

**SECOND HARVEST FOOD BANK
OF EAST TENNESSEE**

Financial Statements and Supplemental Schedules

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

LBMC

**MAKE A GOOD
BUSINESS BETTER**

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, 2018**

Board of Directors

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

Executive Staff

Elaine Streno	Chief Executive Officer
Zane Graves	Chief Operations Officer
Carole Folta	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 non-profit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 and State Awards and Related Notes on pages 20 through 22, 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 December 3, 2018, 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 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. This 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.

LBMC, PC

Knoxville, Tennessee
December 3, 2018

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Financial Position

June 30, 2018 and 2017

	<u>Assets</u>	
	<u>2018</u>	<u>2017</u>
Current assets:		
Cash	\$ 1,635,493	\$ 1,528,536
Accounts receivable	189,100	145,086
Grants receivable	20,940	86,210
Current portion of pledges receivable	100,000	100,000
Prepaid expenses	124,741	15,174
Products held for distribution	<u>1,576,260</u>	<u>1,028,006</u>
Total current assets	3,646,534	2,903,012
Long-term pledges receivable, net of current portion and present value discount	191,753	285,233
Property and equipment, net:		
Land	441,600	441,600
Building	3,951,327	3,951,327
Warehouse equipment	399,710	395,710
Automobiles and trucks	1,094,645	1,074,645
Cold storage equipment	1,946,249	1,946,249
Office furniture and equipment	<u>237,732</u>	<u>227,406</u>
	8,071,263	8,036,937
Accumulated depreciation	<u>2,224,981</u>	<u>1,927,947</u>
Property and equipment, net	5,846,282	6,108,990
Beneficial interest in assets held by others	5,000	5,000
Deposits	<u>1,570</u>	<u>1,570</u>
	<u>\$ 9,691,139</u>	<u>\$ 9,303,805</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Financial Position

June 30, 2018 and 2017

Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Current installments of long-term debt	\$ 200,000	\$ -
Trade accounts and other payables	213,084	236,981
Accrued compensation	98,773	110,928
Deferred event revenue	<u>79,000</u>	<u>-</u>
Total current liabilities	590,857	347,909
Long-term debt	<u>-</u>	<u>538,208</u>
Total liabilities	<u>590,857</u>	<u>886,117</u>
Net assets:		
Unrestricted	7,606,282	7,359,059
Temporarily restricted	<u>1,494,000</u>	<u>1,058,629</u>
Total net assets	<u>9,100,282</u>	<u>8,417,688</u>
	<u>\$ 9,691,139</u>	<u>\$ 9,303,805</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Activities

