

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2016 AND 2015

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

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AND
INDEPENDENT AUDITOR'S REPORTS

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Board of Directors 2015 - 2016

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Andy Flatt

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Second Harvest Food Bank of Middle Tennessee, Inc.
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2016 and 2015, 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

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Food Bank taken as a whole. The schedule of expenditures of federal awards on page 25-26, as required by Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 21, 2016, on our consideration of the Food Bank'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 the 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 Food Bank's internal control over financial reporting and compliance.

Kraj+CPAs PLLC

Nashville, Tennessee
November 21, 2016

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 67,558	\$ 529,701
Accounts receivable, net	1,349,340	1,525,230
Grants receivable	377,214	158,416
Pledges receivable, net	980,082	956,113
Inventories	3,949,344	3,838,666
Prepaid expenses	155,484	162,345
Investments	1,598,927	1,613,951
Capital campaign:		
Cash	2,699,612	791,571
Pledges receivable, net	3,268,856	1,747,879
Property and equipment, net	<u>7,214,488</u>	<u>7,133,512</u>
TOTAL ASSETS	<u>\$ 21,660,905</u>	<u>\$ 18,457,384</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,540,642	\$ 1,925,116
Deferred revenue	448,812	209,636
Line of credit	370,450	1,644,300
Note payable	<u>70,442</u>	<u>260,110</u>
TOTAL LIABILITIES	<u>3,430,346</u>	<u>4,039,162</u>
NET ASSETS		
Unrestricted:		
Designated:		
Donated food inventory	1,867,291	1,740,617
Property and equipment, less related debt	7,144,046	6,873,402
Board designated	300,000	300,000
Undesignated	<u>1,990,807</u>	<u>1,741,914</u>
Total unrestricted	11,302,144	10,655,933
Temporarily restricted	<u>6,928,415</u>	<u>3,762,289</u>
TOTAL NET ASSETS	<u>18,230,559</u>	<u>14,418,222</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 21,660,905</u>	<u>\$ 18,457,384</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016		
	Unrestricted	Temporarily Restricted	Totals
PUBLIC SUPPORT AND REVENUE			
Donated food	\$ 38,110,438	\$ -	\$ 38,110,438
Contributions	7,258,289	4,467,171	11,725,460
Government grants	3,811,535	-	3,811,535
Shared maintenance fees	605,765	-	605,765
Culinary arts center	209,058	-	209,058
Special events and activities	705,006	-	705,006
Less: direct benefits to donors	(234,945)	-	(234,945)
Investment income	29,368	-	29,368
Agency transportation reimbursement	224,965	-	224,965
Other income	51,648	-	51,648
Net assets released in satisfaction of program restrictions	1,301,045	(1,301,045)	-
TOTAL PUBLIC SUPPORT AND REVENUE	52,072,172	3,166,126	55,238,298
REVENUE - PROJECT PRESERVE® PROGRAM			
Sales to out of area network agencies, net of discount	28,002,773	-	28,002,773
Sales to local agencies	2,088,748	-	2,088,748
Donated food and services	303,121	-	303,121
TOTAL REVENUE - PROJECT PRESERVE® PROGRAM	30,394,642	-	30,394,642
LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM	(28,933,292)	-	(28,933,292)
GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM	1,461,350	-	1,461,350
TOTAL SUPPORT AND REVENUE	53,533,522	3,166,126	56,699,648
EXPENSES			
Program services:			
Emergency Food Box	4,969,097	-	4,969,097
Community Food Partners	42,279,803	-	42,279,803
Children's Programs	1,977,640	-	1,977,640
Culinary Arts Center	534,109	-	534,109
Total Program Services	49,760,649	-	49,760,649
Supporting services:			
Management and general	896,622	-	896,622
Fundraising	2,230,040	-	2,230,040
Total Supporting Services	3,126,662	-	3,126,662
TOTAL EXPENSES	52,887,311	-	52,887,311
CHANGE IN NET ASSETS	646,211	3,166,126	3,812,337
NET ASSETS - BEGINNING OF YEAR	10,655,933	3,762,289	14,418,222
NET ASSETS - END OF YEAR	\$ 11,302,144	\$ 6,928,415	\$ 18,230,559

See accompanying notes to financial statements.

