

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017 AND 2016

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

FINANCIAL STATEMENTS,
ADDITIONAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017 AND 2016

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| <u>BOARD OF DIRECTORS</u> | i |
| <u>INDEPENDENT AUDITOR'S REPORT</u> | 1 - 2 |
| <u>FINANCIAL STATEMENTS</u> | |
| Statements of Financial Position | 3 |
| Statements of Activities..... | 4 |
| Statements of Cash Flows | 5 |
| Statement of Functional Expenses for the Year Ended June 30, 2017 | 6 |
| Statement of Functional Expenses for the Year Ended June 30, 2016 | 7 |
| Notes to Financial Statements | 8 - 23 |
| <u>ADDITIONAL INFORMATION</u> | |
| Schedule of Expenditures of Federal Awards..... | 24 - 25 |
| <u>OTHER REPORTS</u> | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 26 - 27 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance..... | 28 - 29 |
| Schedule of Findings and Questioned Costs..... | 30 - 31 |

**Second Harvest Food Bank of Middle Tennessee, Inc.
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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, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

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 24-25, 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 30, 2017, 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.

Kraft CPAs PLLC

Nashville, Tennessee
November 30, 2017

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash | \$ 57,349 | \$ 48,450 |
| Accounts receivable, net | 1,426,910 | 1,349,340 |
| Grants receivable | 560,186 | 377,214 |
| Pledges receivable, net | 986,763 | 980,082 |
| Inventories | 3,733,293 | 3,949,344 |
| Prepaid expenses | 192,465 | 155,484 |
| Investments | 1,823,416 | 1,618,035 |
| Capital campaign: | | |
| Cash | 3,533,220 | 2,699,612 |
| Pledges receivable, net | 2,190,247 | 3,268,856 |
| Property and equipment, net | <u>7,354,381</u> | <u>7,214,488</u> |
| TOTAL ASSETS | <u><u>\$ 21,858,230</u></u> | <u><u>\$ 21,660,905</u></u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 1,487,261 | \$ 2,540,642 |
| Deferred revenue | 284,504 | 448,812 |
| Line of credit | 937,583 | 370,450 |
| Long-term debt | <u>10,706</u> | <u>70,442</u> |
| TOTAL LIABILITIES | <u>2,720,054</u> | <u>3,430,346</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Designated: | | |
| Donated food inventory | 1,776,783 | 1,867,291 |
| Property and equipment, less related debt | 7,343,675 | 7,144,046 |
| Board designated | 300,000 | 300,000 |
| Undesignated | <u>3,260,806</u> | <u>1,990,807</u> |
| Total unrestricted | 12,681,264 | 11,302,144 |
| Temporarily restricted | <u>6,456,912</u> | <u>6,928,415</u> |
| TOTAL NET ASSETS | <u>19,138,176</u> | <u>18,230,559</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 21,858,230</u></u> | <u><u>\$ 21,660,905</u></u> |

