

***SECOND HARVEST FOOD BANK  
OF METROLINA, INC.***

***FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017***

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# ***Second Harvest Food Bank of Metrolina, Inc.***

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**June 30, 2018 and 2017**

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# ***C. DEWITT FOARD & COMPANY, P.A.***

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Second Harvest Food Bank of Metrolina, Inc.  
Charlotte, North Carolina

We have audited the accompanying financial statements of Second Harvest Food Bank of Metrolina, Inc., (the "Food Bank" - a nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows 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 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 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.

Second Harvest Food Bank of Metrolina, Inc.  
Charlotte, North Carolin

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Second Harvest Food Bank of Metrolina, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, on our consideration of Second Harvest Food Bank of Metrolina, Inc.'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 Second Harvest Food Bank of Metrolina, Inc.'s internal control over financial reporting and compliance.

C. Dewitt Ford & Company, P.A.  
November 2, 2018

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**Second Harvest Food Bank of Metrolina, Inc.****Consolidated Statements of Financial Position****June 30, 2018 and 2017**

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	June 30,	
	2018	2017
<b><u>ASSETS</u></b>		
Current Assets:		
Cash - operating	\$ 3,284,379	\$ 3,226,680
Accounts receivable	186,541	454,765
Prepaid expenses	155,483	106,765
Inventories	1,441,891	463,730
Pledges receivable, net	525,130	601,774
Investments	774,918	774,390
<b><i>Total Current Assets</i></b>	<b>6,368,342</b>	<b>5,628,104</b>
Property and Equipment	15,697,329	11,234,015
Other Long-Term Assets:		
Cash held for long-term purposes	590,056	4,918,049
Pledges receivable, net of current portion	3,219,771	3,734,125
Notes receivable	8,981,200	8,981,200
Beneficial interest in assets held by others	52,832	49,301
<b><i>Total Other Long-Term Assets</i></b>	<b>12,843,859</b>	<b>17,682,675</b>
<b><i>TOTAL ASSETS</i></b>	<b>\$ 34,909,530</b>	<b>\$ 34,544,794</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Current Liabilities:		
Accounts payable	\$ 1,755,905	\$ 2,173,492
Accrued expenses	165,356	146,505
Current portion of note payable, net of loan fees	407,965	589,930
<b><i>Total Current Liabilities</i></b>	<b>2,329,226</b>	<b>2,909,927</b>
Non-Current Liabilities:		
Note payable (less current portion and loan fees)	16,267,098	16,609,633
Net Assets:		
Unrestricted	9,589,028	7,774,767
Temporarily restricted	6,683,525	7,209,814
Permanently restricted	40,653	40,653
<b><i>Total Net Assets</i></b>	<b>16,313,206</b>	<b>15,025,234</b>
<b><i>TOTAL LIABILITIES AND NET ASSETS</i></b>	<b>\$ 34,909,530</b>	<b>\$ 34,544,794</b>

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**Second Harvest Food Bank of Metrolina, Inc.****Consolidated Statement of Activities****Year Ended June 30, 2018**