2015		
Unrestricted	Temporarily Restricted	Totals
\$ 36,610,832	\$ -	\$ 36,610,832
6,582,049	3,701,748	10,283,797
2,756,829	-	2,756,829
572,803	-	572,803
220,729	-	220,729
737,928	-	737,928
(191,708)	-	(191,708)
59,328	-	59,328
201,404	-	201,404
12,936	-	12,936
1,321,406	(1,321,406)	-
48,884,536	2,380,342	51,264,878
28,679,151	-	28,679,151
2,015,874	-	2,015,874
445,144	-	445,144
31,140,169	-	31,140,169
(29,466,519)	-	(29,466,519)
1,673,650	-	1,673,650
50,558,186	2,380,342	52,938,528
5,650,485	-	5,650,485
39,335,143	-	39,335,143
1,986,818	-	1,986,818
560,319	-	560,319
47,532,765	-	47,532,765
798,782	-	798,782
2,367,907	-	2,367,907
3,166,689	-	3,166,689
50,699,454	-	50,699,454
(141,268)	2,380,342	2,239,074
10,797,201	1,381,947	12,179,148
\$ 10,655,933	\$ 3,762,289	\$ 14,418,222

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,812,337	\$ 2,239,074
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	562,061	526,951
Loss (gain) on sale of equipment	(33,148)	2,778
Capital campaign contributions	(3,868,612)	(2,549,459)
Noncash contribution of property and equipment	(60,000)	(57,800)
Noncash contribution of investments	(173,362)	(149,666)
Realized and unrealized gains on investments	(8,724)	(42,399)
(Increase) decrease in:		
Accounts receivable	175,890	(393,195)
Grants receivable	(218,798)	(67,896)
Pledges receivable	(23,969)	(674,409)
Inventories	(110,678)	323,637
Prepaid expenses	6,861	(12,470)
Increase (decrease) in:		
Accounts payable and accrued expenses	615,526	(54,284)
Deferred revenue	239,176	(172,909)
TOTAL ADJUSTMENTS	<u>(2,897,777)</u>	<u>(3,321,121)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>914,560</u>	<u>(1,082,047)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	304,458	149,666
Purchases of investments	(107,348)	(80,245)
Proceeds from sale of equipment	59,939	970
Additions to property and equipment	<u>(609,828)</u>	<u>(228,684)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(352,779)</u>	<u>(158,293)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital campaign collections	2,347,635	806,080
Net draws (repayments) on line of credit	(1,273,850)	1,079,900
Payments on notes payable	<u>(189,668)</u>	<u>(102,806)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>884,117</u>	<u>1,783,174</u>
NET INCREASE IN CASH	1,445,898	542,834
CASH - BEGINNING OF YEAR	<u>1,321,272</u>	<u>778,438</u>
CASH - END OF YEAR	<u>\$ 2,767,170</u>	<u>\$ 1,321,272</u>
Operating cash	\$ 67,558	\$ 529,701
Capital campaign cash	<u>2,699,612</u>	<u>791,571</u>
TOTAL CASH	<u>\$ 2,767,170</u>	<u>\$ 1,321,272</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	\$ 28,982	\$ 28,680
Property and equipment financed with note payable	<u>\$ -</u>	<u>\$ 300,000</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS CENTER	MANAGEMENT AND GENERAL	FUND RAISING	TOTALS
Salaries	\$ 934,202	\$ 518,646	\$ 1,526,551	\$ 465,824	\$ 232,412	\$ 348,510	\$ 949,379	\$ 4,975,524
Contract labor	272,386	70,253	218,737	62,592	29,924	4,501	111,671	770,064
Payroll taxes and benefits	266,564	191,396	567,609	135,463	65,068	74,110	278,484	1,578,694
 TOTAL SALARIES AND RELATED EXPENSES	 1,473,152	 780,295	 2,312,897	 663,879	 327,404	 427,121	 1,339,534	 7,324,282
Food supplies and distribution	27,203,988	59,659	34,280	10,194	79,293	16,154	12,265	27,415,833
Donated food	303,121	3,157,028	34,666,865	159,806	-	-	-	38,286,820
USDA commodities distributed	-	122,303	2,519,438	-	-	-	-	2,641,741
Internal food purchases and/or reimbursement	(1,815,881)	326,546	620,577	872,243	(9,423)	4,720	1,218	-
Product transportation	1,165,039	127,462	798,639	69,061	7,202	32	3,836	2,171,271
Office and administration	27,096	13,818	244,400	11,569	6,272	217,233	283,356	803,744
Occupancy	296,042	193,453	574,168	109,135	50,844	42,454	26,551	1,292,647
Depreciation	74,999	112,596	275,851	30,110	31,334	19,711	17,460	562,061
Communication expense	11,676	18,087	44,172	16,790	6,986	21,070	435,274	554,055
Travel and conferences	35,602	105	7,280	966	-	32,925	9,663	86,541
National network dues	-	-	-	-	-	25,719	-	25,719
Professional fees	117,357	37,194	88,759	23,611	13,646	79,207	60,983	420,757
Other special event costs	-	-	-	-	-	-	264,571	264,571
Insurance	41,101	20,551	92,477	10,276	20,551	10,276	10,274	205,506
 TOTAL EXPENSES	 28,933,292	 4,969,097	 42,279,803	 1,977,640	 534,109	 896,622	 2,464,985	 82,055,548
 Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(234,945)	(234,945)
 Direct costs and expenses of Project Preserve® program	 (28,933,292)	 -	 -	 -	 -	 -	 -	 (28,933,292)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 4,969,097	 \$ 42,279,803	 \$ 1,977,640	 \$ 534,109	 \$ 896,622	 \$ 2,230,040	 \$ 52,887,311