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | | |
|---|----------------------|-----------------------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
| PUBLIC SUPPORT AND REVENUE | | | |
| Donated food | \$ 39,829,092 | \$ - | \$ 39,829,092 |
| Contributions | 8,262,121 | 753,273 | 9,015,394 |
| Government grants | 4,053,060 | - | 4,053,060 |
| Shared maintenance fees | 559,799 | - | 559,799 |
| Culinary arts center | 215,988 | - | 215,988 |
| Special events and activities | 733,606 | - | 733,606 |
| Less: direct benefits to donors | (149,464) | - | (149,464) |
| Investment income | 198,718 | - | 198,718 |
| Agency transportation reimbursement | 226,704 | - | 226,704 |
| Other income | 41,149 | - | 41,149 |
| Net assets released in satisfaction of program restrictions | <u>1,224,776</u> | <u>(1,224,776)</u> | <u>-</u> |
| TOTAL PUBLIC SUPPORT AND REVENUE | <u>55,195,549</u> | <u>(471,503)</u> | <u>54,724,046</u> |
| REVENUE - PROJECT PRESERVE® PROGRAM | | | |
| Sales to out of area network agencies, net of discount | 29,884,551 | - | 29,884,551 |
| Sales to local agencies | 2,465,948 | - | 2,465,948 |
| Donated food and services | <u>229,944</u> | <u>-</u> | <u>229,944</u> |
| TOTAL REVENUE - PROJECT PRESERVE® PROGRAM | 32,580,443 | - | 32,580,443 |
| LESS DIRECT COSTS AND EXPENSES - PROJECT PRESERVE® PROGRAM | <u>(30,905,703)</u> | <u>-</u> | <u>(30,905,703)</u> |
| GROSS PROFIT FROM PROJECT PRESERVE® PROGRAM | <u>1,674,740</u> | <u>-</u> | <u>1,674,740</u> |
| TOTAL SUPPORT AND REVENUE | <u>56,870,289</u> | <u>(471,503)</u> | <u>56,398,786</u> |
| EXPENSES | | | |
| Program services: | | | |
| Emergency Food Box | 4,903,817 | - | 4,903,817 |
| Community Food Partners | 44,650,808 | - | 44,650,808 |
| Children's Programs | 1,953,561 | - | 1,953,561 |
| Culinary Arts Center | <u>578,987</u> | <u>-</u> | <u>578,987</u> |
| Total Program Services | <u>52,087,173</u> | <u>-</u> | <u>52,087,173</u> |
| Supporting services: | | | |
| Management and General | 936,158 | - | 936,158 |
| Fundraising | <u>2,467,838</u> | <u>-</u> | <u>2,467,838</u> |
| Total Supporting Services | <u>3,403,996</u> | <u>-</u> | <u>3,403,996</u> |
| TOTAL EXPENSES | <u>55,491,169</u> | <u>-</u> | <u>55,491,169</u> |
| CHANGE IN NET ASSETS | 1,379,120 | (471,503) | 907,617 |
| NET ASSETS - BEGINNING OF YEAR | <u>11,302,144</u> | <u>6,928,415</u> | <u>18,230,559</u> |
| NET ASSETS - END OF YEAR | <u>\$ 12,681,264</u> | <u>\$ 6,456,912</u> | <u>\$ 19,138,176</u> |

See accompanying notes to financial statements.

| 2016 | | |
|----------------------|-----------------------------------|----------------------|
| <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
| \$ 38,110,438 | \$ - | \$ 38,110,438 |
| 7,258,289 | 4,467,171 | 11,725,460 |
| 3,811,535 | - | 3,811,535 |
| 605,765 | - | 605,765 |
| 209,058 | - | 209,058 |
| 705,006 | - | 705,006 |
| (234,945) | - | (234,945) |
| 29,368 | - | 29,368 |
| 224,965 | - | 224,965 |
| 51,648 | - | 51,648 |
| <u>1,301,045</u> | <u>(1,301,045)</u> | <u>-</u> |
| <u>52,072,172</u> | <u>3,166,126</u> | <u>55,238,298</u> |
| 28,002,773 | - | 28,002,773 |
| 2,088,748 | - | 2,088,748 |
| <u>303,121</u> | <u>-</u> | <u>303,121</u> |
| 30,394,642 | - | 30,394,642 |
| <u>(28,933,292)</u> | <u>-</u> | <u>(28,933,292)</u> |
| <u>1,461,350</u> | <u>-</u> | <u>1,461,350</u> |
| <u>53,533,522</u> | <u>3,166,126</u> | <u>56,699,648</u> |
| 4,969,097 | - | 4,969,097 |
| 42,279,803 | - | 42,279,803 |
| 1,977,640 | - | 1,977,640 |
| <u>534,109</u> | <u>-</u> | <u>534,109</u> |
| <u>49,760,649</u> | <u>-</u> | <u>49,760,649</u> |
| 1,026,766 | - | 1,026,766 |
| <u>2,099,896</u> | <u>-</u> | <u>2,099,896</u> |
| <u>3,126,662</u> | <u>-</u> | <u>3,126,662</u> |
| <u>52,887,311</u> | <u>-</u> | <u>52,887,311</u> |
| 646,211 | 3,166,126 | 3,812,337 |
| <u>10,655,933</u> | <u>3,762,289</u> | <u>14,418,222</u> |
| <u>\$ 11,302,144</u> | <u>\$ 6,928,415</u> | <u>\$ 18,230,559</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 907,617 | \$ 3,812,337 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 665,797 | 562,061 |
| Gain on sale of equipment | (30,286) | (33,148) |
| Capital campaign contributions | (232,179) | (3,868,612) |
| Noncash contribution of property and equipment | - | (60,000) |
| Noncash contribution of investments | (98,623) | (173,362) |
| Realized and unrealized gains on investments | (172,981) | (8,724) |
| (Increase) decrease in: | | |
| Accounts receivable | (77,570) | 175,890 |
| Grants receivable | (182,972) | (218,798) |
| Pledges receivable | (6,681) | (23,969) |
| Inventories | 216,051 | (110,678) |
| Prepaid expenses | (36,981) | 6,861 |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (1,053,381) | 615,526 |
| Deferred revenue | (164,308) | 239,176 |
| TOTAL ADJUSTMENTS | <u>(1,174,114)</u> | <u>(2,897,777)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>(266,497)</u> | <u>914,560</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales and maturities of investments | 97,555 | 304,458 |
| Purchases of investments | (31,332) | (107,345) |
| Proceeds from sale of equipment | 33,748 | 59,939 |
| Additions to property and equipment | (797,152) | (609,828) |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(697,181)</u> | <u>(352,776)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Capital campaign collections | 1,310,788 | 2,347,635 |
| Net draws (repayments) on line of credit | 567,133 | (1,273,850) |
| Payments on long-term debt | (71,736) | (189,668) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>1,806,185</u> | <u>884,117</u> |
| NET INCREASE IN CASH | 842,507 | 1,445,901 |
| CASH - BEGINNING OF YEAR | <u>2,748,062</u> | <u>1,302,161</u> |
| CASH - END OF YEAR | <u>\$ 3,590,569</u> | <u>\$ 2,748,062</u> |
| Operating cash | \$ 57,349 | \$ 48,450 |
| Capital campaign cash | 3,533,220 | 2,699,612 |
| TOTAL CASH | <u>\$ 3,590,569</u> | <u>\$ 2,748,062</u> |
| OTHER CASH FLOW DISCLOSURES: | | |
| Cash paid for interest | <u>\$ 16,265</u> | <u>\$ 28,982</u> |
| Property and equipment financed with long-term debt | <u>\$ 12,000</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, 2017

