions	48,395	5,073	2,536	56,004
Education and training	608	71	36	715
Fund-raising	-	-	329,171	329,171
Programs	3,029	-	-	3,029
Travel and lodging	6,692	2,231	2,231	11,154
Insurance	60,703	20,234	-	80,937
Total expenses before depreciation	34,621,370	673,638	760,509	36,055,517
Depreciation	272,210	90,737	-	362,947
Total expenses	<u>\$ 34,893,580</u>	<u>\$ 764,375</u>	<u>\$ 760,509</u>	<u>\$36,418,464</u>

The Notes to Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC.

STATEMENTS OF CASH FLOWS
Year Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,169,116	\$ 1,011,764
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	436,142	362,947
Bad debt expense	4,545	3,842
Net realized/unrealized gains on investments	(24,951)	-
Change in operating assets and liabilities:		
Accounts receivable, net	(6,782)	(102,268)
Contributions receivable	429,400	(271,340)
Grant receivable	(100,440)	51,767
Prepaid expenses and other assets	(12,883)	26,500
Inventories	(449,788)	1,319,338
Accounts payable	(45,828)	372,466
Accrued liabilities	36,932	(3,226)
Net cash provided by operating activities	<u>1,435,463</u>	<u>2,771,790</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building and equipment	(1,426,132)	(635,007)
Purchase of investments	(2,080,762)	-
Proceeds from sale of investments	<u>44,161</u>	<u>-</u>
Net cash used in investing activities	<u>(3,462,733)</u>	<u>(635,007)</u>
NET (DECREASE) INCREASE IN CASH	(2,027,270)	2,136,783
CASH, beginning of year	<u>8,341,278</u>	<u>6,204,495</u>
CASH, end of year	<u>\$ 6,314,008</u>	<u>\$ 8,341,278</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Lease liability arising from obtaining right-of-use asset	<u>\$ 197,981</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of these statements.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Chattanooga Area Food Bank, Inc. (the Organization) conform with United States generally accepted accounting principles (GAAP) and practices within the not-for-profit industry. The policies that materially affect financial position and results of operations are summarized as follows:

Nature of operations:

The Organization operates as a nonprofit entity that receives donations of food which it distributes to other tax-exempt organizations in Tennessee and Georgia to eliminate hunger and promote better nutrition for the region. The Organization is also a certified member of Feeding America, the Nation's Food Bank Network.

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 certain reported amounts and disclosures. Actual results could differ from those estimates.

Basis of presentation and revenue recognition:

To ensure observances of limitations and restrictions placed on the use of resources available to the Organization, resources are classified for accounting and financial reporting purposes into categories established according to their nature and purpose in the two categories as follows:

Basis of presentation:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. The only limits on net assets without donor restrictions are those resulting from the nature of the Organization and its purposes.

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

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies (continued)

Revenue recognition:

The Organization follows the guidance in Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which affects contracts with customers to transfer goods or services and contracts for the transfer of non-financial assets (unless those contracts are within the scope of other standards). The core principle of this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the good or services. This ASU requires entities to make new judgements and estimates and provide expanded disclosures about revenue.

The majority of the Organization's revenues come from grants and contributions which are outside the scope of ASC 606. Revenues within the scope of ASC 606 include shared maintenance fees, agency fees, and miscellaneous income. The Organization recognizes shared maintenance fees at a point in time, which is at the point the Organization distributes food products to agencies and individuals. Agency fees and miscellaneous income is recognized at a point in time, which is at the point the Organization provides the service. Payments for shared maintenance, agency fees, and miscellaneous income are received at the time the product or service is provided or within a short time period thereafter.

Revenue is reported as increases in net assets without donor restriction unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gain and losses on other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor-imposed restrictions in net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributed financial assets are recorded as revenue in the period received or upon the receipt of an unconditional promise to give. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of appreciated assets are recorded at the estimated fair value at the date of receipt by the Organization.

The Organization also receives grant revenue from various federal and state agencies. Grant revenue is recognized in the period the liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies (continued)

Cash:

Cash consists principally of checking account balances. The Organization considers all cash and highly liquid investments with original maturities of three months or less to be cash equivalents.

