

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

For the Fiscal Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Second Harvest Food Bank of Northeast Tennessee, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc. (the Food Bank) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The comparative schedule of assets, liabilities and net assets, comparative schedule of revenues, comparative schedule of expenses, schedule of expenditures of state financial assistance, and the roster of management officials and board members are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The comparative schedule of assets, liabilities and net assets, comparative schedule of revenues, comparative schedule of expenses, schedule of expenditures of state financial assistance, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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, this information is fairly stated, in all material respects, in relation to the financial statements as a whole. The roster of management officials and board members has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 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 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.

Blackburn, Childers & Steagall, PLLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 16, 2017

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS	
Cash and Cash Equivalents	\$ 1,004,651
Investments	545,315
Accounts Receivable	115,149
Grants Receivable	67,242
Inventories	817,354
Prepaid Expenses	5,010
Property and Equipment, Net of Accumulated Depreciation	<u>2,405,744</u>
TOTAL ASSETS	<u><u>\$ 4,960,465</u></u>
 LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts Payable	\$ 55,972
Employee Deductions Payable	2,652
Deferred Revenue	21,940
Accrued Expenses	33,520
Long-Term Debt	<u>300,567</u>
TOTAL LIABILITIES	<u>414,651</u>
 NET ASSETS	
Unrestricted Net Assets	<u>3,719,866</u>
Temporarily Restricted	
Donor-Restricted for Food for Kids	44,725
Grantor-Restricted for Food for Kids	15,000
Donor-Restricted for Summer Feeding Program	2,043
Grantor-Restricted for Summer Feeding Program	54,106
Donor-Restricted for Food, Supplies and Other	29,000
Grantor-Restricted for Food, Supplies and Other	91,819
Grantor-Restricted for Breakfast Program	2,473
Grantor-Restricted for Senior Grocery Delivery Program	500
Donor-Restricted Inventory for Distribution	352,815
Grantor-Restricted Inventory for Distribution	<u>233,467</u>
Total Temporarily Restricted Net Assets	<u>825,948</u>
TOTAL NET ASSETS	<u><u>4,545,814</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,960,465</u></u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
STATEMENT OF ACTIVITIES
June 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Cash Contributions	\$ 1,254,709	503,981	1,758,690
Food and Nonfood Items Donated	-	13,120,829	13,120,829
USDA Commodities	-	2,721,329	2,721,329
Program Service Fees	1,255,486	-	1,255,486
Federal and State Grants	222,236	50,000	272,236
Special Events	367,431	-	367,431
Rental Income	61,231	-	61,231
Investment Income	14,171	-	14,171
Other In-kind Donations	111,036	-	111,036
Other Income	11,480	-	11,480
Net Assets Released from Restrictions	<u>16,874,645</u>	<u>(16,874,645)</u>	<u>-</u>
TOTAL REVENUE	<u>20,172,425</u>	<u>(478,506)</u>	<u>19,693,919</u>
EXPENSES			
Program Services - Food Distribution	19,618,157	-	19,618,157
Management and General	376,326	-	376,326
Fundraising	329,453	-	329,453
Payments to Affiliate	<u>9,669</u>	<u>-</u>	<u>9,669</u>
TOTAL EXPENSES	<u>20,333,605</u>	<u>0</u>	<u>20,333,605</u>
CHANGE IN NET ASSETS	(161,180)	(478,506)	(639,686)
NET ASSETS - BEGINNING OF FISCAL YEAR	<u>3,881,046</u>	<u>1,304,454</u>	<u>5,185,500</u>
NET ASSETS - END OF FISCAL YEAR	<u>\$ 3,719,866</u>	<u>825,948</u>	<u>4,545,814</u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
June 30, 2017