| | PROGRAM SERVICES | | | | | SUPPORTING SERVICES | | TOTALS |
|--|-------------------|---------------------|----------------------|---------------------|-------------------|---------------------|---------------------|----------------------|
| | PROJECT | EMERGENCY | COMMUNITY | CHILDREN'S | CULINARY | MANAGEMENT | FUND | |
| | PRESERVE® | FOOD BOX | FOOD PARTNERS | PROGRAMS | ARTS CENTER | AND GENERAL | RAISING | |
| Salaries | \$ 1,017,854 | \$ 490,214 | \$ 1,725,373 | \$ 485,492 | \$ 216,960 | \$ 376,542 | \$ 1,079,091 | \$ 5,391,526 |
| Contract labor | 67,659 | 53,626 | 179,908 | 31,280 | 57,541 | 18,276 | 96,165 | 504,455 |
| Payroll taxes and benefits | 306,845 | 199,980 | 606,458 | 149,723 | 78,019 | 91,109 | 325,520 | 1,757,654 |
| TOTAL SALARIES AND RELATED EXPENSES | 1,392,358 | 743,820 | 2,511,739 | 666,495 | 352,520 | 485,927 | 1,500,776 | 7,653,635 |
| Food supplies and distribution | 29,255,517 | 59,701 | 36,823 | 12,768 | 77,733 | 7,401 | 8,147 | 29,458,090 |
| Donated food | 229,944 | 3,026,244 | 36,685,345 | 207,996 | - | - | - | 40,149,529 |
| USDA commodities distributed | - | 317,023 | 2,520,912 | - | - | - | - | 2,837,935 |
| Internal food purchases and/or reimbursement | (1,882,356) | 203,935 | 851,797 | 828,991 | (9,992) | 6,746 | 879 | - |
| Product transportation | 1,268,560 | 120,753 | 781,772 | 50,238 | 7,844 | - | 4,229 | 2,233,396 |
| Office and administration | 61,314 | 41,936 | 212,073 | 21,150 | 30,849 | 230,437 | 326,443 | 924,202 |
| Occupancy | 331,695 | 211,669 | 573,508 | 101,765 | 56,472 | 28,027 | 89,105 | 1,392,241 |
| Depreciation | 84,742 | 135,486 | 331,506 | 35,569 | 34,750 | 24,016 | 19,728 | 665,797 |
| Communication expense | 25,475 | 13,238 | 32,279 | 12,266 | 5,667 | 11,327 | 453,103 | 553,355 |
| Travel and conferences | 33,366 | 165 | 7,747 | 1,381 | - | 34,740 | 16,286 | 93,685 |
| National network dues | - | - | - | - | - | 25,480 | - | 25,480 |
| Professional fees | 63,291 | 8,949 | 11,265 | 4,493 | 2,246 | 71,608 | 7,408 | 169,260 |
| Other special event costs | - | - | - | - | - | - | 180,749 | 180,749 |
| Insurance | 41,797 | 20,898 | 94,042 | 10,449 | 20,898 | 10,449 | 10,449 | 208,982 |
| TOTAL EXPENSES | 30,905,703 | 4,903,817 | 44,650,808 | 1,953,561 | 578,987 | 936,158 | 2,617,302 | 86,546,336 |
| Less expenses included with revenues on the statement of activities: | | | | | | | | |
| Direct benefits to donors | - | - | - | - | - | - | (149,464) | (149,464) |
| Direct costs and expenses of Project Preserve® program | (30,905,703) | - | - | - | - | - | - | (30,905,703) |
| TOTAL EXPENSES INCLUDED IN EXPENSE SECTION OF STATEMENT OF ACTIVITIES | \$ - | \$ 4,903,817 | \$ 44,650,808 | \$ 1,953,561 | \$ 578,987 | \$ 936,158 | \$ 2,467,838 | \$ 55,491,169 |