Concentrations of credit risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and investments. The Organization places its cash with financial institutions and limits the amount of credit exposure to any one financial institution. From time to time, the Organization's cash balances exceed federal depository insurance coverage and management considers this to be a normal business risk. The Organization has not experienced any losses on its cash. The Organization's investments do not represent significant concentrations of market risk inasmuch as the Organization's investments are diversified among many issuers.

Investments:

Investments are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Fair values of marketable securities with readily determinable fair values are based on quoted market prices. Investment income or loss (including gains and losses on investments, interest, and dividends, net of investment expenses) is included in the statements of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Land, building and equipment:

Land, building and equipment are stated at cost if purchased or fair value if donated. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Vehicles	5 years
Office furniture and fixtures	5-20 years
Greenhouse	6-15 years
Warehouse equipment	5-15 years

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies (continued)

Leases:

Leases are classified as operating or finance leases at the lease commencement date. The Organization leases space for its Foxwood location, a mail machine, and several vehicles. The Organization records leases on the statements of financial position in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon the risk free rate or the implicit rate, when known, as of the date of commencement or renewal. The Organization does not record leases on the statements of financial position that are classified as short term (less than one year).

At lease inception, the Organization determines the lease term by considering the minimum lease term and all optional renewal periods that the Organization is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The Organization's lease does not contain residual value guarantees or material variable lease payments that will cause the Organization to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense is included in rental expenses on the Organization's statements of functional expenses. The Organization has elected not to treat property leases that include both lease and non-lease components as a single component and account for it as a lease.

Contributed nonfinancial assets:

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the statements of activities included:

	<u>2023</u>	<u>2022</u>
Donated food commodities	<u>\$23,096,182</u>	<u>\$27,838,712</u>

The Organization recognized contributed nonfinancial assets within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

The Organization receives substantial in-kind contributions, in the form of donated food. The food is recorded at market value on the date of donation that has been determined by Feeding America and management to be \$1.57 and \$1.53 per pound during 2023 and 2022, respectively. Feeding America is a nationwide network of approximately 200 food banks.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies (continued)

Contributed nonfinancial assets (continued):

The market values for the fiscal years ended June 30, 2023 and 2022, have been calculated by an independent accountant under agreed-upon-procedures. The valuations were established as of December 31, 2022 and 2021. Contributed food commodities was utilized in the various food programs administered by the Organization.

For the years ended June 30, 2023 and 2022, a substantial number of unpaid volunteers have made significant contributions of approximately 32,200 and 21,000 hours, respectively, to the operations of the Organization. The value of this contributed time is not reflected in these statements since it does not meet the criteria recognition under GAAP.

Inventories:

Food inventories include donated food, purchased inventory, and undistributed USDA commodities. Donated food received from food drives, food companies, grocery stores, Feeding America, and the USDA is valued at \$1.57 per pound for the year ending June 30, 2023 and \$1.53 per pound for the year ending June 30, 2022. These values represent the estimated average market value at the date of gift, based on studies commissioned by Feeding America. Purchased inventory is reported at cost.

Accounts receivable:

The Organization charges a share maintenance fee to recover a portion of the cost of food purchasing, storage, handling and delivery to other not-for-profit agencies. Accounts receivable are reported at gross sales price less any applicable payments, adjustments or allowances for uncollectible accounts. The Organization extends credit based on evaluation of those agencies' financial condition and generally does not require collateral.

The Organization estimates an allowance for uncollectible accounts based on its knowledge of agencies' individual credit circumstances, the Organization's historical loss experience, and other current economic conditions. Accounts determined to be uncollectible are charged-off against the allowance in the period of determination. Subsequent recoveries of amounts previously charged-off are credited to the allowance in the period received.