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	PROGRAM SERVICES					SUPPORTING SERVICES		
	PROJECT PRESERVE®	EMERGENCY FOOD BOX	COMMUNITY FOOD PARTNERS	CHILDREN'S PROGRAMS	CULINARY ARTS CENTER	MANAGEMENT AND GENERAL	FUND RAISING	TOTALS
Salaries	\$ 866,198	\$ 483,368	\$ 1,529,261	\$ 411,988	\$ 220,059	\$ 294,184	\$ 985,305	\$ 4,790,363
Contract labor	274,899	65,670	194,859	64,120	58,546	615	10,390	669,099
Payroll taxes and benefits	251,814	181,849	552,358	130,790	63,060	55,693	274,214	1,509,778
 TOTAL SALARIES AND RELATED EXPENSES	 1,392,911	 730,887	 2,276,478	 606,898	 341,665	 350,492	 1,269,909	 6,969,240
 Food supplies and distribution	 27,047,309	 72,439	 47,484	 14,319	 102,770	 8,385	 13,794	 27,306,500
Donated food	443,506	3,970,385	32,569,665	139,325	-	-	-	37,122,881
USDA commodities distribution	-	144,057	1,781,225	-	-	-	-	1,925,282
Internal food purchases and/or reimbursement	(1,751,696)	312,169	444,343	997,937	(11,825)	3,601	5,471	-
Product transportation	1,858,652	126,401	848,600	48,648	8,650	-	5,055	2,896,006
Office and administration	19,111	11,043	295,622	22,419	6,479	173,593	399,500	927,767
Occupancy	264,995	112,328	624,220	66,138	37,431	94,699	13,093	1,212,904
Depreciation	74,632	104,521	252,140	28,092	30,811	19,441	17,314	526,951
Communication expense	13,287	23,099	47,581	17,428	9,590	17,450	350,522	478,957
Travel and conferences	31,993	-	4,224	944	20	36,346	21,249	94,776
National network dues	-	-	-	-	-	23,704	-	23,704
Professional fees	31,118	30,226	38,071	22,911	14,377	63,318	206,199	406,220
Other special event costs	-	-	-	-	-	-	247,334	247,334
Capacity building grants	-	-	18,074	-	-	-	-	18,074
Insurance	40,701	20,351	91,579	10,175	20,351	7,753	10,175	201,085
 TOTAL EXPENSES	 29,466,519	 5,657,906	 39,339,306	 1,975,234	 560,319	 798,782	 2,559,615	 80,357,681
 Less expenses included with revenues on the statement of activities:								
Direct benefits to donors	-	-	-	-	-	-	(191,708)	(191,708)
 Direct costs and expenses of Project Preserve® program	 (29,466,519)	 -	 -	 -	 -	 -	 -	 (29,466,519)
 TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES	 \$ -	 \$ 5,657,906	 \$ 39,339,306	 \$ 1,975,234	 \$ 560,319	 \$ 798,782	 \$ 2,367,907	 \$ 50,699,454

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 1 - GENERAL

Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") was founded in 1978. Its mission is to feed hungry people and to work to solve hunger issues in the community. The Food Bank is one of over 200 certified members of Feeding America[®] (previously known as America's Second Harvest), the Nation's Food Bank Network.