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 | | TOTALS |
|--|-------------------|---------------------|----------------------|---------------------|-------------------|---------------------|---------------------|----------------------|
| | PROJECT | EMERGENCY | COMMUNITY | CHILDREN'S | CULINARY | MANAGEMENT | FUND | |
| | PRESERVE® | FOOD BOX | FOOD PARTNERS | PROGRAMS | ARTS CENTER | AND GENERAL | RAISING | |
| 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 distribution | - | 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 | 172,598 | (103,593) | 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 | 1,026,766 | 2,334,841 | 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 | \$ 1,026,766 | \$ 2,099,896 | \$ 52,887,311 |

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 2017 and 2016, the program contributed approximately \$1.9 million and \$1.5 million, respectively, 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, 2017 or 2016.

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, 2017 AND 2016

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 2017, this production assembled over 900,000 backpacks (1,100,000 backpacks in 2016) and nearly 105,000 disaster relief food boxes for Feeding America[®] affiliates (over 130,000 boxes in 2016). Additionally, Project Preserve shipped to 123 Feeding America[®] network food banks nearly 44 million pounds of quality, first-line purchased food items.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash consists principally of checking account balances.

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 (1.89% for the year ended June 30, 2017 and 1.01% for the year ended June 30, 2016). 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 \$35,500 at June 30, 2017 (\$24,614 at June 30, 2016).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 \$1.73 per pound in 2017 (\$1.67 per pound in 2016), 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.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

Program and Supporting Services

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 2017, as well as in 2016, in emergency staples to families in need through its sixteen satellite centers in Davidson County.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Community Food Partners - provided over 23,000,000 pounds of food during 2017 (21,000,000 pounds in 2016) to nearly 500 not-for-profit agencies, including soup kitchens, daycare centers and emergency food programs.

Middle Tennessee's Table - collects perishable and non-perishable food from more than 230 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 2017, the Food Bank distributed over 12,300,000 pounds of food (equivalent to more than 10.2 million meals) under this program. (The Food Bank distributed 11,600,000 pounds equivalent to more than 9.7 million meals in 2016).

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 both 2017 and 2016, nearly 5,400,000 pounds of food were distributed through this program.

SNAP Outreach - The Food Bank offers 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 approximately 1,580 applications during fiscal year 2017 (assisted in completing approximately 1,340 applications in 2016).

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 207,000 meals during 2017 (205,000 meals in 2016). 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 2017, the Food Bank distributed over 240,000 backpacks to hungry children (210,000 backpacks in 2016).

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Children's Programs (Continued)

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-eight sites were operated during 2017, providing over 201,000 pounds of food for families in need (twenty-six sites were operated during 2016, providing over 186,000 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.

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.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *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 July 2015, the 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 or 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 Food Bank does not expect the adoption of the ASU to have a material effect on its financial statements.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

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.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Food Bank is currently evaluating the impact the adoption of this guidance will have on its financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications have no effect on the change in net assets as previously presented.