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and Contract Labor	\$ 563,434	257,854	128,769	950,057
Other Employee Costs	129,466	32,850	30,917	193,233
Vehicle Expense	104,888	-	-	104,888
Incoming Freight Charges	159,509	-	-	159,509
Travel and Mileage	9,310	2,327	-	11,637
Insurance	13,369	9,722	-	23,091
Warehouse Equipment Repairs	14,419	-	-	14,419
Warehouse Equipment and Supplies	10,366	-	-	10,366
Sanitation / Extermination	11,674	2,918	-	14,592
Building Repairs and Maintenance	9,254	2,314	-	11,568
Utilities	62,815	15,704	-	78,519
Professional Fees	-	13,486	-	13,486
Postage	5,802	1,451	-	7,253
Printing and Publications	3,615	904	-	4,519
Board and Committees	-	1,973	-	1,973
Other Administrative Expense	49,673	-	12,418	62,091
Security System	803	201	-	1,004
Computer Expense	15,333	3,833	-	19,166
Dues and Subscriptions	-	265	-	265
Seminars and Conventions	-	462	-	462
Farmers and Chef	-	-	143	143
Direct Mail Expense	-	-	148,612	148,612
Golf Tournament	-	-	7	7
Community Relations	8,587	8,587	8,587	25,761
Other Program Services	21,053	-	-	21,053
Summer Feeding	82	-	-	82
Shared Maintenance Grants Expense	495,448	-	-	495,448
Depreciation	118,418	21,475	-	139,893
Cost of Goods Distributed - Food Donated and Purchased	14,884,717	-	-	14,884,717
Cost of Goods Distributed - USDA Commodities	2,926,122	-	-	2,926,122
TOTAL FUNCTIONAL EXPENSES	19,618,157	376,326	329,453	20,323,936
UNALLOCATED PAYMENTS TO AFFILIATED ORGANIZATIONS				9,669
TOTAL EXPENSES				\$ 20,333,605

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
STATEMENT OF CASH FLOWS
June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (639,686)
Adjustments to Reconcile Change in Net Assets to Net Cash Used for Operating Activities	
Depreciation Expense	139,893
Investment Income	(5,882)
Investment Market Appreciation	(8,289)
(Increase) Decrease in Assets	
Accounts Receivable	(61,758)
Grants Receivable	20,846
Inventories	515,154
Prepaid Expenses	6,860
Increase (Decrease) in Liabilities	
Accounts Payable	(8,919)
Employee Deductions Payable	1,705
Deferred Revenue	9,725
Accrued Expenses	<u>23,010</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(7,341)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Gifts of Investments	2,580
Purchases of Investments	(5,000)
Acquisition of Property and Equipment	<u>(127,489)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(129,909)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Payments on Long-Term Debt	<u>(9,433)</u>
NET CASH USED FOR FINANCING ACTIVITIES	<u>(9,433)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(146,683)
CASH AND CASH EQUIVALENTS - BEGINNING OF FISCAL YEAR	<u>1,151,334</u>
CASH AND CASH EQUIVALENTS - END OF FISCAL YEAR	<u><u>\$ 1,004,651</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash Paid for Interest During the Year	<u><u>\$ 5,889</u></u>
NONCASH INVESTING AND FINANCING ACTIVITIES	
Long-Term Debt Incurred for Acquisition of Property and Equipment	<u><u>\$ 310,000</u></u>

See accompanying notes to the financial statements.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Second Harvest Food Bank of Northeast Tennessee, Inc. (the Food Bank) is a Tennessee not-for-profit corporation that works to distribute and provide food to other tax-exempt organizations. The Food Bank receives support from industry, churches, government and individual contributors. Tennessee counties the Food Bank serves include Hancock, Hawkins, Greene, Sullivan, Washington, Unicoi, Carter, and Johnson.

Basis of Accounting

The financial statements of the Food Bank are reported using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC). Under FASB ASC, the Food Bank is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Food Bank. Generally the donors of such assets permit the Food Bank to use all or part of the income generated by the assets. The Food Bank had no permanently restricted net assets at June 30, 2017.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Food Bank and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those used in computing depreciation on property and equipment, the fair value of investments, and the valuation of inventories. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Food Bank's cash balances at June 30, 2017, include amounts on deposit with financial institutions in checking, savings, and money market accounts. For purposes of the Statement of Cash Flows, the Food Bank considers cash equivalents to include all highly liquid debt instruments purchased with a maturity of three months or less. In addition, the temporary cash accounts used by the investment manager are not classified as cash equivalents, but rather included in investments.

Investments

Investments at June 30, 2017, include long-term certificates of deposit and investments in marketable securities. The Food Bank records the investments in marketable securities with readily determinable market values and all investments in debt securities at their fair value. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Gains and losses and investment income derived from investments are accounted for as unrestricted or temporarily restricted based on restrictions, if any, imposed by donors.

