

**SECOND HARVEST FOOD BANK
OF EAST TENNESSEE**

Financial Statements and Supplemental Schedules

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

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**Second Harvest Food Bank of East Tennessee
Roster of Board of Directors and Executive Staff
As of June 30, 2017**

Board of Directors

Tom Ferriter	President
Lori Hickok	Secretary/Treasurer
John Ross	Member
Patrick Birmingham	Member
Michael Campbell	Member
Tim McLemore	Member
David Keim	Member
Jacob Ogle	Member
David Reynolds	Member
Mike Hatcher	Member

Executive Staff

Elaine Streno	Chief Executive Officer
Zane Graves	Chief Operations Officer
Gail Root	Chief Programs Officer
Aaron Snukals	Chief Development Officer
Christine Martin	Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Second Harvest Food Bank of East Tennessee:

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of East Tennessee (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of East Tennessee as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards and Related Notes on pages 19 through 21, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

L B M C, P C

Knoxville, Tennessee
November 14, 2017

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Financial Position

June 30, 2017 and 2016

	<u>Assets</u>	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 1,528,536	\$ 1,058,396
Accounts receivable	145,086	171,022
Grants receivable	86,210	87,104
Current portion of pledges receivable	100,000	250,000
Prepaid expenses	15,174	15,174
Products held for distribution	<u>1,028,006</u>	<u>885,884</u>
Total current assets	2,903,012	2,467,580
 Long-term pledges receivable, net of current portion and present value discount	 285,233	 377,150
 Property and equipment, net:		
Land	441,600	441,600
Building	3,951,327	3,951,327
Warehouse equipment	395,710	349,764
Automobiles and trucks	1,074,645	1,082,712
Cold storage equipment	1,946,249	1,946,249
Office furniture and equipment	<u>227,406</u>	<u>217,866</u>
	8,036,937	7,989,518
Accumulated depreciation	<u>1,927,947</u>	<u>1,693,089</u>
Property and equipment, net	6,108,990	6,296,429
 Beneficial interest in assets held by others	 5,000	 5,000
Deposits	<u>1,570</u>	<u>1,570</u>
	\$ <u>9,303,805</u>	\$ <u>9,147,729</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Financial Position

June 30, 2017 and 2016

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Trade accounts and other payables	\$ 236,981	\$ 303,028
Accrued compensation	<u>110,928</u>	<u>90,903</u>
Total current liabilities	347,909	393,931
Long-term debt	<u>538,208</u>	<u>963,208</u>
Total liabilities	<u>886,117</u>	<u>1,357,139</u>
Net assets:		
Unrestricted	7,359,059	6,465,846
Temporarily restricted	<u>1,058,629</u>	<u>1,324,744</u>
Total net assets	<u>8,417,688</u>	<u>7,790,590</u>
	<u>\$ 9,303,805</u>	<u>\$ 9,147,729</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Activities

Year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributed product	\$ -	\$ 22,643,571	\$ -	\$ 22,643,571
Other contributions	2,527,924	481,567	-	3,009,491
Government grants	131,108	208,204	-	339,312
United Way	301,028	-	-	301,028
Distribution fees	2,424,008	-	-	2,424,008
In kind donations	20,589	-	-	20,589
Capital campaign	-	8,083	-	8,083
Event revenue, net of expenses of \$255,528	<u>1,032,850</u>	<u>-</u>	<u>-</u>	<u>1,032,850</u>
Total support and revenue	6,437,507	23,341,425	-	29,778,932
Net assets released from restrictions	<u>23,607,540</u>	<u>(23,607,540)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	30,045,047	(266,115)	-	29,778,932
Expenses:				
Program services:				
Product distribution	25,611,067	-	-	25,611,067
Operations and warehouse	2,443,542	-	-	2,443,542
Fundraising	823,774	-	-	823,774
Management and general	<u>308,152</u>	<u>-</u>	<u>-</u>	<u>308,152</u>
Total expenses	29,186,535	-	-	29,186,535
Other changes in net assets				
Interest income	412	-	-	412
Other	25,551	-	-	25,551
Gain on disposal of property and equipment	<u>8,738</u>	<u>-</u>	<u>-</u>	<u>8,738</u>
Total other changes	34,701	-	-	34,701
Change in net assets	893,213	(266,115)	-	627,098
Net assets at beginning of year	6,465,846	1,324,744	-	7,790,590
Net assets at end of year	\$ 7,359,059	\$ 1,058,629	\$ -	\$ 8,417,688