Events Occurring after Reporting Date

The Food Bank has evaluated events and transactions that occurred between June 30, 2017 and November 30, 2017, 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, 2017 AND 2016

NOTE 3 - PLEDGES RECEIVABLE

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

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Due in less than one year | \$ 945,338 | \$ 950,491 |
| Due in one to five years | <u>46,834</u> | <u>35,000</u> |
| | 992,172 | 985,491 |
| Less: Allowance for uncollectible pledges | <u>(5,409)</u> | <u>(5,409)</u> |
| | <u>\$ 986,763</u> | <u>\$ 980,082</u> |

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|---------------------|---------------------|
| Donated food | \$ 1,776,783 | \$ 1,867,291 |
| USDA inventory | 283,754 | 441,804 |
| Cook/chill manufactured inventory | 102,647 | 100,335 |
| Purchased inventory | <u>1,570,109</u> | <u>1,539,914</u> |
| | <u>\$ 3,733,293</u> | <u>\$ 3,949,344</u> |

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|---------------------------|---------------------|---------------------|
| Liquid money market funds | \$ 108,178 | \$ 95,504 |
| Certificates of deposit | 119,556 | 118,697 |
| Equity funds | 1,184,491 | 993,625 |
| Taxable bond funds | <u>411,191</u> | <u>410,209</u> |
| | <u>\$ 1,823,416</u> | <u>\$ 1,618,035</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 5 - INVESTMENTS (CONTINUED)

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

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|-------------------|------------------|
| Realized and unrealized gains - net | \$ 172,953 | \$ 8,724 |
| Dividend and interest income | <u>25,765</u> | <u>20,644</u> |
| | <u>\$ 198,718</u> | <u>\$ 29,368</u> |

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:

| | <u>2017</u> | | | |
|---------------------------------|---------------------|---------------------|----------------|---------------------|
| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments: | | | | |
| Equity funds: | | | | |
| Large value | \$ 920,900 | \$ 920,900 | \$ - | \$ - |
| International | <u>263,591</u> | <u>263,591</u> | - | - |
| Total equity funds | 1,184,491 | 1,184,491 | - | - |
| Taxable bond funds: | | | | |
| Intermediate term | <u>411,191</u> | <u>411,191</u> | - | - |
| Total investments at fair value | 1,595,682 | 1,595,682 | - | - |
| Donated inventory | <u>1,776,783</u> | - | - | <u>1,776,783</u> |
| Total | <u>\$ 3,372,465</u> | <u>\$ 1,595,682</u> | <u>\$ -</u> | <u>\$ 1,776,783</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

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>2017</u> | <u>2016</u> |
|--------------------------|---------------------|---------------------|
| Beginning of year | \$ 1,867,291 | \$ 1,740,617 |
| Donated food received | 40,059,021 | 38,413,494 |
| Donated food distributed | <u>(40,149,529)</u> | <u>(38,286,820)</u> |
| End of year | <u>\$ 1,776,783</u> | <u>\$ 1,867,291</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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. Plans are for a phased approach which includes a 25,800 square foot Western Branch in Benton County and a 13,000 square foot freezer addition to the Nashville facility, both to be completed in 2018. The second phase will include developing a volunteer engagement center, reconfigured open shopping, and other aesthetic improvements to the Nashville facility, as well as expansion into Rutherford County. At June 30, pledges receivable for this campaign are expected to be received as follows:

| | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------------|---------------------|
| Due in less than one year | \$ 926,793 | \$ 1,199,326 |
| Due in one to five years | 1,281,924 | 2,114,088 |
| Due in greater than five years | <u>34,000</u> | <u>30,000</u> |
| | 2,242,717 | 3,343,414 |
| Less: Discount to present value | <u>(52,470)</u> | <u>(74,558)</u> |
| | <u>\$ 2,190,247</u> | <u>\$ 3,268,856</u> |

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|--|---------------------|---------------------|
| Land | \$ 1,334,586 | \$ 1,334,586 |
| Construction in progress | 156,241 | 414,279 |
| Building and improvements | 7,103,807 | 7,059,584 |
| Office and warehouse furniture and equipment | 2,430,407 | 2,035,317 |
| Transportation equipment | 1,832,980 | 1,807,874 |
| Cook/chill equipment | 782,979 | 624,360 |
| Culinary arts center equipment | <u>139,415</u> | <u>139,415</u> |
| | 13,780,415 | 13,415,415 |
| Less accumulated depreciation | <u>6,426,034</u> | <u>6,200,927</u> |
| | <u>\$ 7,354,381</u> | <u>\$ 7,214,488</u> |

Construction in progress at June 30, 2017 includes development of design documents for the renovation of the main warehouse, which has been funded by the capital campaign. Also included is development costs for the new eCommerce website for Project Preserve and eHarvest.