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	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTALS
<b><u>SUPPORT AND REVENUE</u></b>				
Value of inventory received	\$ 88,046,057	\$ -	\$ -	\$ 88,046,057
Shared maintenance and fees	772,466	-	-	772,466
Contributions and grants	3,996,820	2,384,179	-	6,380,999
Governmental revenue	408,235	425,000	-	833,235
Special events	2,164,811	-	-	2,164,811
Donated facilities	168,998	-	-	168,998
Investment earnings	23,393	3,531	-	26,924
Miscellaneous revenue	122	-	-	122
Loss on disposal of fixed assets	(2,793)	-	-	(2,793)
Net assets released from restrictions	3,338,999	(3,338,999)	-	-
<b><i>Total Support, Revenue, and Reclassifications</i></b>	<b>98,917,108</b>	<b>(526,289)</b>	<b>-</b>	<b>98,390,819</b>
<b><u>EXPENSES</u></b>				
Program services:				
Distributed food and goods	87,495,584	-	-	87,495,584
All other	6,767,363	-	-	6,767,363
Management and general	949,927	-	-	949,927
Fund raising	1,889,973	-	-	1,889,973
<b><i>Total Expenses</i></b>	<b>97,102,847</b>	<b>-</b>	<b>-</b>	<b>97,102,847</b>
<b><i>CHANGE IN NET ASSETS</i></b>	<b>1,814,261</b>	<b>(526,289)</b>	<b>-</b>	<b>1,287,972</b>
<b><i>NET ASSETS, BEGINNING</i></b>	<b>7,774,767</b>	<b>7,209,814</b>	<b>40,653</b>	<b>15,025,234</b>
<b><i>NET ASSETS, ENDING</i></b>	<b>\$ 9,589,028</b>	<b>\$ 6,683,525</b>	<b>\$ 40,653</b>	<b>\$ 16,313,206</b>

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**Second Harvest Food Bank of Metrolina, Inc.****Consolidated Statement of Activities****Year Ended June 30, 2017**

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	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTALS
<b><u>SUPPORT AND REVENUE</u></b>				
Value of inventory received	\$ 89,401,054	\$ -	\$ -	\$ 89,401,054
Shared maintenance and fees	717,943	-	-	717,943
Contributions and grants	4,150,654	2,575,501	-	6,726,155
Governmental revenue	386,666	447,194	-	833,860
Special events	1,240,585	-	-	1,240,585
Donated facilities	168,940	-	-	168,940
Investment earnings	2,621	5,975	-	8,596
Miscellaneous revenue	65	-	-	65
Net assets released from restrictions by payment	3,195,262	(3,195,262)	-	-
<b><i>Total Support, Revenue, and Reclassifications</i></b>	<b><i>99,263,790</i></b>	<b><i>(166,592)</i></b>	<b><i>-</i></b>	<b><i>99,097,198</i></b>
<b><u>EXPENSES</u></b>				
Program services:				
Distributed food and goods	89,823,151	-	-	89,823,151
All other	5,863,451	-	-	5,863,451
Management and general	832,232	-	-	832,232
Fund raising	1,611,255	-	-	1,611,255
<b><i>Total Expenses</i></b>	<b><i>98,130,089</i></b>	<b><i>-</i></b>	<b><i>-</i></b>	<b><i>98,130,089</i></b>
<b><i>CHANGE IN NET ASSETS</i></b>	<b><i>1,133,701</i></b>	<b><i>(166,592)</i></b>	<b><i>-</i></b>	<b><i>967,109</i></b>
<b><i>NET ASSETS, BEGINNING</i></b>	<b><i>6,641,066</i></b>	<b><i>7,376,406</i></b>	<b><i>40,653</i></b>	<b><i>14,058,125</i></b>
<b><i>NET ASSETS, ENDING</i></b>	<b><i>\$ 7,774,767</i></b>	<b><i>\$ 7,209,814</i></b>	<b><i>\$ 40,653</i></b>	<b><i>\$ 15,025,234</i></b>