The Food Bank also operates the Project Preserve[®] program which distributes purchased products and internally manufactured food items to local agencies and other Feeding America[®] affiliates throughout the country. The gross profit from these sales is used to supplement the Food Bank's efforts within its own local service area. During 2016 and 2015, the program contributed approximately \$1.5 million each year to the Food Bank's mission to feed hungry people.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of 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 the donors' stipulations results in the release of the restriction.
- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Food Bank had no permanently restricted net assets as of June 30, 2016 or 2015.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

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

The Food Bank reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Services

Donated services are recognized if the services (a) create or enhance non-financial assets; or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Food Bank.

A substantial number of unpaid volunteers have contributed their time to the Food Bank's program and supporting services. The value of this contributed time is not reflected in these statements since it does not meet the criteria noted above.

Project Preserve[®] Revenue Recognition

Project Preserve[®] sales are reported net of allowances for discounts and returns. Revenue is recognized when the product is shipped to the customer. Project Preserve[®] sells products primarily to out-of-area agencies in the Feeding America[®] network, but also sells to partner agencies within the Food Bank's local area. In addition to selling purchased product, the program also operates a cook/chill program and produces custom product assembly products, such as backpacks and emergency food boxes, for national distribution. During 2016, this production assembled over 1,100,000 backpacks (900,000 backpacks in 2015) and nearly 130,000 disaster relief food boxes for Feeding America[®] affiliates (over 160,000 boxes in 2015).

Cash

Cash consists principally of checking account balances.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (1.01% for the year ended June 30, 2016 and 1.68% for the year ended June 30, 2015). Amortization of the discount, if any, is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Pledges deemed to be uncollectible are charged off against the allowance in the period of determination.

Accounts Receivable

The Food Bank sells purchased food and supplies to other not-for-profit agencies under the Project Preserve® program. Accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Food Bank extends trade credit based on evaluation of those agencies' financial condition and, generally, does not require collateral. The Food Bank does not charge interest on past due accounts.

The Food Bank estimates an allowance for doubtful accounts on trade accounts receivable, which may not be fully collectible, based on its knowledge of customers' individual credit circumstances, the Food Bank's 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.

Management estimated the allowance for doubtful accounts to be \$24,614 at June 30, 2016 (\$18,114 at June 30, 2015).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food inventories include donated food, purchased inventory, manufactured product and undistributed USDA commodities. Donated food received from food drives, food companies, grocery stores and Feeding America® is valued at \$1.67 per pound in 2016 (\$1.70 per pound in 2015), the estimated average market value at the date of gift, based on a study commissioned by Feeding America®. Purchased inventory is reported at average cost. USDA inventory is valued at the most recent USDA established market value per pound amount, and is recognized as program services expense when distributed.

Investments

Investments consist of money market accounts, certificates of deposit, equity funds and taxable bond funds. Money market accounts and certificates of deposit are carried at cash value plus accrued interest. Equity funds and taxable bond funds are carried at their quoted market value on the last business day of the reporting period. Interest and dividends, as well as changes in unrealized gains and losses, are recognized currently in the Statement of Activities.

Property and Equipment and Depreciation

Property and equipment are reported at cost at the date of purchase or at estimated fair value at the date of gift to the Food Bank. The Food Bank's policy is to capitalize purchases with a cost of \$5,000 or more and an estimated useful life greater than one year. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows: five to thirty-nine years for building and improvements, two to fifteen years for equipment, three to five years for furniture and three to seven years for transportation equipment.

Designated Unrestricted Net Assets

The Board of Directors has designated \$300,000 of unrestricted net assets to be invested, with the income used to support current operations of the Food Bank. Designations may be reversed at the discretion of the Board of Directors.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

The Food Bank classifies its assets and liabilities measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - Equity funds and taxable bond funds are classified within Level 1 where quoted market prices are available in an active market for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted prices of investments with similar characteristics, and the investments are classified within Level 2.

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

There have been no changes in the valuation methodologies since the prior year.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Food Bank believes its valuation method is appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation

The following program and supporting services are included in the accompanying financial statements:

Program Services - include activities carried out to fulfill the Food Bank's mission, resulting in services provided to feed the hungry in Middle and West Tennessee. Program services are the major purpose of the organization. The Food Bank distributes food to needy persons in forty-six Middle and West Tennessee counties through the following programs:

Emergency Food Box - provided approximately 2,600,000 pounds of food during 2016 (3,100,000 pounds in 2015) in emergency staples to families in need through its sixteen satellite centers in Davidson County.