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 9 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

| | <u>2017</u> | <u>2016</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 May 2018. 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% (3.47% at June 30, 2017). | \$ 937,583 | \$ 370,450 |
| <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 was repaid in 2017. | - | 70,442 |
| <u>Lease Obligation</u> | | |
| \$12,000 lease obligation to a financial institution to finance the purchase of forklift machinery. Lease is payable in monthly principal and interest payments of \$345, with interest at a fixed rate of 2.246%. Lease matures March 1, 2020 with a \$1 purchase option at maturity. | <u>10,706</u> | <u>-</u> |
| | <u>\$ 948,289</u> | <u>\$ 440,892</u> |

Total interest expense incurred by the Food Bank was \$16,265 in 2017 and \$28,982 in 2016. Interest expense is included in office and administration expense in the Statements of Functional Expenses.

Maturities on the lease obligation at June 30, 2017 are as follows:

| | |
|------------------------------------|------------------|
| June 30, 2018 | \$ 4,140 |
| June 30, 2019 | 4,140 |
| June 30, 2020 | <u>3,105</u> |
| | 11,385 |
| Less: amount representing interest | <u>(679)</u> |
| | <u>\$ 10,706</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

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

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| United Way of Middle Tennessee - contribution pledge for the following period for program grants | \$ 109,154 | \$ 114,637 |
| Donations for Children's programs (backpacks and summer feeding programs) | 42,604 | 42,906 |
| Donations for <i>Setting the Table for the Future</i> capital campaign | 5,723,467 | 5,968,468 |
| Donations for mobile pantries and agency equipment | 434,930 | 548,507 |
| Donations for emergency food box program | 52,964 | 29,700 |
| Donation for out of area food bank purchases | - | 8,726 |
| Donations for Culinary Arts Program scholarships | 3,050 | 6,500 |
| Donations for other equipment purchases | 90,743 | 208,971 |
| | <u>\$ 6,456,912</u> | <u>\$ 6,928,415</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>2017</u> | <u>2016</u> |
|-----------------------------------|------------------|-------------------|
| Special events goods and services | \$ 23,061 | \$ 54,335 |
| Food supplies and distribution | 4,905 | 6,181 |
| Equipment | 2,000 | 565 |
| Computer equipment and software | 180 | - |
| Office and administration: | | |
| Marketing | 11,356 | 12,811 |
| Other consulting | - | 1,500 |
| Furniture | - | 60,000 |
| Other | 29,175 | 4,998 |
| | <u>\$ 70,677</u> | <u>\$ 140,390</u> |

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017, pledges receivable from two donors amounted to \$900,000, or approximately 28% of total pledges receivable. At June 30, 2016, pledges receivable from two donors amounted to \$1,700,000, or approximately 40% 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 Internal Revenue Code ("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, 2017, amounted to \$280,013 (\$290,838 for 2016).

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 \$222,628 and \$223,242 during years ended June 30, 2017 and 2016, respectively.

Future minimum lease payment required under the non-cancelable leases is \$152,420 for the year ended June 30, 2018.