Functional expenses:

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies (continued)

Income tax status:

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes on related income pursuant to Section 501 of the Code. However, any income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

The Organization accounts for income taxes in accordance with income tax accounting guidance in ASC Topic 740, *Income Taxes*. The Organization follows the statutory requirement for its income tax accounting and generally avoids risks associated with potentially problematic tax positions that may be challenged upon examination. Management believes any liability resulting from taxing authorities imposing additional income taxes from activities deemed to be unrelated to the Organization's non-taxable status would not have a material effect on the Organization's financial statements. The Organization is subject to routine audits from taxing jurisdictions; however, there are currently no audits for tax periods in progress.

Advertising costs:

Advertising costs are charged to expense as incurred.

Recent accounting pronouncement:

On July 1, 2022, the Organization adopted ASU 2016-02, *Leases (Topic 842)* and subsequent amendments thereto, which requires the Organization to recognize most leases on the statements of financial position. The standard was adopted under a modified retrospective approach at the date of adoption and the Organization elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical initial direct cost balances for existing leases
- Use of risk free rate to discount lease payments

Adoption of the leasing standard resulted in the recognition of operating right-of-use asset and operating lease liability of \$197,981. These amounts were determined based on the present value of remaining lease payments, discounted using the risk free rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Organization's statement of activities. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Organization's leasing activities are presented in Note 8.

Subsequent events:

Management performed an evaluation of subsequent events through January 18, 2024, the date these financial statements were available to be issued.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash	\$5,844,132	\$7,764,916
Accounts receivable	202,291	200,054
Grants receivable	423,806	323,366
Contributions receivable	68,065	253,715
Investments	<u>2,061,552</u>	<u>-</u>
	<u>\$8,599,846</u>	<u>\$8,542,051</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In general, the Organization maintains sufficient assets on hand to meet 6 months of normal operating expenses. The Organization also has a \$500,000 line of credit available. The line of credit bears interest at one month SOFR plus 2.00 percent and matures January 31, 2025. No amounts were outstanding at June 30, 2023 and 2022.

Note 3. Inventories

Inventories consist of the following as of June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Donated inventory	\$1,153,695	\$ 992,009
Purchased inventory	<u>545,411</u>	<u>257,309</u>
	<u>\$1,699,106</u>	<u>\$1,249,318</u>

Note 4. Accounts Receivable

Accounts receivable consist of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Member agencies	\$171,354	\$177,967
Other customers	40,874	27,479
Allowance for bad debts	<u>(9,937)</u>	<u>(5,392)</u>
	<u>\$202,291</u>	<u>\$200,054</u>

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 5. Contributions Receivable

Contributions receivable were \$68,065 and \$497,465 at June 30, 2023 and 2022, respectively, and substantially all are due within one year. No discount has been recorded as management has determined any amounts were not material. Management believes that all contributions receivable are fully collectible at June 30, 2023 and 2022; therefore, there are no allowances for uncollectible contributions receivable.

Note 6. Investments

A summary of investments at June 30, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Money market funds	\$ 214,604	\$ -
U.S. Treasury Bills	1,385,715	-
Certificates of deposits	<u>461,233</u>	<u>-</u>
	<u>\$2,061,552</u>	<u>\$ -</u>

Note 7. Land, Building and Equipment

A summary of land, building and equipment at June 30, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Land and land improvements	\$ 789,488	\$ 789,488
Building	2,818,737	2,789,249
Vehicles	1,527,864	1,320,429
Office furniture and fixtures	370,240	321,045
Greenhouse	26,741	26,741
Warehouse equipment	1,663,849	1,430,413
Construction in progress	<u>1,107,047</u>	<u>200,469</u>
	8,303,966	6,877,834
Accumulated depreciation	<u>(3,594,367)</u>	<u>(3,158,225)</u>
	<u>\$ 4,709,599</u>	<u>\$ 3,719,609</u>

At June 30, 2023, the Organization estimates its remaining cost to complete construction in progress is approximately \$1,004,000.