Community Food Partners - provided over 21,000,000 pounds of food during 2016 (19,000,000 pounds in 2015) to nearly 500 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs. Included in this program is Middle Tennessee's Table, which collects perishable and non-perishable food from more than 224 food donors, such as grocery stores, retailers, wholesalers and bakeries, and is then distributed to community food partners and programs. These products include meats, produce, dairy, bread, bakery items and dry products. During 2016, the Food Bank distributed over 11,600,000 pounds of food (equivalent to more than 9.7 million meals) under this program. (The Food Bank distributed 10,100,000 pounds equivalent to more than 8.4 million meals in 2015).

Community Food Partners also encompasses other programs including:

Mobile Pantry - Mobile Pantry travels to the forty-six county service area and delivers large boxes of perishable and non-perishable food and supplies that are distributed to people in need. During 2016, nearly 5,400,000 pounds of food (5,700,000 pounds of food in 2015) were distributed through this program.

SNAP Outreach - On October 1, 2014, the Food Bank began offering SNAP Outreach through our Emergency Food Box Sites, Mobile Pantry Distributions, and partner agencies. SNAP, also known as Food Stamps, is for people and families with low incomes, including working people, households with children, seniors, unemployed people, immigrant families, and people with disabilities. SNAP helps them buy the food they need for good health. Second Harvest's Benefits Outreach Counselor shares information about the nutrition benefits of SNAP, pre-screens potential participants, and helps people fill out the SNAP Application. Counselors assisted in completing nearly 1,336 applications during fiscal year 2016 (assisted in 700 applications from inception - June 30, 2015).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services - Functional Allocation (Continued)

Farm to Families - Farm to Families began in fiscal year 2015. This program is a community collaboration to improve food security in Middle Tennessee by providing locally and regionally produced fresh fruits and vegetables direct from farms to families in need. Educational volunteer opportunities are offered, including gleaning excess crops, on local farms to ensure all available food resources are being attained. Seasonal crops grown in large quantities in Tennessee such as green beans, sweet potatoes, and tomatoes are identified and innovate ways to supply surplus to Middle Tennessee communities to surrounding sister food banks are determined. Through a network of farms within an 800 mile radius of Nashville, Second Harvest sources truckload quantities of storage crops such as potatoes, onions, carrots, cabbage and apples to provide a year round supply of fresh fruits and vegetables. This program sourced nearly 1,500,000 pounds directly from farms in 2016 (1,305,011 pounds directly from farms in 2015).

Children's Programs - includes Kids Café®, At Risk After School Program and the Backpack Program. Kids Café® and At Risk After School Program operates a weekly feeding program for children at risk of hunger at several area community centers and provided over 205,000 meals during 2016 (188,000 meals in 2015). The mission of the Backpack Program is to meet the needs of hungry children by providing them with nutritious and easy to prepare food to take home on weekends when other resources are not available. During 2016, the Food Bank distributed over 210,000 backpacks to hungry children (215,000 backpacks in 2015).

The School Food Pantry program is designed to increase food access for families in need and may have a permanent residence within a school or may operate through a mobile pantry distribution where food is brought to the school campus and distributed once a month. Twenty-six sites were operated during 2015, providing over 186,000 pounds of food for families in need (twenty-two sites were operated during 2015, providing over 183,000 pounds of food).

Culinary Arts Center - operates a state-of-the-art food preparation facility located at the Food Bank. The purpose of the Center is to educate the public on issues related to nutrition and food preparation. The Center is used for food handling safety classes, food product testing and demonstrations, nutrition training and catering for the Food Bank's partner agencies, supporters and clients. The Culinary Arts Center also offers a lunch opportunity every Wednesday and Friday that is open to the public called First Harvest Café. First Harvest Café uses only purchased product and the revenue generated through customer sales goes to support the Food Bank's mission.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supporting Services

Management and General - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

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

Shipping and Handling

Shipping and handling charges billed to customers through the Project Preserve[®] program are included in sales to out of area network agencies. Associated costs are included in product transportation expense in the Statement of Functional Expenses, which is reported as a direct cost and expense of the Project Preserve[®] program in the Statement of Activities.

Income Taxes

The Food Bank qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). Accordingly, income taxes are not provided.