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Activities

Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributed product	\$ -	\$ 22,013,771	\$ -	\$ 22,013,771
Other contributions	2,108,355	601,628	-	2,709,983
Government grants	64,300	196,210	-	260,510
United Way	214,363	-	-	214,363
Distribution fees	2,107,110	-	-	2,107,110
In kind donations	52,075	-	-	52,075
Capital campaign	-	126,769	-	126,769
Event revenue, net of expenses of \$346,323	<u>1,170,093</u>	<u>-</u>	<u>-</u>	<u>1,170,093</u>
Total support and revenue	5,716,296	22,938,378	-	28,654,674
Net assets released from restrictions	<u>23,389,918</u>	<u>(23,389,918)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>29,106,214</u>	<u>(451,540)</u>	<u>-</u>	<u>28,654,674</u>
Expenses:				
Program services:				
Product distribution	25,084,419	-	-	25,084,419
Operations and warehouse	2,172,623	-	-	2,172,623
Fundraising	837,570	-	-	837,570
Management and general	<u>429,777</u>	<u>-</u>	<u>-</u>	<u>429,777</u>
Total expenses	<u>28,524,389</u>	<u>-</u>	<u>-</u>	<u>28,524,389</u>
Other changes in net assets				
Interest income	534	-	-	534
Other	7,446	-	-	7,446
Gain on disposal of property and equipment	<u>1,737</u>	<u>-</u>	<u>-</u>	<u>1,737</u>
Total other changes	<u>9,717</u>	<u>-</u>	<u>-</u>	<u>9,717</u>
Change in net assets	591,542	(451,540)	-	140,002
Net assets at beginning of year	<u>5,874,304</u>	<u>1,776,284</u>	<u>-</u>	<u>7,650,588</u>
Net assets at end of year	<u>\$ 6,465,846</u>	<u>\$ 1,324,744</u>	<u>\$ -</u>	<u>\$ 7,790,590</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash provided by operating activities:		
Change in net assets	\$ <u>627,098</u>	\$ <u>140,002</u>
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	297,426	303,397
Gain on disposal of property and equipment	(8,738)	(1,737)
Capital campaign pledges restricted for facility acquisition	(8,083)	(126,765)
In-kind contribution of equipment	-	(2,300)
Bad debt expense	-	144,300
(Increase) decrease in:		
Accounts receivable	25,936	(26,196)
Grants receivable	894	(54,668)
Prepaid expenses	-	13,013
Product held for distribution	(142,122)	273,927
Increase (decrease) in:		
Trade accounts and other payables	(66,047)	207,870
Accrued salaries	20,025	43,508
Other current liabilities	-	-
Total adjustments	<u>119,291</u>	<u>774,349</u>
Net cash provided by operating activities	<u>746,389</u>	<u>914,351</u>
Cash provided (used) by investing activities:		
Purchases of property and equipment	(112,987)	(303,265)
Proceeds from disposal of property and equipment	<u>11,738</u>	<u>5,000</u>
Net cash used by investing activities	<u>(101,249)</u>	<u>(298,265)</u>
Cash provided (used) by financing activities:		
Cash received from pledges restricted for facility acquisition	250,000	290,600
Payments on long-term debt	<u>(425,000)</u>	<u>(308,420)</u>
Net cash used by financing activities	<u>(175,000)</u>	<u>(17,820)</u>
Increase in cash and cash equivalents	470,140	598,266
Cash at beginning of year	<u>1,058,396</u>	<u>460,130</u>
Cash at end of year	\$ <u>1,528,536</u>	\$ <u>1,058,396</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Functional Expenses