Accounts Receivable

The Food Bank believes the balances in accounts receivable are collectible, and accordingly, no allowance has been established. Accounts overdue by more than sixty days are considered past due. Management determines when an account is uncollectible and should be written off. A list is maintained of the uncollectible accounts and those agencies cannot place orders for inventory distributions until the amount due has been paid.

Inventories

Inventories at June 30, 2017, include separately tracked balances for those items donated, purchased, and received from USDA commodities. Purchased inventory is valued at the lower of average cost (based on the First-In, First-Out (FIFO) method) or market value. Donated inventory is valued at the approximate average wholesale value of one pound per donated product.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)

This value is provided by Feeding America, the national hunger-relief organization the Food Bank is affiliated under, and is established by independent auditors. For the fiscal year ended June 30, 2017, the approximate average price per pound was \$1.73. This price is based on the receipt of food and non-food items. USDA commodities are valued using the Feeding America approximate wholesale value of one pound per donated product, excluding non-food items. For the fiscal year ended June 30, 2017, the approximate average price per pound was \$1.52. This decreased price per pound for food items only, as applicable only to USDA commodities in the case of the Food Bank, is a new valuation for fiscal year 2017, as implemented by Feeding America. Prior to fiscal year 2017, only one price per pound was available and used for both donated inventory and USDA commodities. This change as related to USDA commodities is considered a change in accounting estimate that is considered immaterial to the financial statements as a whole.

Property and Equipment

Property and equipment are recorded at cost when purchased and are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	20 - 40 years
Equipment and Furniture	5 - 15 years
Vehicles	5 - 10 years

Additions and betterments of \$500 or more and with a useful life of one year or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred. At the time property and equipment are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss on disposal is recognized in operations for the fiscal year.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless the donor has stipulated how long donated assets must be maintained, the Food Bank reports the expiration of donor restrictions when the donated or acquired assets are placed in service; at that time, the assets are transferred from restricted net assets to unrestricted net assets.

Compensated Absences

The Food Bank requires vacation to be taken by June 30 each year, therefore, no accrual for vacation pay has been recorded at June 30, 2017.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Contributions

Contributions are recognized when the donor makes a promise to give to the Food Bank that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

The Food Bank receives some contributions for participating agencies, for which they have no variance power over the spending of the contribution. Therefore, the Food Bank becomes an agent for the contributor, and not a recipient of a contribution. As a result, the contribution decreases accounts receivable due from the agency. For the fiscal year ended June 30, 2017, \$91,682 was received by the Food Bank and offset with contribution revenue and accounts receivable for the benefit of the specified agency.

Shared Maintenance Fees

The Food Bank receives fees from participating agencies to assist in the costs of storing and distributing food. Those shared maintenance fees are based on predetermined rates of \$0.19 per pound or less, as established by Feeding America. In some instances, the Food Bank awards shared maintenance grants to agencies, using contributions received in which the Food Bank has variance power over their use. All active agencies in good standing are eligible for shared maintenance grants. These grants are recorded as shared maintenance grant expense and totaled \$495,448 for the fiscal year ended June 30, 2017.

Shipping and Handling / Freight

The Food Bank expenses freight costs as incurred. At June 30, 2017, freight amounted to \$159,509 as shown on the Statement of Functional Expenses.

Functional Allocation of Expenses

The costs of providing programs have been summarized on a functional basis in the Statement of Activities based on estimates developed by management. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Additional detail is located within the Statement of Functional Expenses.

Some expenses relate solely to a single function and have been distributed entirely to that function. The other expenses have been allocated based on an estimate of usage or time devoted to the various functions. Salaries were allocated based on approximate hours for each function.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Food Bank is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose. The rent income derived from rental of warehouse space and the parking lot are considered unrelated business income.

NOTE 2 - CASH AND CASH EQUIVALENTS

Total deposits held by the Food Bank at June 30, 2017, include \$564,837 held in commercial banks and \$428,536 held in credit unions. Total deposits at June 30, 2017, not insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) were \$12,659.