ADDITIONAL INFORMATION

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

| EXPENDITURES OF FEDERAL AWARDS | FEDERAL CFDA NUMBER | GRANTOR'S NUMBER | GRANT PERIOD | GRANT AMOUNT | (ACCRUED) | 7/1/16 - 6/30/17 | | (ACCRUED) | |
|--|---------------------------|---------------------|--------------------|-----------------|---------------------------------|------------------|--------------|----------------------------------|--|
| | | | | | DEFERRED REVENUE 7/1/2016 | RECEIPTS | EXPENDITURES | DEFERRED REVENUE 6/30/2017 | |
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | | | | |
| Passed Through Tennessee Department of Human Services | | | | | | | | | |
| Child and Adult Care Food Program (CACFP) | 10.558 | N/A | * | * | \$ - | \$ 166,737 | \$ 181,131 | \$ (14,394) | |
| Summer Food Service Program (SFSP) | 10.559 | N/A | 5/1/16 - 9/30/16 | * | (25,804) | 67,042 | 41,238 | - | |
| Summer Food Service Program (SFSP) | 10.559 | N/A | 5/1/17 - 9/30/17 | * | - | 20,000 | 47,979 | (27,979) | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | N/A | 10/1/15 - 6/30/16 | \$ 30,626 | (4,716) | 4,716 | - | - | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | N/A | 7/1/16 - 9/30/16 | \$ 10,209 | - | 10,209 | 10,209 | - | |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | N/A | 10/1/16 - 6/30/17 | \$ 31,675 | - | 23,069 | 29,313 | (6,244) | |
| Total - Tennessee Department of Human Services | | | | | (30,520) | 291,773 | 309,870 | (48,617) | |
| Passed Through Tennessee Department of Agriculture | | | | | | | | | |
| Emergency Food Assistance Program - Administrative Costs | 10.568 | (1) GR-32501-00 | 10/01/15 - 8/31/16 | \$ 349,000 | (176,409) | 208,921 | 32,512 | - | |
| Emergency Food Assistance Program - Administrative Costs | 10.568 | (1) GR-32501-00 | 09/01/16 - 9/30/16 | \$ 48,000 | - | 48,000 | 48,000 | - | |
| Emergency Food Assistance Program - Administrative Costs | 10.568 | (1) GR-32501-00 | 10/01/16 - 9/30/17 | \$ 327,000 | - | 174,499 | 319,558 | (145,059) | |
| Emergency Food Assistance Program - Commodities | 10.569 | (1) GR-32501-00 | 10/01/15 - 9/30/16 | * | 441,803 | 460,232 | 902,035 | - | |
| Emergency Food Assistance Program - Commodities | 10.569 | (1) GR-32501-00 | 10/01/16 - 9/30/17 | * | - | 2,219,654 | 1,935,900 | 283,754 | |
| Total - Tennessee Department of Agriculture | | | | | 265,394 | 3,111,306 | 3,238,005 | 138,695 | |
| TOTAL U.S. DEPT OF AGRICULTURE | | | | | 234,874 | 3,403,079 | 3,547,875 | 90,078 | |
| DEPARTMENT OF HOMELAND SECURITY | | | | | | | | | |
| Passed Through United Way of Middle Tennessee: | | | | | | | | | |
| Emergency Management Food and Shelter Program | 97.024 | 765200-002 | 12/1/15 - 6/30/17 | \$ 57,200 | - | 57,200 | 57,200 | - | |

(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, 2017

| | FEDERAL CFDA NUMBER | GRANTOR'S NUMBER | GRANT PERIOD | GRANT AMOUNT | (ACCRUED) DEFERRED REVENUE 7/1/2016 | 7/1/16 - 6/30/17 | | (ACCRUED) DEFERRED REVENUE 6/30/2017 | |
|---|--|---------------------|-----------------|-------------------|--|------------------|--------------|---|------------|
| | | | | | | RECEIPTS | EXPENDITURES | | |
| DEPARTMENT OF HOMELAND SECURITY (CONTINUED) | | | | | | | | | |
| Passed Through United Way of Middle Tennessee (Continued): | | | | | | | | | |
| | Emergency Management Food and Shelter Program | 97.024 | 781800-002 | 12/1/15 - 6/30/17 | \$ 13,287 | \$ - | \$ 6,644 | \$ 13,287 | \$ (6,643) |
| TOTAL DEPARTMENT OF HOMELAND SECURITY | | | | | | - | 63,844 | 70,487 | (6,643) |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | | | \$ 234,874 | \$ 3,466,923 | \$ 3,618,362 | \$ 83,435 |

Total Expenditures by CFDA Number:

* Not specified.

(1) Denotes a major program

| | |
|-----------------|---------------------|
| 10.558 | \$ 181,131 |
| 10.559 | 89,217 |
| 10.561 | 39,522 |
| 10.568 & 10.569 | 3,238,005 |
| 97.024 | 70,487 |
| | <u>\$ 3,618,362</u> |

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, 2017. 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 Food Bank.

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, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2017.

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.

Kraft CPAs PLLC

Nashville, Tennessee
November 30, 2017



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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the 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, 2017.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kraj+CPAs PLLC

Nashville, Tennessee
November 30, 2017

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

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?

_____ yes X no

SECOND HARVEST FOOD BANK OF MIDDLE TENNESSEE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

Part II - Financial Statement Findings

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