Year ended June 30, 2017

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Totals</u>
Product distribution	\$ 25,611,067	\$ -	\$ -	\$ 25,611,067
Salaries and wages	1,047,781	383,483	183,961	1,615,225
Payroll taxes	77,440	28,343	13,596	119,379
Health insurance	106,747	39,068	18,741	164,556
Retirement contributions	22,931	8,392	4,026	35,349
Other employee benefits	13,456	4,925	2,362	20,743
Depreciation	267,683	17,846	11,897	297,426
Printing and publications	3,079	20,693	616	24,388
Direct mail	-	273,850	-	273,850
Postage	2,916	2,333	583	5,832
Office supplies	1,675	1,340	335	3,350
Office equipment lease	3,795	3,037	759	7,591
Telephone	16,849	6,167	2,958	25,974
Utilities	81,472	5,432	3,621	90,525
Insurance	65,211	7,880	4,002	77,093
Fuel and vehicle registration	102,421	-	-	102,421
Repairs and maintenance	271,291	9,016	6,445	286,752
Conferences and travel	8,384	3,069	1,472	12,925
Dues and licenses	18,460	6,756	3,241	28,457
Professional services	-	-	22,806	22,806
Agency grants	214,251	-	-	214,251
Agency expenses	16,030	-	-	16,030
Warehouse and program expenses	76,691	-	-	76,691
Bank charges	-	-	24,973	24,973
Other	-	479	648	1,127
Interest expense	24,979	1,665	1,110	27,754
	<u>\$ 28,054,609</u>	<u>\$ 823,774</u>	<u>\$ 308,152</u>	<u>\$ 29,186,535</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Functional Expenses

Year ended June 30, 2016

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Totals</u>
Product distribution	\$ 25,084,419	\$ -	\$ -	\$ 25,084,419
Salaries and wages	996,420	345,008	168,254	1,509,682
Payroll taxes	72,412	25,072	12,227	109,711
Health insurance	111,816	38,717	18,880	169,413
Retirement contributions	20,668	7,156	3,490	31,314
Other employee benefits	16,559	5,733	2,796	25,088
Depreciation	273,057	18,204	12,136	303,397
Bad debt expense	-	-	144,300	144,300
Printing and publications	1,452	48,300	291	50,043
Direct mail	-	305,373	-	305,373
Postage	2,419	1,936	484	4,839
Office supplies	1,680	1,345	336	3,361
Office equipment lease	5,417	4,333	1,083	10,833
Telephone	19,920	6,897	3,364	30,181
Utilities	78,745	5,250	3,500	87,495
Insurance	63,048	6,433	3,344	72,825
Fuel and vehicle registration	100,832	-	-	100,832
Repairs and maintenance	174,194	6,355	4,911	185,460
Conferences and travel	10,345	3,582	1,747	15,674
Dues and licenses	13,678	4,736	2,310	20,724
Professional services	-	-	21,926	21,926
Agency grants	91,655	-	-	91,655
Agency expenses	5,862	-	-	5,862
Warehouse and program expenses	70,087	-	-	70,087
Bank charges	-	-	22,569	22,569
Other	1,205	396	-	1,601
Interest expense	41,152	2,744	1,829	45,725
	<u>\$ 27,257,042</u>	<u>\$ 837,570</u>	<u>\$ 429,777</u>	<u>\$ 28,524,389</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2017 and 2016

(1) Nature of activities

Second Harvest Food Bank of East Tennessee ("Second Harvest"), was incorporated in July 1981 and is certified as a member of Feeding America.

Second Harvest, located in Maryville, Tennessee, is a non-profit service organization dedicated to alleviating hunger in the community. Its primary commitment to the surrounding eighteen counties of East Tennessee is to provide and distribute food to those agencies who feed the hungry. Second Harvest receives contributions of surplus or salvage food from national and local food producers and United States Department of Agriculture ("USDA") food products from the Tennessee Department of Agriculture, and distributes these products to certified charitable organizations such as church sponsored pantries that provide emergency food baskets, programs for disadvantaged children, programs for the handicapped, low income day care centers, and homeless shelters. Second Harvest also operates a prepared food program, "Food Rescue", to pick up prepared and ready-to-serve food from local restaurants for distribution to local feeding programs.

(2) Summary of significant accounting policies

(a) Basis of presentation

The accompanying financial statements present the financial position and changes in net assets of Second Harvest on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Second Harvest and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with donors' stipulations results in the release of the restriction.