NOTE 3 - INVESTMENTS

Fair value of assets measured on a recurring basis at June 30, 2017 are as follows:

	<u>Total</u>	<u>Level One Assets</u>	<u>Level Two Assets</u>	<u>Level Three Assets</u>
Investments				
Certificates of Deposit	\$ 263,323	263,323	-	-
Mutual Funds - Bonds	62,266	62,266	-	-
Mutual Funds - Equities	95,454	95,454	-	-
Total Investments	<u>\$ 421,043</u>	<u>421,043</u>	<u>0</u>	<u>0</u>

In addition to the investments shown above which are stated at fair value, the Food Bank's investments also include cash and cash equivalents totaling \$124,272 at June 30, 2017.

NOTE 4 - ENDOWMENT FUNDS

The Food Bank's endowment consists of a fund designated by the Board of Directors to function as an endowment (quasi-endowment). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including the quasi-endowment, are classified and reported based on the existence or absence of restrictions imposed by donors.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4 - ENDOWMENT FUNDS (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of the Food Bank, based on review of applicable laws, has interpreted the Uniform Prudent Management of Institutional Funds Act, as adopted by the State of Tennessee, as not applying to the Food Bank's endowment funds as they are quasi in nature only, and do not currently include donor-restricted endowment funds. As a result, the endowment funds are classified as unrestricted net assets in the amount of \$281,891.

Return Objectives and Risk Parameters

The Food Bank has adopted an investment policy for endowment assets that attempt to provide long-term growth of principal while avoiding excessive risk. Under this policy, the endowment assets are invested in a manner that is intended to produce results that are comparable to the price and yield results of a weighted average of widely followed market indexes matching the asset allocation of the endowment investments.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, the Food Bank relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Food Bank targets a diversified asset allocation that places a greater emphasis on fixed income and equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Changes in endowment net assets for the fiscal year ended June 30, 2017, are as follows:

	<u>Unrestricted</u>
Endowment Net Assets, Beginning of Fiscal Year	\$ 265,844
Investment Return	
Investment Income	2,742
Net Appreciation	8,305
Total Investment Return	<u>11,047</u>
Contributions	<u>5,000</u>
Endowment Net Assets, End of Fiscal Year	<u><u>\$ 281,891</u></u>

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 - INVENTORIES

Inventories are comprised of the following as of June 30, 2017:

Donated Inventory	\$ 352,815
Purchased Inventory	231,072
USDA Commodity Inventory	<u>233,467</u>
Total Inventories	<u>\$ 817,354</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following at June 30, 2017:

Land	\$ 283,622
Buildings	1,876,477
Furniture and Equipment	14,153
Warehouse Equipment	260,048
Office Equipment	91,355
Motor Vehicles	<u>766,862</u>
	3,292,517
Less: Accumulated Depreciation	<u>(886,773)</u>
Net Property and Equipment	<u>\$ 2,405,744</u>

Depreciation expense for the fiscal year ended June 30, 2017, was \$139,893.

NOTE 7 - LONG-TERM DEBT

In October 2016, the Food Bank entered into a note payable to a financial institution in the aggregate principal amount of \$310,000, of which \$300,567 was outstanding as of June 30, 2017. Monthly payments of \$2,181 are due January 2017 through December 2031, and interest is payable at an annual rate of 3.27%. The note is secured by substantially all assets of the Food Bank.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Future maturities on long-term debt subsequent to June 30, 2017, are as follows:

Fiscal Year Ending June 30	Principal Maturities
2018	\$ 15,191
2019	17,098
2020	17,666
2021	18,252
2022	18,858
Thereafter	213,502
Total	<u>\$ 300,567</u>

Interest expense for the fiscal year ended June 30, 2017, was \$5,889.

NOTE 8 - DONATED SERVICES

No amounts have been reflected in the financial statements for donated services. The Food Bank generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Food Bank with the food distribution program, campaign solicitations, warehouse space, and various committee assignments. For the fiscal year ended June 30, 2017, 14,569 hours were received from volunteers.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

The Food Bank has concentrations of credit risk resulting from cash deposits being maintained in banks within the same geographic region, deposits being held in excess of FDIC or NCUSIF coverage, and its customer base being in the located in the same geographic region.