# ***Second Harvest Food Bank of Metrolina, Inc.***

## **Consolidated Statements of Cash Flows**

**Year Ended June 30, 2018 and 2017**

	June 30,	
	2018	2017
<b><u>OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 1,287,972	\$ 967,109
Adjustments to reconcile changes in net assets to cash flows from operating activities:		
Depreciation and amortization expense	752,144	600,902
Contributions for long-term purposes	(85,500)	(152,589)
Loss on disposal of fixed assets	2,793	-
Unrealized losses (gains) on investments	(3,531)	(5,975)
(Increase) decrease in operating assets:		
Accounts receivable	268,224	(352,091)
Prepaid expenses	(48,718)	(12,827)
Inventories	(978,161)	(58,023)
Increase (decrease) in operating liabilities:		
Accounts payable	307,739	55,992
Accrued expenses	18,851	14,131
<b><i>Cash Flows from Operating Activities</i></b>	<b><i>1,521,813</i></b>	<b><i>1,056,629</i></b>
<b><u>INVESTING ACTIVITIES</u></b>		
Purchase of property and equipment	(5,218,251)	(7,971,785)
Increase (decrease) in construction payables	(725,326)	795,807
Proceeds from sale of investments	774,390	1,034,689
Purchase of investments	(774,918)	(774,390)
<b><i>Cash Flows from Investing Activities</i></b>	<b><i>(5,944,105)</i></b>	<b><i>(6,915,679)</i></b>
<b><u>FINANCING ACTIVITIES</u></b>		
Contributions for long-term purposes	85,500	152,589
Decrease in pledges receivable	590,998	786,236
Proceeds from notes payable	259,738	-
Principal paid on note payable	(784,238)	(1,030,982)
<b><i>Cash Flows from Financing Activities</i></b>	<b><i>151,998</i></b>	<b><i>(92,157)</i></b>
<b><i>NET CHANGE IN CASH AND CASH EQUIVALENTS</i></b>	<b><i>(4,270,294)</i></b>	<b><i>(5,951,207)</i></b>
<b><i>CASH AND CASH EQUIVALENTS, BEGINNING</i></b>	<b><i>8,144,729</i></b>	<b><i>14,095,936</i></b>
<b><i>CASH AND CASH EQUIVALENTS, ENDING</i></b>	<b><i>\$ 3,874,435</i></b>	<b><i>\$ 8,144,729</i></b>
<b>CASH AND EQUIVALENTS PER STATEMENT OF FINANCIAL POSITION:</b>		
Cash - operating	\$ 3,284,379	\$ 3,226,680
Cash held for long-term purposes	590,056	4,918,049
<b><i>TOTAL CASH</i></b>	<b><i>\$ 3,874,435</i></b>	<b><i>\$ 8,144,729</i></b>



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**Second Harvest Food Bank of Metrolina, Inc.****Consolidated Statement of Functional Expenses****Year Ended June 30, 2018**

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	Program Services		Management	Fund	
	Donated Inventory	All Other	and General	Raising	Totals
<b><u>PERSONNEL</u></b>					
Salaries and wages	\$ -	\$ 1,787,722	\$ 487,721	\$ 421,277	\$ 2,696,720
Payroll taxes	-	121,941	32,048	29,349	183,338
Employee benefits	-	434,339	112,226	105,130	651,695
<b><i>Total Personnel</i></b>	<b>-</b>	<b>2,344,002</b>	<b>631,995</b>	<b>555,756</b>	<b>3,531,753</b>
<b><u>OTHER EXPENSES</u></b>					
Food and household goods distributed	87,495,584	-	-	-	87,495,584
Kids Café, other programs	-	1,670,012	-	-	1,670,012
Professional fees	-	81,080	125,697	19,632	226,409
Supplies	-	60,466	5,415	6,009	71,890
Occupancy	-	468,531	15,643	7,821	491,995
Telephone	-	29,530	7,382	6,711	43,623
Transportation and freight	-	1,237,766	-	-	1,237,766
Printing and postage	-	8,590	8,125	28,265	44,980
Direct mail	-	67,467	-	607,203	674,670
Repairs and maintenance	-	23,728	5,932	5,393	35,053
Insurance	-	25,265	1,075	538	26,878
Public relations, marketing	-	6,508	-	626,433	632,941
Travel and conferences	-	15,884	12,567	3,117	31,568
Dues and subscriptions	-	45,596	-	-	45,596
Interest	-	84,586	3,599	1,800	89,985
Depreciation	-	598,352	132,497	21,295	752,144
<b><i>Total Other Expenses</i></b>	<b>87,495,584</b>	<b>4,423,361</b>	<b>317,932</b>	<b>1,334,217</b>	<b>93,571,094</b>
<b>TOTAL EXPENSES</b>	<b>\$ 87,495,584</b>	<b>\$ 6,767,363</b>	<b>\$ 949,927</b>	<b>\$ 1,889,973</b>	<b>\$ 97,102,847</b>