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

Permanently restricted net assets - Net assets required by donors to be held in perpetuity, including gifts requiring the principal be invested and the income or specific portions thereof be used for operations. Second Harvest has no permanently restricted assets as of June 30, 2017 and 2016.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2017 and 2016

(b) Accounts receivable

Second Harvest sells purchased food and supplies to their partner agencies at a reduced price. Accounts receivable are reported at gross sales price less any applicable payments or adjustments. Second Harvest extends trade credit based on evaluation of those agencies' financial condition and, generally, does not require collateral. Second Harvest does not charge interest on past due accounts.

Second Harvest estimates an allowance for doubtful accounts on trade accounts receivable, which may not be fully collectible, based on its knowledge of partner agencies' individual credit circumstances, the historical loss experience and current economic conditions. Accounts determined to be uncollectible are charged off against the allowance in the period of determination. Subsequent recoveries of previously charged off accounts are credited to the allowance in the period received.

Accounts receivable are deemed to be fully collectible by management, and no allowance for doubtful accounts is considered necessary at June 30, 2017 or 2016.

(c) Pledges receivable

Unconditional pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flow. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the pledge is received. Amortization of the discount is included in contributions. Conditional promises to give are not recorded as support until such times as the conditions are substantially met.

(d) Products held for distribution

Product held for distribution includes donated inventory, purchased inventory, program inventory, and undistributed USDA commodities and consists primarily of assorted food, beverages, and condiments ("food"). Donated food received from food drives, food companies, grocery stores and Feeding America is valued at \$1.67 and \$1.69 per pound for 2017 and 2016, respectively, which represents the estimated average market value of the food at the date of the gift based on a study commissioned by Feeding America. Purchased and program inventory is reported at cost. USDA inventory is valued at the most recent USDA established market value per pound.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2017 and 2016

(e) Property and equipment

Property and equipment are reported at cost or, in the case of contributed property, at the estimated fair value at the date of receipt. It is Second Harvest's policy to capitalize property and equipment expenditures with a useful life of greater than one year and a cost in excess of \$1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years. Depreciation expense is \$297,426 and \$303,397 for the years ended June 30, 2017 and 2016, respectively.

(f) Contributions and support

Contributions are recorded as support when cash or other assets are received. Contributed food and other products for distribution are recorded as support at their estimated average market value on the date of receipt. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Gifts of cash and other assets that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. When a donor 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 restrictions.

Contributions of property and equipment and other long-lived assets with explicit restrictions that specify how the assets are to be used, including cash contributed to acquire such assets, are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the expiration of donor restrictions is reported when the donated or acquired assets are placed in service.

In kind contributions are recorded based on their estimated fair value at the date of donation.

(g) Functional expense allocation

The costs to provide programs and services are summarized on a functional basis in the accompanying financial statements. Accordingly, certain expenses have been allocated among the program and supporting services benefited. Costs directly related to a specific function are charged to that function. Salaries and benefits are allocated based on an analysis of employee time spent on program services and other activities. Occupancy costs are allocated based on the use of the space. Other costs are allocated based on management's best estimates.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2017 and 2016

(h) Income taxes

Second Harvest qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code as a public charity. As such, no accrual for income taxes has been made in the accompanying financial statements.

An uncertain tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Organization has no material uncertain tax positions that qualify for either recognition or disclosure in the financial statements as of June 30, 2017 and 2016.

As of June 30, 2017 and 2016, the Organization has accrued no interest and no penalties related to uncertain tax positions. It is the Organization's policy to recognize interest and/or penalties related to income tax matters in income tax expense. The Organization files a U.S. Federal informational tax return annually. The Organization is subject to routine audits under the Internal Revenue Service, though no audits are currently in process.

(i) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions they may undertake in the future, actual results could differ from those estimates.

(j) Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(k) Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order for them to conform to the 2017 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2017 and 2016

(I) Events occurring after reporting date

Second Harvest has evaluated events and transactions that occurred between June 30, 2017 and November 14, 2017 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Pledges receivable

Pledges receivable for the capital campaign are recorded at the present value of estimated future cash flows at the time the pledge is received using a discount rate ranging from 1.7% to 2.50%. Unconditional pledges receivable at June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ <u>100,000</u>	\$ <u>250,000</u>
One to five years	300,000	400,000
Present value discount	<u>(14,767)</u>	<u>(22,850)</u>
	<u>285,233</u>	<u>377,150</u>
 Net pledges receivable	 \$ <u>385,233</u>	 \$ <u>627,150</u>