Note 8. Leases

A lease is defined as a contract, or part of a contract, that covers the right to control the use of identified property, plant, or equipment for a period of time in exchange for consideration. On July 1, 2022, the Organization adopted ASU 2016-02, *Leases (Topic 842)* and all subsequent ASUs that modified Topic 842. For the Organization, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Organization is the lessee.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 8. Leases (continued)

The Organization leases space for its Foxwood facility, a mail machine, and several vehicles under operating lease agreements. The leases were classified as operating leases, and therefore, were previously not recognized on the Organization's statements of financial position. With the adoption of Topic 842, operating lease agreements are required to be recognized on the statements of financial position as a right-of-use (ROU) asset and a corresponding lease liability. The Organization elected to use the modified retrospective method of adoption without restating comparable periods. The Organization also elected the relief package of practical expedients for which there is no requirement to reassess existence of leases, their classification, and initial direct costs. The Organization also applied the exemption for short-term leases with a term of less than one year and therefore does not recognize a lease liability or right-of-use asset on the statements of financial position but instead recognizes lease payments as an expense over the lease term as appropriate.

The following table represents the statements of financial position classification of the Organization's ROU asset and lease liability:

<u>Lease Right of Use Asset</u>	<u>Classification on Statement of Financial Position</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Operating Lease ROU Asset	Prepaid expense and other assets	\$134,734	\$ -
<u>Lease Right of Use Liability</u>	<u>Classification on Statement of Financial Position</u>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Operating Lease Liability	Accrued liabilities	\$133,731	\$ -

The calculated amount of the ROU asset and lease liability in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Organization's lease agreements do not include one or more options to renew at the Organization's discretion. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As the rates were not determinable, the Organization utilized the risk free rate at lease inception over a similar term as the discount rate. For operating leases existing prior to July 1, 2022, the rate for the remaining lease term as of July 1, 2022 was used.

At June 30, 2023, the weighted average lease term and weighted average discount is as follows:

Weighted-Average remaining lease term for operating lease	2.1 Years
Weighted-Average discount rate for operating lease	2.82 %

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 8. Leases (continued)

Future minimum payments for operating leases with initial or remaining terms of one year or more as of June 30, 2023, were as follows:

	<u>Operating Leases</u>
2024	\$ 65,811
2025	67,200
2026	2,328
Amounts representing interest	<u>(1,608)</u>
Net lease liabilities	<u>\$133,731</u>

Total rent expense for 2023 and 2022, was \$92,478 and \$73,206, respectively, and is included in rental expenses in the statements of functional expenses.

In June 2022, the Organization received an in-kind conditional promise to give with Dalton-Whitfield County Joint Development Authority to lease a distribution facility in Dalton, Georgia. Under the terms of the lease the Organization does not pay monthly rents and includes a purchase obligation whereby the Organization will purchase the facility at the end of the lease term for \$10. The Organization is required to operate the facility as a food bank for the period of the lease. As prescribed by FASB's Not-For-Profit contribution recognition and measurement guidance, management has determined the in-kind promise to give to be conditional based on the requirement to operate the facility as a food bank. The Organization estimates the fair market value of the in-kind rent and recognizes in-kind contribution revenues annually. For the year ended June 30, 2023, the Organization recorded \$24,000 of in-kind contribution and rent expense.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Undistributed food inventory	\$1,153,695	\$ 992,009
Capital improvements	109,566	344,869
Food distribution programs	260,411	416,530
Other restrictions	<u>99,897</u>	<u>58,713</u>
Total net assets with donor restrictions	<u>\$1,623,569</u>	<u>\$1,812,121</u>

Net assets with donor restrictions are included in cash, inventory, and contributions receivable.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 9. Net Assets With Donor Restrictions (continued)

During the years ended June 30, 2023 and 2022, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by donors as follows:

	<u>2023</u>	<u>2022</u>
Undistributed food inventory	\$ -	\$1,054,470
Capital improvements	383,691	59,984
Food distribution programs	1,070,700	569,905
Other restrictions	<u>131,618</u>	<u>321,349</u>
	<u>\$1,586,009</u>	<u>\$2,005,708</u>

Note 10. Retirement Plan

The Organization has established a deferred salary reduction plan covering employees who have attained the age of 21 and have completed six months of service. The Organization matches contributions by eligible employees up to 3% of compensation. Employer contributions immediately vest. The Organization's matching contributions were \$27,888 and \$27,577 for the years ended June 30, 2023 and 2022, respectively.