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenue:				
Contributed product	\$ -	\$ 23,182,508	\$ -	\$ 23,182,508
Other contributions	2,754,361	339,570	-	3,093,931
Government grants	245,833	115,630	-	361,463
United Way	258,219	-	-	258,219
Distribution fees	2,390,338	-	-	2,390,338
In kind donations	49,606	-	-	49,606
Capital campaign	-	6,520	-	6,520
Event revenue, net of expenses of \$493,638	<u>643,959</u>	<u>-</u>	<u>-</u>	<u>643,959</u>
Total support and revenue	6,342,316	23,644,228	-	29,986,544
Net assets released from restrictions	<u>23,208,857</u>	<u>(23,208,857)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>29,551,173</u>	<u>435,371</u>	<u>-</u>	<u>29,986,544</u>
Expenses:				
Program services:				
Product distribution	25,660,898	-	-	25,660,898
Operations and warehouse	2,363,676	-	-	2,363,676
Fundraising	969,870	-	-	969,870
Management and general	<u>331,231</u>	<u>-</u>	<u>-</u>	<u>331,231</u>
Total expenses	<u>29,325,675</u>	<u>-</u>	<u>-</u>	<u>29,325,675</u>
Other changes in net assets				
Interest income	434	-	-	434
Other	15,345	-	-	15,345
Gain on disposal of equipment	<u>5,946</u>	<u>-</u>	<u>-</u>	<u>5,946</u>
Total other changes	<u>21,725</u>	<u>-</u>	<u>-</u>	<u>21,725</u>
Change in net assets	247,223	435,371	-	682,594
Net assets at beginning of year	<u>7,359,059</u>	<u>1,058,629</u>	<u>-</u>	<u>8,417,688</u>
Net assets at end of year	<u>\$ 7,606,282</u>	<u>\$ 1,494,000</u>	<u>\$ -</u>	<u>\$ 9,100,282</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	<u>30,045,047</u>	<u>(266,115)</u>	<u>-</u>	<u>29,778,932</u>
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	<u>29,186,535</u>	<u>-</u>	<u>-</u>	<u>29,186,535</u>
Other changes in net assets				
Interest income	412	-	-	412
Other	25,551	-	-	25,551
Gain on disposal of equipment	<u>8,738</u>	<u>-</u>	<u>-</u>	<u>8,738</u>
Total other changes	<u>34,701</u>	<u>-</u>	<u>-</u>	<u>34,701</u>
Change in net assets	893,213	(266,115)	-	627,098
Net assets at beginning of year	<u>6,465,846</u>	<u>1,324,744</u>	<u>-</u>	<u>7,790,590</u>
Net assets at end of year	<u>\$ 7,359,059</u>	<u>\$ 1,058,629</u>	<u>\$ -</u>	<u>\$ 8,417,688</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash provided by operating activities:		
Change in net assets	\$ <u>682,594</u>	\$ <u>627,098</u>
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	302,333	297,426
Gain on disposal of equipment	(5,946)	(8,738)
Capital campaign pledges restricted for facility acquisition	(6,520)	(8,083)
(Increase) decrease in:		
Accounts receivable	(44,014)	25,936
Grants receivable	65,270	894
Prepaid expenses	(109,567)	-
Product held for distribution	(548,254)	(142,122)
Increase (decrease) in:		
Trade accounts and other payables	(23,897)	(66,047)
Accrued compensation	(12,155)	20,025
Deferred event revenue	<u>79,000</u>	<u>-</u>
Total adjustments	<u>(303,750)</u>	<u>119,291</u>
Net cash provided by operating activities	<u>378,844</u>	<u>746,389</u>
Cash used by investing activities:		
Purchases of property and equipment	(39,625)	(112,987)
Proceeds from disposal of equipment	<u>5,946</u>	<u>11,738</u>
Net cash used by investing activities	<u>(33,679)</u>	<u>(101,249)</u>
Cash used by financing activities:		
Cash received from pledges restricted for facility acquisition	100,000	250,000
Payments on long-term debt	<u>(338,208)</u>	<u>(425,000)</u>
Net cash used by financing activities	<u>(238,208)</u>	<u>(175,000)</u>
Increase in cash and cash equivalents	106,957	470,140
Cash at beginning of year	<u>1,528,536</u>	<u>1,058,396</u>
Cash at end of year	\$ <u><u>1,635,493</u></u>	\$ <u><u>1,528,536</u></u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Statement of Functional Expenses

Year ended June 30, 2018

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Totals</u>
Product distribution	\$ 25,660,898	\$ -	\$ -	\$ 25,660,898
Salaries and wages	990,599	497,342	147,580	1,635,521
Payroll taxes	71,798	36,048	10,697	118,543
Health insurance	127,417	63,972	18,983	210,372
Retirement contributions	21,124	10,606	3,147	34,877
Other employee benefits	30,362	15,246	4,524	50,132
Depreciation	272,100	18,140	12,093	302,333
Printing and publications	1,774	36,064	374	38,212
Direct mail	-	237,249	-	237,249
Postage	2,642	2,114	528	5,284
Office supplies	2,465	1,972	493	4,930
Office equipment lease	3,791	2,447	612	6,850
Telephone	16,374	8,222	2,440	27,036
Utilities	80,254	5,350	3,567	89,171
Insurance	63,932	9,793	3,388	77,113
Fuel and vehicle registration	121,181	-	-	121,181
Repairs and maintenance	249,083	8,183	5,889	263,155
Conferences and travel	12,558	6,305	1,871	20,734
Dues and licenses	18,373	9,225	2,737	30,335
Professional services	-	-	46,360	46,360
Agency grants	195,505	-	-	195,505
Agency expenses	11,045	-	-	11,045
Warehouse and program expenses	59,087	-	-	59,087
Bank charges	-	-	28,244	28,244
Other	-	778	37,161	37,939
Interest expense	<u>12,212</u>	<u>814</u>	<u>543</u>	<u>13,569</u>
	<u>\$ 28,024,574</u>	<u>\$ 969,870</u>	<u>\$ 331,231</u>	<u>\$ 29,325,675</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
	\$ 28,054,609	\$ 823,774	\$ 308,152	\$ 29,186,535