(4) Products held for distribution

Products held for distribution consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donated food	\$ 343,095	\$ 339,254
USDA inventory	142,371	91,430
Purchased inventory	409,973	332,291
Program inventory	<u>132,567</u>	<u>122,909</u>
	<u>\$ 1,028,006</u>	<u>\$ 885,884</u>

(5) Line of credit

Second Harvest has a bank line of credit, secured by the building, property and products held for distribution, in the amount of \$325,000 with a variable rate of interest (4.25% at June 30, 2017). The line of credit expires December 7, 2020. There was no interest incurred for the years ended June 30, 2017 and June 30, 2016. There was no outstanding balance as of June 30, 2017 and 2016.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2017 and 2016

(6) Long-term debt

Second Harvest has a note payable to a bank with a fixed interest rate of 4%. Interest is due in monthly installments, with all principal and remaining accrued interest due in full on January 27, 2019. Interest incurred for the year ended June 30, 2017 and 2016 was \$27,754 and \$45,725, respectively. There is no penalty for early payment. The note payable is secured by the property. The outstanding balance was \$538,208 and \$963,208 at June 30, 2017 and 2016, respectively.

(7) Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Product distribution	\$ 618,033	\$ 553,593
Pledges receivable restricted for facility acquisition	385,233	627,150
Other	<u>55,363</u>	<u>144,001</u>
	<u>\$ 1,058,629</u>	<u>\$ 1,324,744</u>

(8) Employee benefits

Second Harvest has a simplified employee pension plan that covers all employees who earn at least \$5,000 during any two preceding years. Employee contributions to the plan are matched 100% up to 3% of each eligible employee's compensation. Retirement contribution expense was \$35,349 and \$31,314 the years ended June 30, 2017 and 2016, respectively.

(9) Donated materials and services

Second Harvest receives contributions of food from individuals, private companies, government agencies, stores, restaurants, churches, and other food banks and not-for-profit organizations for distribution. Second Harvest received \$22,643,571 and \$22,013,771 during the years ended June 30, 2017 and 2016, respectively, in contributions of food and distributed \$25,611,067 and \$25,084,419 of food (including purchased food) during the years ended June 30, 2017 and 2016, respectively.

Second Harvest received in kind donations valued at \$34,006 and \$52,075 during the year ended June 30, 2017 and 2016, respectively. The amounts are recorded in property and equipment, event revenue, contributions, and program services based on their intended use.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2017 and 2016

(10) Credit risk and other concentrations

The Organization generally maintains cash on deposit at a bank in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and management believes the Organization is not exposed to any significant credit risk related to cash.

Financial instruments that potentially subject Second Harvest to concentrations of credit risk consist primarily of pledges receivable. Approximately 100% and 95% of unconditional promises to give at June 30, 2017 and 2016, respectively, are due from one contributor.

(11) Beneficial interest in assets held by others

An endowment held by the East Tennessee Foundation (the "Foundation") for the benefit of Second Harvest is administered by the Foundation.

Endowment income is distributed to Second Harvest based on a spending policy. Additional disbursements may be made with seventy-five percent vote of approval from Second Harvest's Board of Directors. Second Harvest has granted the Foundation variance power, which is defined as the power to modify any restriction or condition on the distribution of funds for the specified charitable purposes or to be a specified organization if, in the sole judgment of the Foundation's board, such restrictions or conditions become, in effect unnecessary, undesirable, impracticable, incapable of fulfillment, or inconsistent with the charitable needs of the community served. Assets held by the Foundation for the benefit of Second Harvest are recorded as an asset in the accompanying statements of financial position.

The Board of Directors of the Foundation has the power to modify any restriction or condition on the distribution of funds for any specified charitable purpose or to a specified organization if, in the sole judgment of the Board of Directors of the Foundation, such restriction or condition becomes, in effect, unnecessary, undesirable, impractical, incapable of fulfillment, or inconsistent with the charitable needs of the community served.