Note 11. Fair Value Measurements

The Organization utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

ASC Topic 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 11. Fair Value Measurements (continued)

ASC Topic 820 also establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

Donated inventory: Valued based on poundage times a standard rate. The standard rate is updated annually based on a study commissioned by Feeding America, which is classified as Level 3. The inputs used in the valuation include twenty-nine product types calculating a weighted average value for the year based on actual donated pounds by type on a national level.

U.S. Treasury Bills: The fair value for debt securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities, using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Money market funds: Valued at the carrying amount based on the short term nature of the assets.

Certificates of deposit: Valued at the carrying amount based on the short term nature of the assets.

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 11. Fair Value Measurements (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of donated inventory could result in a different fair value measurement at the reporting date.

The table below presents the recorded amount of assets measured at fair value on a recurring basis:

	Balance as of June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Money market funds	\$ 214,604	\$214,604	\$ -	\$ -
U.S. Treasury Bills	1,385,715	-	1,385,715	-
Certificates of deposits	461,233	461,233	-	-
Donated inventory	<u>1,153,695</u>	<u>-</u>	<u>-</u>	<u>1,153,695</u>
Total assets at fair value	<u>\$3,215,247</u>	<u>\$675,837</u>	<u>\$1,385,715</u>	<u>\$1,153,695</u>

	Balance as of June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Donated inventory	<u>\$992,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$992,009</u>
Total assets at fair value	<u>\$992,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$992,009</u>

The table below presents additional information about assets measured at fair value on a recurring basis by reliance on Level 3 inputs to determine fair value at June 30, 2023 and 2022.

	<u>Donated Inventory</u>	
	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 992,009	\$ 2,046,479
Food received	23,096,182	27,838,712
Food distributed	<u>(22,934,496)</u>	<u>(28,893,182)</u>
Ending balance	<u>\$ 1,153,695</u>	<u>\$ 992,009</u>

CHATTANOOGA AREA FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

Note 11. Fair Value Measurements (continued)

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the period. For the years ended June 30, 2023 and 2022, there were no transfers in or out of Levels 1, 2 or 3.

SUPPLEMENTARY INFORMATION

CHATTANOOGA AREA FOOD BANK, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Grant Revenue June 30, 2022	Grant Revenue Received	Expenditures	(Accrued) Deferred Grant Revenue June 30, 2023
FEDERAL GRANTS						
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Tennessee Department of Agriculture:						
Food Distribution Cluster:						
Emergency Food Assistance Program (Food Commodities)	10.569	GR-20802	\$ 202,343	\$ 2,899,802	\$ 2,936,407	\$ 165,738
Emergency Food Assistance Program (Administrative Costs) October 1, 2022 - September 30, 2023	10.568	GR-90028	-	99,999	235,199	(135,200)
Emergency Food Assistance Program (Administrative Costs) October 1, 2021 - September 30, 2022	10.568	GR-84791	(264,509)	329,999	65,490	-
Total Food Distribution Cluster			<u>(62,166)</u>	<u>3,329,800</u>	<u>3,237,096</u>	<u>30,538</u>
Trade Mitigation, Food Purchase and Distribution Program (Administrative Costs)	10.187	N/A	-	-	26,063	(26,063)
Total Trade Mitigation, Food Purchase and Distribution Program			<u>-</u>	<u>-</u>	<u>26,063</u>	<u>(26,063)</u>
Local Food Purchase Assistance Cooperative Agreement Program	10.182	AM22LFPA0000C055	-	26,231	26,231	-
Total Local Food Purchase Assistance Cooperative Agreement Program COVID-19			<u>-</u>	<u>26,231</u>	<u>26,231</u>	<u>-</u>
Passed through Tennessee Department of Human Services:						
Supplemental Nutrition Assistance Program						
January 1, 2023 - December 31, 2023	10.561	GY23-235TN408S2514	-	10,509	11,215	(706)
Supplemental Nutrition Assistance Program January 1, 2022 - September 30, 2022	10.561	GR-65172	(1,845)	1,845	-	-
			<u>(1,845)</u>	<u>12,354</u>	<u>11,215</u>	<u>(706)</u>
Passed through Georgia Department of Human Services:						
Supplemental Nutrition Assistance Program						
October 1, 2022 - September 30, 2023	10.561	42700-040-0000108905	-	10,195	15,269	(5,074)
Supplemental Nutrition Assistance Program October 1, 2021 - September 30, 2022	10.561	42700-040-0000104203	(2,929)	2,929	-	-
			<u>(2,929)</u>	<u>13,124</u>	<u>15,269</u>	<u>(5,074)</u>
Total SNAP Cluster			<u>(4,774)</u>	<u>25,478</u>	<u>26,484</u>	<u>(5,780)</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Passed through Atlanta Community Food Bank:						
477 Cluster:						
Temporary Assistance for Needy Families Program October 1, 2022 - September 30, 2023	93.558	42700-040-0000111425	-	268,846	301,779	(32,933)
Temporary Assistance for Needy Families Program October 1, 2021 - September 30, 2022	93.558	42700-040-0000103461	(54,083)	54,083	-	-
Total 477 Cluster			<u>(54,083)</u>	<u>322,929</u>	<u>301,779</u>	<u>(32,933)</u>