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**Second Harvest Food Bank of Metrolina, Inc.****Consolidated Statement of Functional Expenses****Year Ended June 30, 2017**

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	Program Services		Management	Fund	
	Donated Inventory	All Other	and General	Raising	Totals
<b><u>PERSONNEL</u></b>					
Salaries and wages	\$ -	\$ 1,756,883	\$ 432,755	\$ 408,486	\$ 2,598,124
Payroll taxes	-	119,043	32,939	30,166	182,148
Employee benefits	-	389,027	108,888	99,959	597,874
<b><i>Total Personnel</i></b>	<b>-</b>	<b>2,264,953</b>	<b>574,582</b>	<b>538,611</b>	<b>3,378,146</b>
<b><u>OTHER EXPENSES</u></b>					
Food and household goods distributed	89,823,151	-	-	-	89,823,151
Kids Café, other programs	-	1,536,419	-	-	1,536,419
Professional fees	-	65,236	79,948	18,107	163,291
Supplies	-	64,437	4,665	4,564	73,666
Occupancy	-	362,464	12,352	6,176	380,992
Telephone	-	30,194	7,549	6,862	44,605
Transportation and freight	-	993,447	-	-	993,447
Printing and postage	-	9,820	10,164	55,669	75,653
Direct mail	-	69,720	-	627,476	697,196
Repairs and maintenance	-	23,858	5,964	5,422	35,244
Insurance	-	29,325	1,248	624	31,197
Public relations, marketing	-	6,040	-	326,213	332,253
Travel and conferences	-	15,204	7,843	4,399	27,446
Dues and subscriptions	-	45,431	-	-	45,431
Depreciation	-	346,903	127,917	17,132	491,952
<b><i>Total Other Expenses</i></b>	<b>89,823,151</b>	<b>3,598,498</b>	<b>257,650</b>	<b>1,072,644</b>	<b>94,751,943</b>
<b><i>TOTAL EXPENSES</i></b>	<b>\$ 89,823,151</b>	<b>\$ 5,863,451</b>	<b>\$ 832,232</b>	<b>\$ 1,611,255</b>	<b>\$ 98,130,089</b>

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## ***Second Harvest Food Bank of Metrolina, Inc.***

### **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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#### **NOTE 1 - NATURE OF OPERATIONS**

##### Organization

Second Harvest Food Bank of Metrolina, Inc. (the “Food Bank”) is a not-for-profit organization established for the purpose of feeding people by soliciting and distributing food and other household products through partner agencies and educating the community about the nature of and solutions to problems of hunger. The Food Bank also operates Community Food Rescue, the purpose of which is to organize volunteers to gather food which would otherwise be wasted, and transport it to shelters and community centers where it can be used to feed the hungry. The Food Bank was founded in 1981 as a project of the Charlotte Area Fund and became autonomous in January 1983. Its area of operation is Mecklenburg County, North Carolina and eighteen surrounding counties.

##### Subsidiary

On December 8, 2015, the Food Bank formed Second Harvest Properties, Inc., (Properties), a separate not-for-profit entity controlled by the Food Bank. The primary purpose of this entity is the improvement and management of the Food Bank’s Charlotte campus. Significant transactions, assets and liabilities between Food Bank and Properties have been eliminated in the accompanying financial statements. Generally accepted accounting principles ignores the legal concept of separate entities for financial statement purposes. The \$1,313, 244 consolidated change in net assets consists of an increase in net assets of \$1,641,761 for the Food Bank and a decrease in net assets of \$328,517 for Properties.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. 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 and reported as follows:

Unrestricted net assets – Net assets can be both undesignated and designated in nature. Undesignated, unrestricted net assets are those currently available for use in the day-to-day operation of the Food Bank and those resources invested in property and equipment. From time to time, the Board of Directors may designate certain amounts to be utilized or invested to meet specific objectives of the Food Bank. Such amounts are reflected as unrestricted, designated net assets. As of June 30, 2018 and 2017, there were no designated net assets.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Food Bank and/or the passage of time. When a restriction expires, that is when the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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## ***Second Harvest Food Bank of Metrolina, Inc.***

### **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Food Bank. Generally, the donors of these assets permit the Food Bank to use all or part of the income earned on any related investments for general or specific purposes.