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2018 and 2017

(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 Food Rescue program where donated food is picked up from area grocery stores and restaurants and distributed to local distribution 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 net assets as of June 30, 2018 and 2017.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2018 and 2017

(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, 2018 or 2017.

(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 \$1.68 and \$1.67 per pound for 2018 and 2017, 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, 2018 and 2017

(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 \$302,333 and \$297,426 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017

(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, 2018 and 2017.

As of June 30, 2018 and 2017, 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) Events occurring after reporting date

Second Harvest has evaluated events and transactions that occurred between June 30, 2018 and December 3, 2018 which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. There have been no events since June 30, 2018 that require additional disclosure.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ <u>100,000</u>	\$ <u>100,000</u>
One to five years	200,000	300,000
Present value discount	<u>(8,247)</u>	<u>(14,767)</u>
	<u>191,753</u>	<u>285,233</u>
 Net pledges receivable	 \$ <u><u>291,753</u></u>	 \$ <u><u>385,233</u></u>

(4) Products held for distribution

Products held for distribution consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Donated food	\$ 915,326	\$ 343,095
USDA inventory	68,270	142,371
Purchased inventory	460,513	409,973
Program inventory	<u>132,151</u>	<u>132,567</u>
	\$ <u><u>1,576,260</u></u>	\$ <u><u>1,028,006</u></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 (5% at June 30, 2018). The line of credit expires December 7, 2020. There was no interest incurred for the years ended June 30, 2018 and June 30, 2017. There was no outstanding balance as of June 30, 2018 and 2017.

(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, 2018 and 2017 was \$13,569 and \$27,754, respectively. There is no penalty for early payment. The note payable is secured by property. The outstanding balance was \$200,000 and \$538,208 at June 30, 2018 and 2017, respectively.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2018 and 2017

(7) Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Product distribution	\$ 1,115,747	\$ 618,033
Pledges receivable restricted for facility acquisition	291,753	385,233
Other	<u>86,500</u>	<u>55,363</u>
	<u>\$ 1,494,000</u>	<u>\$ 1,058,629</u>

(8) Employee benefits

Second Harvest has a simplified employee pension plan that covers all employees who earn at least \$5,000 during any preceding years and worked at least 1,000 hours. Employee contributions to the plan are matched 100% up to 3% of each eligible employee's compensation. Retirement contribution expense was \$34,877 and \$35,349 the years ended June 30, 2018 and 2017, 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 \$23,182,508 and \$22,643,571 during the years ended June 30, 2018 and 2017, respectively, in contributions of food and distributed \$25,660,898 and \$25,611,067 of food (including purchased food) during the years ended June 30, 2018 and 2017, respectively.

Second Harvest received in kind donations valued at \$49,606 and \$34,006 during the years ended June 30, 2018 and 2017, respectively. The amounts are recorded in property and equipment, event revenue, contributions, and program services based on their intended use.

(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. Unconditional promises to give at June 30, 2018 and 2017 are due from one contributor, who has made payments as scheduled.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Notes to the Financial Statements

June 30, 2018 and 2017

(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>2018</u>	<u>2017</u>
Interest paid	\$ <u>13,569</u>	\$ <u>27,754</u>