CHATTANOOGA AREA FOOD BANK, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Grant Revenue June 30, 2022	Grant Revenue Received	Expenditures	(Accrued) Deferred Grant Revenue June 30, 2023
U.S. DEPARTMENT OF HOMELAND SECURITY Passed through Federal Emergency Management Agency: Emergency Food and Shelter Program	97.024	LRO-768200-023	-	5,000	5,000	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Passed through Tennessee Department of Economic and Community Development Community Development Block Grant - Food Bank Support	14.228	PO 15060	-	472,845	696,621	(223,776)
U.S. DEPARTMENT OF THE TREASURY Passed through Georgia Department of the Treasury via Whitfield County, GA Coronavirus State and Local Fiscal Recovery Funds - COVID-19	21.027	SLFRP2853	-	83,879	83,879	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			(121,023)	4,266,162	4,403,153	(258,014)
STATE GRANTS TENNESSEE DEPARTMENT OF HUMAN SERVICES Second Harvest Food Bank	N/A	N/A	-	100,000	100,000	-
GEORGIA DEPARTMENT OF AGRICULTURE Georgia Department of Agriculture	N/A	N/A	-	100,000	100,000	-
TOTAL EXPENDITURES OF STATE AWARDS			-	200,000	200,000	-
TOTAL FEDERAL AND STATE AWARDS			\$ (121,023)	\$ 4,466,162	\$ 4,603,153	\$ (258,014)

The Notes to the Schedule of Expenditures of Federal and State Awards are an integral part of this schedule.

CHATTANOOGA AREA FOOD BANK, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
June 30, 2023 and 2022

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Organization under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) 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 assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Deferred Grant Revenue

The amount of deferred grant revenue for contract GR-20802 at June 30, 2023 and 2022, represents the amount of USDA inventory on hand.

Note 4. Indirect Cost Rate

The Organization has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 5. Payments to Subrecipients

There were no payments made to subrecipients during the year ended June 30, 2023.



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 Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

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 the Chattanooga Area Food Bank, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 18, 2024..

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
January 18, 2024



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

To the Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Chattanooga Area Food Bank, Inc.'s (the Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2023. 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.

In our opinion, the Chattanooga Area Food Bank, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Chattanooga Area Food Bank, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Chattanooga Area Food Bank, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Chattanooga Area Food Bank, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
January 18, 2024

CHATTANOOGA AREA FOOD BANK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes No

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR Section 200 516(a)? Yes No

Identification of major programs:

<u>Federal Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
	U.S. Department of Agriculture – Food Distribution Cluster
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 low-risk auditee? Yes No

CHATTANOOGA AREA FOOD BANK, INC.

SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2023

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.