#### *Contributions*

The Food Bank reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction no longer applies, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

#### *Donated services*

Donated services are reported as contributions when the services (a) create or enhance nonfinancial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills, and are provided by individuals possessing those skills. During the year, the Food Bank recorded no contributed services.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Food Bank with specific assistance programs and various assignments. A number of unpaid volunteers, who serve in the capacity of Board members and various volunteer assistants, donated approximately 278,972 and 265,304 hours (an increase of 5.2 percent) during the years ended June 30, 2018 and 2017, to assist the Food Bank in achieving the goals of its programs. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.

#### *Income tax status*

The Food Bank is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3) with respect to its exempt function income. The Food Bank is not a private foundation as defined by Section 509(a) of the Internal Revenue Code.

#### *Cash and cash equivalents*

Cash and cash equivalents consists of cash on hand and cash in checking accounts. The Food Bank considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, except for those short-term investments managed as part of investment management strategies.

#### *Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued in the statement of financial position at their fair value.

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## ***Second Harvest Food Bank of Metrolina, Inc.***

### **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### *Accounts receivable*

Accounts receivable consist primarily of trade receivables and are stated at net realizable value, net of an estimated allowance for doubtful accounts of \$3,000 as of June 30, 2018 and 2017. Management has determined the allowance for doubtful accounts based on a review of individual accounts, historical experience, and current economic conditions.

##### *Property and equipment*

Property and equipment is stated at cost if purchased or estimated fair value at date of receipt if donated subject to a \$1,000 capitalization policy. Costs that improve or extend the useful lives of assets are capitalized. Amounts paid for maintenance and repairs are expensed as incurred. Depreciation is provided over the estimated useful lives of the assets and is computed on the straight-line method with no salvage values.

##### *Inventories*

Inventories represent donated and purchased food and other household products. Portions of donated product are discarded as unusable and recorded as an expense in the value of inventory distributed or discarded. Purchased inventory is valued at cost. Inventories are determined by the first-in, first-out method. Donated inventory is valued at the approximate average wholesale value of one pound of donated product at the national level as outlined in the Product Valuation Survey Methodology, prepared by Feeding America, the national food bank network non-profit corporation, or from estimated values provided by State or local agencies, as applicable. The value per pound of inventory as determined by Feeding America for the years ended June 30, 2018 and 2017 was \$1.68 and \$1.73, respectively. The average per pound valuation of food provided by governmental agencies during the year ended June 30, 2018 and 2017 was \$.83 and \$.86, respectively. During the years ended June 30, 2018 and 2017, the pounds of food and household products distributed were 55,444,286 and 55,924,838, respectively, which represents a decrease of .8 percent.

##### *Beneficial interest*

The Food Bank has established the Second Harvest Food Bank of Metrolina Endowment Fund (the Endowment Fund) at Foundation for the Carolinas (the Foundation). These assets and the related investment income are included in the accompanying financial statements. The Food Bank may request distributions of investment income from the Endowment Fund. The Board of Directors of the Foundation has complete discretion as to the timing and amounts of distributions from these funds; however, all funds are ultimately repayable to the Food Bank and the Foundation has no variance power to distribute any portion of these funds to another not-for-profit entity. During the year, the Food Bank received no distributions from this fund.

##### *Functional allocation of expenses*

Expenses are allocated to program services, management and general, and fund raising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

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**Second Harvest Food Bank of Metrolina, Inc.****Notes to Consolidated Financial Statements****June 30, 2018 and 2017**

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**NOTE 2 - 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 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.