OTHER FINANCIAL INFORMATION

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2018

CFDA Number	Name of Program	Contracting Agency	Amount Expended	Products Balance July 1, 2017	OTHER INFORMATION				
					Balance July 1, 2017 Receivable	Contract Funds Received	Amount Earned (Adjusted)	Balance June 30, 2018 Receivable	Products Balance June 30, 2018
FEDERAL AWARDS									
Emergency Food Assistance Cluster									
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 62637	\$ -	\$ -	\$ 86,210	\$ 86,210	\$ -	\$ -	\$ -
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 66496	12,500	-	-	12,500	12,500	-	-
10.568	Emergency Food Assistance Program - Administrative Costs	US Dept of Agriculture Pass through Tennessee Dept of Agriculture 66695	<u>103,130</u>	<u>-</u>	<u>-</u>	<u>82,190</u>	<u>103,130</u>	<u>20,940</u>	<u>-</u>
	Total CFDA 10.568		<u>115,630</u>	<u>-</u>	<u>86,210</u>	<u>180,900</u>	<u>115,630</u>	<u>20,940</u>	<u>-</u>
10.569	Emergency Food Assistance Program - Commodities	US Dept of Agriculture Pass through Tennessee Dept of Agriculture (noncash)	406,632	142,371	-	264,261	406,632	-	-
10.569	Emergency Food Assistance Program - Commodities	US Dept of Agriculture Pass through Tennessee Dept of Agriculture (noncash)	<u>866,714</u>	<u>-</u>	<u>-</u>	<u>934,984</u>	<u>866,714</u>	<u>-</u>	<u>68,270</u>
	Total CFDA 10.569 (noncash)		<u>1,273,346</u>	<u>142,371</u>	<u>-</u>	<u>1,199,245</u>	<u>1,273,346</u>	<u>-</u>	<u>68,270</u>
	Total US Dept of Agriculture		<u>1,388,976</u>	<u>142,371</u>	<u>86,210</u>	<u>1,380,145</u>	<u>1,388,976</u>	<u>20,940</u>	<u>68,270</u>
	Total Federal Awards		<u>1,388,976</u>	<u>142,371</u>	<u>86,210</u>	<u>1,380,145</u>	<u>1,388,976</u>	<u>20,940</u>	<u>68,270</u>

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

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Expenditures of Federal and State Awards, continued

Year ended June 30, 2018

<u>CFDA Number</u>	<u>Name of Program</u>	<u>Contracting Agency</u>	<u>Amount Expended</u>	<u>Products Balance July 1, 2017</u>	<u>OTHER INFORMATION</u>				
					<u>Balance July 1, 2017 Receivable</u>	<u>Contract Funds Received</u>	<u>Amount Earned (Adjusted)</u>	<u>Balance June 30, 2018 Receivable</u>	<u>Products Balance June 30, 2018</u>
STATE AWARDS									
N/A	Direct Appropriation Grant - Purchase of Food	Tennessee Department of Human Services	\$ <u>200,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>200,000</u>	\$ <u>200,000</u>	\$ <u>-</u>	\$ <u>-</u>
		Total State Awards	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
	Total Federal and State Awards		<u>\$ 1,588,976</u>	<u>\$ 142,371</u>	<u>\$ 86,210</u>	<u>\$ 1,580,145</u>	<u>\$1,588,976</u>	<u>\$ 20,940</u>	<u>\$ 68,270</u>

See accompanying Notes to Schedule of Expenditures of Federal and State 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, 2018

(1) Basis of presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes award activity of Second Harvest Food Bank of East Tennessee under programs of the federal and state governments for the year ended June 30, 2018. 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. The expenditures reported in the Schedule follow the cost principles contained in the Uniform Guidance.

(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, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2018.

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 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 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

LBMC, PC

Knoxville, Tennessee
December 3, 2018



**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, 2018. 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, 2018.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

LBM, PC

Knoxville, Tennessee
December 3, 2018

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X None Reported
Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ Yes X No
Significant deficiency(ies) identified? _____ Yes X 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
_____ Yes X No

Identification of Major Programs:

CFDA Number - 10.568, 10.569 U.S. Department of Agriculture, Passed through Tennessee Department of Agriculture - Emergency Food Assistance Program - Administrative cost and Commodities

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.

SECOND HARVEST FOOD BANK OF EAST TENNESSEE

Summary Schedule of Prior Audit Findings

June 30, 2018

There were no findings or questioned costs relative to federal and state awards reported in the financial statements audit of Second Harvest Food Bank of East Tennessee as of and for the year ended June 30, 2017.