The Food Bank files a U.S. Federal Form 990 for organizations exempt from income tax.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Food Bank's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued guidance that requires entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU will be effective for fiscal years beginning after December 15, 2016. Early adoption of the ASU is permitted. The Company does not expect the adoption of the ASU to have a material effect on its financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Food Bank is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those financial years. The Food Bank is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2016 and November 21, 2016, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable for operations consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 950,491	\$ 914,796
Due in one to five years	<u>35,000</u>	<u>50,226</u>
	985,491	965,022
Less: Allowance for uncollectible pledges	<u>(5,409)</u>	<u>(8,909)</u>
	<u>\$ 980,082</u>	<u>\$ 956,113</u>

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Donated food	\$ 1,867,291	\$ 1,740,617
USDA inventory	441,802	178,380
Cook/chill manufactured inventory	100,336	61,526
Purchased inventory	<u>1,539,915</u>	<u>1,858,143</u>
	<u>\$ 3,949,344</u>	<u>\$ 3,838,666</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Liquid money market funds	\$ 76,396	\$ 149,663
Certificates of deposit	118,697	120,660
Equity funds	993,625	954,466
Taxable bond funds	<u>410,209</u>	<u>389,162</u>
	<u>\$ 1,598,927</u>	<u>\$ 1,613,951</u>

Investment income consisted of the following for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Realized and unrealized gains - net	\$ 8,724	\$ 42,399
Dividends and interest income	<u>20,644</u>	<u>16,929</u>
	<u>\$ 29,368</u>	<u>\$ 59,328</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 6 - FAIR VALUE MEASUREMENTS

The following table sets forth the Food Bank's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30:

	2016			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Equity funds:				
Large value	\$ 853,352	\$ 853,352	\$ -	\$ -
Mid value	140,273	140,273	-	-
Total equity funds	993,625	993,625	-	-
Taxable bond funds:				
Intermediate term	410,209	410,209	-	-
Total investments at fair value	1,403,834	1,403,834	-	-
Donated inventory	1,867,291	-	-	1,867,291
Total	<u>\$ 3,271,125</u>	<u>\$ 1,403,834</u>	<u>\$ -</u>	<u>\$ 1,867,291</u>

	2015			
	Fair Value	Level 1	Level 2	Level 3
Investments:				
Equity funds:				
Large value	\$ 801,045	\$ 801,045	\$ -	\$ -
Mid value	153,421	153,421	-	-
Total equity funds	954,466	954,466	-	-
Taxable bond funds:				
Intermediate term	389,162	389,162	-	-
Total investments at fair value	1,343,628	1,343,628	-	-
Donated inventory	1,740,617	-	-	1,740,617
Total	<u>\$ 3,084,245</u>	<u>\$ 1,343,628</u>	<u>\$ -</u>	<u>\$ 1,740,617</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 6 - FAIR VALUE MEASUREMENTS

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Beginning of year	\$ 1,740,617	\$ 1,813,424
Donated food received	38,413,494	37,050,074
Donated food distributed	<u>(38,286,820)</u>	<u>(37,122,881)</u>
End of year	<u>\$ 1,867,291</u>	<u>\$ 1,740,617</u>

NOTE 7 - CAPITAL CAMPAIGN

During 2014, the Food Bank began soliciting donations for a capital campaign *Setting the Table for the Future*, for expansion and improvements to more effectively distribute food to the 46-county service area. At June 30, pledges receivable for this campaign are expected to be received as follows:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 1,199,326	\$ 765,000
Due in one to five years	2,114,088	997,067
Due in greater than five years	<u>30,000</u>	<u>50,000</u>
	3,343,414	1,812,067
Less: Discount to present value	<u>(74,558)</u>	<u>(64,188)</u>
	<u>\$ 3,268,856</u>	<u>\$ 1,747,879</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,334,586	\$ 1,334,586
Construction in progress	414,279	-
Building and improvements	7,059,584	7,050,522
Office and warehouse furniture and equipment	2,035,317	2,028,105
Transportation equipment	1,807,874	1,643,708
Cook/chill equipment	624,360	598,159
Culinary arts center equipment	<u>139,415</u>	<u>134,206</u>
	13,415,415	12,789,286
Less accumulated depreciation	<u>6,200,927</u>	<u>5,655,774</u>
	<u>\$ 7,214,488</u>	<u>\$ 7,133,512</u>

Construction in progress at June 30, 2016 consists of an upgrade to the Food Bank's financial accounting software that went live in August 2016. It also includes development of design documents for the renovation of the main warehouse, which has been funded by the capital campaign; however no formal contracts for construction have been executed at this time.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 9 - DEBT