NOTE 10 - RELATED PARTY TRANSACTIONS

Some Board of Directors members are employed by companies doing business with the Food Bank. Their duties are not directly related to the transactions with the Food Bank.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 - RETIREMENT PLAN

The Food Bank has a 403(b) plan. Full-time employees are eligible to participate in the plan once they have reached the age of twenty-one and have completed twelve months of service. The Food Bank matches participating employee contributions up to three percent of the employee's wages. For the fiscal year ended June 30, 2017, retirement expense was \$10,832.

NOTE 12 - UNCERTAIN TAX POSITIONS

The Food Bank follows the FASB ASC which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. As of June 30, 2017, the Food Bank had no uncertain tax positions that qualify for either recognition or disclosure in the Food Bank's financial statements. The Food Bank's practice is to recognize interest and penalties on unrecognized tax liabilities in tax expense in the financial statements. However, no interest or penalties were recorded during the fiscal year ended June 30, 2017.

NOTE 13 - SUBSEQUENT EVENTS

On July 6, 2017, the Food Bank was approved for a loan from an electric cooperative funded by the Rural Economic Development Loan and Grant Program of the United States Department of Agriculture. The loan will be in an amount of \$504,800 at 0% interest.

The Food Bank has evaluated subsequent events through November 16, 2017, the date which the financial statements were available to be issued.

NOTE 14 - ACCOUNTING STANDARD UPDATES

On May 28 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the fiscal year ending June 30, 2020. The Food Bank is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the fiscal year ending June 30, 2021. The Food Bank is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 - ACCOUNTING STANDARD UPDATES (CONTINUED)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the fiscal year ending June 30, 2022. The Food Bank is currently in the process of evaluating the impact of adoption of this ASU 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*. The standard requires presentation on the face of the statement of net position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. Accordingly, the statement of activities will present the amount of change in each of the two classes of net assets rather than that of the currently required three classes. The standard also removes the current requirement for a reconciliation using the indirect method of reporting cash flows, when the direct method is utilized, and requires enhanced footnote disclosures regarding Board designations, donor restrictions, cash liquidity, functional expense classifications, among others. This standard will be effective for the fiscal year ending June 30, 2019. The Food Bank is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

**SUPPLEMENTARY
INFORMATION**

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
COMPARATIVE SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS
June 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 1,004,651	1,151,334
Investments	545,315	528,724
Accounts Receivable	115,149	53,391
Grants Receivable	67,242	88,088
Inventories	817,354	1,332,508
Prepaid Expenses	5,010	11,870
Property and Equipment, Net of Accumulated Depreciation	<u>2,405,744</u>	<u>2,108,148</u>
TOTAL ASSETS	<u>\$ 4,960,465</u>	<u>5,274,063</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 55,972	64,891
Employee Deductions Payable	2,652	947
Deferred Revenue	21,940	12,215
Accrued Expenses	33,520	10,510
Long-Term Debt	<u>300,567</u>	<u>-</u>
TOTAL LIABILITIES	<u>414,651</u>	<u>88,563</u>
NET ASSETS		
Unrestricted	3,719,866	3,881,046
Temporarily Restricted	<u>825,948</u>	<u>1,304,454</u>
TOTAL NET ASSETS	<u>4,545,814</u>	<u>5,185,500</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,960,465</u>	<u>5,274,063</u>

See Independent Auditors' Report.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
COMPARATIVE SCHEDULE OF REVENUES
For the Fiscal Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>	Increase (Decrease)
REVENUES			
Cash Contributions	\$ 1,758,690	2,159,178	(400,488)
Food and Nonfood Items Donated	13,120,829	13,359,502	(238,673)
USDA Commodities	2,721,329	2,683,065	38,264
Program Service Fees	1,255,486	1,184,247	71,239
Federal and State Grants	272,236	261,310	10,926
Special Events	367,431	276,242	91,189
Rental Income	61,231	84,088	(22,857)
Investment Income	14,171	6,226	7,945
Other In-Kind Donations	111,036	34,339	76,697
Other Income	11,480	10,539	941
TOTAL REVENUES	<u>\$ 19,693,919</u>	<u>20,058,736</u>	<u>(364,817)</u>