(12) Supplemental disclosures of cash flow statement information

	<u>2017</u>	<u>2016</u>
Interest paid	\$ <u>27,754</u>	\$ <u>45,725</u>

OTHER FINANCIAL INFORMATION

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2017

OTHER INFORMATION										
CFDA Number	Name of Program	Contracting Agency	Amount Expended	Products Balance July 1, 2016	Balance July 1, 2016 Receivable	Contract Funds Received	Amount Earned (Adjusted)	Balance June 30, 2017 Receivable	Products Balance June 30, 2017	
FEDERAL AWARDS										
10.568	Emergency Food Assistance Cluster Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 54374	\$ 14,205	\$ -	\$ 87,104	\$ 101,309	\$ 14,205	\$ -	\$ -	
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 62417	25,000	-	-	25,000	25,000	-	-	
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 62637	<u>168,999</u>	-	-	<u>82,789</u>	<u>168,999</u>	<u>86,210</u>	-	
		Total CFDA 10.568	<u>208,204</u>	-	<u>87,104</u>	<u>209,098</u>	<u>208,204</u>	<u>86,210</u>	-	
10.569	Emergency Food Assistance Program - Commodities	US Dept of Agriculture Pass through Tennessee Dept of Agriculture (noncash)	258,106	91,430	-	166,676	258,106	-	-	
10.569	Emergency Food Assistance Program - Commodities	US Dept of Agriculture Pass through Tennessee Dept of Agriculture (noncash)	<u>1,059,027</u>	-	-	<u>1,201,398</u>	<u>1,059,027</u>	-	<u>142,371</u>	
		Total CFDA 10.569 (noncash)	<u>1,317,133</u>	<u>91,430</u>	-	<u>1,368,074</u>	<u>1,317,133</u>	-	<u>142,371</u>	
		Total US Dept of Agriculture	<u>1,525,337</u>	<u>91,430</u>	<u>87,104</u>	<u>1,577,172</u>	<u>1,525,337</u>	<u>86,210</u>	<u>142,371</u>	
91.024	Emergency Food and Shelter Program	Federal Emergency Management Agency	<u>2,075</u>	-	-	<u>2,075</u>	<u>2,075</u>	-	-	
		Total Federal Awards	<u>1,527,412</u>	<u>91,430</u>	<u>87,104</u>	<u>1,579,247</u>	<u>1,527,412</u>	<u>86,210</u>	<u>142,371</u>	

See accompanying Notes to Schedule of Expenditures of Federal Awards.
See accompanying Independent auditors' report.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2017

OTHER INFORMATION

CFDA Number	Name of Program	Contracting Agency	Amount Expended	Products Balance July 1, 2016	Balance July 1, 2016 Receivable	Contract Funds Received	Amount Earned (Adjusted)	Balance June 30, 2017 Receivable	Products Balance June 30, 2017
N/A	STATE AWARDS Direct Appropriation Grant - Purchase of Food	Tennessee Department of Human Services	\$ 100,000	\$ -	\$ -	\$ 100,000	\$ 100,000	\$ -	\$ -
		Total State Awards	100,000	-	-	100,000	100,000	-	-
		Total Federal and State Awards	\$ 1,627,412	\$ 91,430	\$ 87,104	\$ 1,679,247	\$ 1,627,412	\$ 86,210	\$ 142,371

See accompanying Notes to Schedule of Expenditures of Federal Awards.
See accompanying independent auditors' report.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2017

(1) Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes award activity of Second Harvest Food Bank of East Tennessee under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirement of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement 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.

(2) Summary of significant accounting policies for federal expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the Schedule follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in the OMB Circular A-122, *Cost Principles of Non-Profit Organizations*.

(3) Indirect cost rate

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

(4) Passed through to subrecipients

There were no awards passed through to subrecipients.

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

The Board of Directors of
Second Harvest Food Bank of East Tennessee:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of East Tennessee (the "Organization"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2017.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 may exist that have not been identified.

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

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

LBMC, PC

Knoxville, Tennessee
November 14, 2017

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

The Board of Directors of
Second Harvest Food Bank of East Tennessee:

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of East Tennessee's (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, 2017. The Organization's major federal programs are identified in the summary of auditors' 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.

Auditors' 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE - Continued

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, 2017.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

LBMC, PC

Knoxville, Tennessee
November 14, 2017

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance

<u> </u> Yes	<u> X </u> No
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Identification of Major Programs:

<u>CFDA Number - 10.568, 10.569</u>	<u>U.S. Department of Agriculture, Passed through Tennessee Department of Agriculture - Emergency Food Assistance Program - Administrative cost and Commodities</u>
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Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low risk auditee X Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.