Debt consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
<u>Line of Credit</u>		
\$2,500,000 line of credit to a financial institution, subject to a borrowing base calculated on eligible accounts and inventory. The line has been extended through February 17, 2017. It is management's intent to extend or renew the line of credit upon maturity. Interest is payable monthly at a rate of one-month LIBOR plus 2.25% (2.696% at June 30, 2016).	\$ 370,450	\$ 1,644,300
<u>Note Payable</u>		
\$300,000 note payable to a financial institution to finance the purchase of four trucks. The note matures in 36 monthly principal and interest payments of \$8,764, with interest at a fixed rate of 3.3%. Due to advance repayments, the note is expected to be repaid in 2017.	<u>70,442</u>	<u>260,110</u>
Total debt	<u>\$ 440,892</u>	<u>\$ 1,904,410</u>

Total interest expense incurred by the Food Bank was \$28,982 in 2016 and \$28,680 in 2015. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of specific restrictions within the following programs as of June 30:

	<u>2016</u>	<u>2015</u>
United Way of Middle Tennessee - contribution pledge for the following period for program grants	\$ 114,637	\$ 119,503
Donations for Children's programs (backpacks and summer feeding programs)	42,906	58,912
Donations for <i>Setting the Table for the Future</i> capital campaign	5,968,468	2,539,450
Donations for mobile pantries and agency equipment	548,507	678,565
Donations for emergency food box program	29,700	44,521
Donation for out of area food bank purchases	8,726	50,000
Donations for Culinary Arts Program scholarships	6,500	8,000
Donations for other equipment purchases	<u>208,971</u>	<u>263,338</u>
	<u>\$ 6,928,415</u>	<u>\$ 3,762,289</u>

NOTE 11 - IN-KIND DONATIONS

Excluding donated food inventory items, other in-kind donations of goods and services recognized by the Food Bank as contributions revenue for the years ended June 30 are as follows:

	<u>2016</u>	<u>2015</u>
Special events:		
Goods and services	\$ 54,335	\$ 12,500
Food supplies and distribution	6,181	42,080
Equipment	565	-
Computer equipment and software	-	52,800
Office and administration:		
Marketing	12,811	23,086
Other consulting	1,500	120
Furniture	60,000	-
Other	<u>4,998</u>	<u>-</u>
	<u>\$ 140,390</u>	<u>\$ 130,586</u>

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 12 - CONCENTRATIONS OF CREDIT RISK

The Food Bank maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Food Bank's cash balance, from time to time, may exceed statutory limits. The Food Bank has not experienced any losses in such accounts and considers this to be a normal business risk.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer that is the custodian of the Food Bank's securities is covered by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to \$500,000, including up to \$250,000 in cash. The SIPC does not insure against market risk.

At June 30, 2016, pledges receivable from two donors amounted to \$1,700,000, or approximately 40% of total pledges receivable. At June 30, 2015, pledges receivable from one donor amounted to \$750,000, or approximately 27% of total pledges receivable. In 2016, one donor contributed \$1,500,000, or approximately 13% of total contribution revenue.

NOTE 13 - EMPLOYEE BENEFIT PLAN

The Food Bank sponsors a Section 403(b) defined contribution pension plan for the benefit of eligible employees. The plan provides for discretionary employee deferral contributions, as allowed under the IRC. In addition, the plan requires the Food Bank to contribute 5% of each participant's compensation, and to match 100% of employee deferral contributions up to 3% of their compensation. Total Food Bank contributions to the plan for the year ended June 30, 2016, amounted to \$290,838 (\$258,486 for 2015).

NOTE 14 - LEASES

The Food Bank leases warehouse space under two non-cancelable warehouse leases expiring May 2018.

Lease expense under these agreements and other cancellable or short term leases amounted to \$223,242 and \$230,931 during years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments required under the non-cancelable leases are as follows:

For year ended June 30:

2017	\$	192,810
2018		<u>152,420</u>
Total	\$	<u><u>345,230</u></u>

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

	FEDERAL CFDA NUMBER		GRANTOR'S NUMBER	GRANT PERIOD	GRANT AMOUNT	(ACCRUED) DEFERRED REVENUE 7/1/2015	7/1/15 - 6/30/16		(ACCRUED) DEFERRED REVENUE 6/30/16
							RECEIPTS	EXPENDITURES	
EXPENDITURES OF FEDERAL AWARDS									
U.S. DEPARTMENT OF AGRICULTURE									
Passed Through Tennessee Department of Human Services									
Child and Adult Care Food Program (CACFP)	10.558		N/A	*	*	\$ (9,377)	\$ 220,659	\$ 211,282	\$ -
Summer Food Service Program (SFSP)	10.559		N/A	5/1/15 - 9/30/15	*	11,164	36,735	47,899	-
Summer Food Service Program (SFSP)	10.559		N/A	5/1/16 - 9/30/16	*	-	40,000	65,804	(25,804)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		N/A	10/1/14 - 9/30/15	\$ 28,851	(4,983)	11,924	6,941	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		N/A	10/1/15 - 6/30/16	\$ 30,626	-	22,258	26,974	(4,716)
Total - Tennessee Department of Human Services						(3,196)	331,576	358,900	(30,520)
Passed Through Tennessee Department of Agriculture									
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-32501-00	10/01/14 - 9/30/15	\$ 250,000	(80,451)	129,401	48,950	-
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-32501-00	9/01/15 - 9/30/15	\$ 75,000	-	48,314	48,314	-
Emergency Food Assistance Program - Administrative Costs	10.568	(1)	GR-32501-00	10/01/14 - 9/30/15	*	-	124,999	301,408	(176,409)
Emergency Food Assistance Program - Commodities	10.569	(1)	GR-32501-00	10/01/15 - 8/31/16	\$ 349,000	178,380	502,070	680,450	-
Emergency Food Assistance Program - Commodities	10.569	(1)	GR-32501-00	10/01/15 - 9/30/16	*	-	2,403,094	1,961,291	441,803
Total - Tennessee Department of Agriculture						97,929	3,207,878	3,040,413	265,394
TOTAL U.S. DEPT OF AGRICULTURE						94,733	3,539,454	3,399,313	234,874
DEPARTMENT OF HOMELAND SECURITY									
Passed Through United Way of Middle Tennessee:									
Emergency Management Food and Shelter Program	97.024		765200-002	9/1/2014 - 10/31/2015	\$ 55,000	(55,000)	55,000	-	-
Emergency Management Food and Shelter Program	97.024		781800-002	9/1/2014 - 10/31/2015	\$ 28,774	7,765	14,387	22,152	-
TOTAL DEPARTMENT OF HOMELAND SECURITY						(47,235)	69,387	22,152	-

(continued on following page)

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

<u>FEDERAL CFDA NUMBER</u>	<u>GRANTOR'S NUMBER</u>	<u>GRANT PERIOD</u>	<u>GRANT AMOUNT</u>	<u>(ACCRUED) DEFERRED REVENUE 7/1/2015</u>	<u>7/1/15 - 6/30/16</u>		<u>(ACCRUED) DEFERRED REVENUE 6/30/16</u>
					<u>RECEIPTS</u>	<u>EXPENDITURES</u>	
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 47,498	\$ 3,608,841	\$ 3,421,465	\$ 234,874

Total Expenditures by CFDA Number:

10.558	\$ 211,282
10.559	113,703
10.561	33,915
10.568 & 10.569	3,040,413
97.024	22,152
	<u>\$ 3,421,465</u>

* Not specified.

(1) Denotes a major program

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Second Harvest Food Bank of Middle Tennessee, Inc. (the "Food Bank") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

OTHER REPORTS

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

Board of Directors
Second Harvest Food Bank of Middle Tennessee, Inc.
Nashville, 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 Middle Tennessee, Inc. (the "Food Bank"), a Tennessee not-for-profit corporation, which comprise the statement of financial position as of June 30, 2016, 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 21, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Middle Tennessee, Inc.'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 Food Bank'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 entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Kraj+CPAs PLLC

Nashville, Tennessee
November 21, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Second Harvest Food Bank of Middle Tennessee, Inc.
Nashville, Tennessee

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Second Harvest Food Bank of Middle Tennessee, Inc.'s (the "Food Bank") 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 Food Bank's major federal programs for the year ended June 30, 2016. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Food Bank'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 Regulation* 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 Food Bank'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 Second Harvest Food Bank of Middle Tennessee, Inc.'s compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, Second Harvest Food Bank of Middle Tennessee, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Food Bank 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 Food Bank'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 Food Bank'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kraft CPAs PLLC

Nashville, Tennessee
November 21, 2016

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ 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 that are not considered to be material weaknesses? _____ 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 2 CFR 200.516(a)?

_____ yes X no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

10.568 and 10.569 Food Distribution Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes _____ no

Part II - Financial Statement Findings

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings in the prior year or current year.