See Independent Auditors' Report.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
COMPARATIVE SCHEDULE OF EXPENSES
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016	Increase (Decrease)
Salaries and Contract Labor	\$ 950,057	868,432	81,625
Other Employee Costs	193,233	172,426	20,807
Vehicle Expense	104,888	87,877	17,011
Incoming Freight Charges	159,509	132,316	27,193
Travel and Mileage	11,637	491	11,146
Insurance	23,091	17,677	5,414
Maintenance Fees - Food Banks	-	192	(192)
Warehouse Equipment Repairs	14,419	8,339	6,080
Warehouse Equipment and Supplies	10,366	28,526	(18,160)
Sanitation/Extermination	14,592	16,368	(1,776)
Building Repairs and Maintenance	11,568	12,884	(1,316)
Utilities	78,519	70,360	8,159
Professional Fees	13,486	11,600	1,886
Postage	7,253	7,256	(3)
Printing and Publications	4,519	3,671	848
Board and Committees	1,973	1,117	856
Other Administrative Expense	62,091	35,008	27,083
Security System	1,004	686	318
Computer Expense	19,166	21,067	(1,901)
Corporate Fees	-	540	(540)
Dues and Subscriptions	265	1,526	(1,261)
Seminars and Conventions	462	8,383	(7,921)
Farmers and Chef	143	14,848	(14,705)
Direct Mail Expense	148,612	128,494	20,118
Gold Tournament	7	7,322	(7,315)
Student Food Drive	-	4,864	(4,864)
Community Relations	25,761	4,470	21,291
Other Program Services	21,053	1,287	19,766
Food for Kids	-	3,166	(3,166)
Summer Feeding	82	2,289	(2,207)
Shared Maintenance Grants Expense	495,448	415,337	80,111
Depreciation	139,893	125,990	13,903
Payments to Affiliated Organizations	9,669	7,032	2,637
Cost of Goods Distributed - Food Donated and Purchased	14,884,717	15,181,308	(296,591)
Cost of Goods Distributed - USDA Commodities	2,926,122	2,325,691	600,431
TOTAL EXPENSES	\$ 20,333,605	19,728,840	604,765

See Independent Auditors' Report.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2017

CFDA Number	Program Name / Grant Number	Grantor Agency	Contract /Grant Award Number	Balance, July 1, 2016	Cash Receipts	Expenditures	Adjustment	Balance, June 30, 2017
<u>Pass-Through Tennessee Department of Agriculture:</u>								
<i>Food Distribution Cluster</i>								
10.568	Emergency Food Assistance Program (Administrative Costs)	U.S. Department of Agriculture	62424	\$ -	10,520	10,520	-	-
			62640	-	35,999	70,999	-	(35,000) *
			54376	(41,550)	41,550	-	-	-
				<u>(41,550)</u>	<u>88,069</u>	<u>81,519</u>	<u>0</u>	<u>(35,000)</u>
10.569	Emergency Food Assistance Program (Food Commodities)	U.S. Department of Agriculture		<u>438,260</u>	<u>2,721,329</u>	<u>2,926,122</u>	<u>-</u>	<u>233,467</u> **
	<i>Total Food Distribution Cluster</i>			<u>396,710</u>	<u>2,809,398</u>	<u>3,007,641</u>	<u>0</u>	<u>198,467</u>
<u>Pass-Through Tennessee Department of Human Services:</u>								
10.170	Specialty Crop Block Grant Program	U.S. Department of Agriculture	43770 / 14-SCBGP- TN-0047 / 32506- 0115	7,149	-	3,722	-	3,427 **
10.559	Summer Food Service Program for Children (SFSP)	U.S. Department of Agriculture	30126	(46,538)	135,066	127,663	6,893	(32,242) *
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	U.S. Department of Agriculture	44543	<u>(2,018)</u>	<u>15,071</u>	<u>14,277</u>	<u>-</u>	<u>(1,224)</u> *
TOTAL FEDERAL AWARDS				<u>\$ 355,303</u>	<u>2,959,535</u>	<u>3,153,303</u>	<u>6,893</u>	<u>168,428</u>

* Receivable

** Undistributed Inventory or Deferred Revenue

(Continued)

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
June 30, 2017

NOTE A - BASIS OF PRESENTATION

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Second Harvest Food Bank of Northeast Tennessee, Inc. under programs of the federal government for the fiscal 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). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Second Harvest Food Bank of Northeast Tennessee, Inc. has elected not to use the 10 percent de Minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C - SUBRECIPIENTS

For the fiscal year ended June 30, 2017, 1,284,721 pounds of USDA commodities were distributed to subrecipient agencies, which equates to \$1,952,776 in value.

NOTE D - FOOD DISTRIBUTION

Nonmonetary assistance is reported in this Schedule at the fair market value of the commodities received and disbursed, based on the Feeding America value per pound. At June 30, 2017, Second Harvest Food Bank of Northeast Tennessee, Inc. had food commodities totaling \$233,467 in inventory.

See Independent Auditors' Report.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended June 30, 2017

CFDA Number	Program Name / Grant Number	Grantor Agency	Balance, July 1, 2016	Cash Receipts	Expenditures	Balance, June 30, 2017
N/A	Direct Appropriation Grant - Purchase of Food	Tennessee Department of Human Services	\$ 989	49,011	50,000	-
	TOTAL STATE FINANCIAL ASSISTANCE		<u>\$ 989</u>	<u>49,011</u>	<u>50,000</u>	<u>0</u>

See Independent Auditors' Report.

**SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
ROSTER OF MANAGEMENT OFFICIALS AND BOARD MEMBERS
June 30, 2017**

Management Officials:

Rhonda Chafin	Executive Director
Tom Cromie	Senior Operations Director
Ann Rhem	Development Director
Beth Tanner	Comptroller
Chuck Burrell	Warehouse Manager
Leyla Cruz	Programs Manager
Michael Ledford	Logistics - Facilities Manager
Angie Sproles	Development Manager

Fiscal Year 2017 Board of Directors:

Shelley Huber	President
Chris Chandley	Vice President
Cathy Crumley Byers	Secretary
Matt Burns	Treasurer
Matthew Wimberley	Past President and Board Member
Richard Van Hoever	Board Member
Margot Seay	Board Member
Marty Underwood	Board Member
Derek Adkisson	Board Member
Will Kelly	Board Member
M. Valentina Escobar-Gonzalez	Board Member
Matt Storey	Board Member

See Independent Auditors' Report.

**INTERNAL CONTROL
AND COMPLIANCE**

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

To the Board of Directors of
Second Harvest Food Bank of Northeast Tennessee, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc. (the Food Bank) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Food Bank'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.

Second Harvest Food Bank of Northeast Tennessee, Inc.
Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Food Bank's financial statements are free from 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 Food Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blackburn, Childers + Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 16, 2017

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

To the Board of Directors of
Second Harvest Food Bank of Northeast Tennessee, Inc.

Report on Compliance for the Major Federal Program

We have audited Second Harvest Food Bank of Northeast 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 the Food Bank's major federal program for the fiscal year ended June 30, 2017. The Food Bank's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Food Bank's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the major federal program. However, our audit does not provide a legal determination of the Food Bank's compliance.

Opinion on the Major Federal Program

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on of its major federal program for the fiscal 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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.

Blackburn, Childers & Steagall, PLLC
BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

November 16, 2017

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report expresses an unmodified opinion on whether the financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses are disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs are reported in the schedule of findings and questioned costs.
5. The independent auditors' report on compliance for the major federal award program for Second Harvest Food Bank of Northeast Tennessee, Inc. expresses an unmodified opinion on the major federal programs.
6. No audit findings relative to the major federal award program for Second Harvest Food Bank of Northeast Tennessee, Inc., which are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this schedule.
7. The programs tested as major programs include:

Program	CFDA Number
<u>Food Distribution Cluster</u>	
Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	10.569

8. The threshold for distinguishing Types A and B Programs was \$750,000.
9. Second Harvest Food Bank of Northeast Tennessee, Inc. was determined to be a low-risk auditee.

SECOND HARVEST FOOD BANK OF NORTHEAST TENNESSEE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2017

FINDINGS - FINANCIAL STATEMENT AUDIT

Current Year Findings

None Reported.

Prior Year Findings Not Implemented

None Reported.

Prior Year Findings Implemented

None Reported.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Current Year Findings

None Reported.

Prior Year Findings Not Implemented

None Reported.

Prior Year Findings Implemented

None Reported.