**NOTE 3 - INVESTMENTS AND INVESTMENT INCOME**

The fair value of investments at June 30, 2018 and 2017, is as follows:

	2018	2017
Certificates of deposit, various dates of maturity	\$ 938,000	\$ 774,390
Beneficial Interest in Assets Held by Others:		
Moderate Growth Pool	52,832	49,301
<b>TOTAL</b>	<b>\$ 990,832</b>	<b>\$ 823,691</b>

Investment income

The \$26,924 of investment income for the year ended June 30, 2018 consisted of \$23,393 of interest and dividends net of \$3,531 of realized and unrealized capital losses. The \$8,596 of investment income for the year ended June 30, 2017 consisted of \$2,621 of interest and dividends and \$5,975 of realized and unrealized capital gains. In addition, for the years ended June 30, 2018 and 2017 interest income of \$89,812 was earned on notes receivable related to the Food Banks' expansion financing, as described below, and offset to interest expense.

Fair value measurements

Generally accepted accounting principles require fair value of financial instruments to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs, as follows:

Level 1 - Fair value is based on quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair value is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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**Second Harvest Food Bank of Metrolina, Inc.****Notes to Consolidated Financial Statements****June 30, 2018 and 2017**

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**NOTE 3 - INVESTMENTS AND INVESTMENT INCOME, continued**

The Food Bank's certificates of deposit are classified as Level 2 and the beneficial interest is classified as Level 3. The certificates of deposit are valued at cost plus accrued interest. The Level 3 assets are valued based on the fair value of the underlying securities, which consist of assets that are and are not publicly-traded. The following table sets forth a summary of changes in the fair value of the Food Bank's Level 3 assets for the year ended June 30, 2018.

Balance, beginning of year	\$	49,301
Net increase in value		3,531
<hr/>		
Balance, end of year	\$	52,832

**NOTE 4 – PLEDGES**Capital campaign

The Food Bank accepts pledges for a capital campaign, the proceeds of which are used to construct an additional facility and other improvements. Unconditional promises to give for the capital campaign are presented net of an estimated allowance for doubtful accounts of five percent of initial campaign funds raised. The estimate is based on management's review of the individual pledges and its assessment of general economic conditions. A discount for present value, computed utilizing an interest rate of 2.85% based on the ten-year *U.S. Treasury* rate, was recorded on the financial statements. 84% of gross pledges receivable are due from three donors, which represents a significant concentration of risk. These pledges are expected to be collected during the fiscal year ending June 30:

2019	\$	618,386
2020		550,000
2021		230,000
2022		180,000
2023		170,000
Thereafter		305,000
<hr/>		
Total Promises to Give		2,053,386
Deduct:		
Allowance for bad debt	\$	284,456
Present value discount		124,029
<hr/>		
<b>NET CAPITAL CAMPAIGN PLEDGES</b>	<b>\$</b>	<b>1,644,901</b>

The \$1,644,901 of net pledges receivable in the accompanying financial statements are classified as current of \$525,130 and long-term of \$1,119,771.

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## ***Second Harvest Food Bank of Metrolina, Inc.***

### **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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#### **NOTE 4 – PLEDGES, continued**

##### Occupancy pledge

Mecklenburg County entered into an agreement to provide space, utilities and certain repairs and maintenance to the Food Bank for a 40-year period beginning January 1, 2016 and ending December 31, 2055. The present value of this annual donation, computed at \$5 per square foot or \$168,940 per year, exceeds the \$2.1 million value of the building, as determined by an independent appraisal dated December 9, 2015. Therefore, in accordance with generally accepted accounting principles, the value of the pledged space is carried on the books based on the appraised value.

#### **NOTE 5 - FIXED ASSETS**

Fixed assets consist of the following at June 30,

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 16,737,027	\$ 2,052,722
Construction in process	-	10,225,017
Vehicles	2,794,502	2,487,418
Furniture, fixtures and equipment	1,335,704	1,429,565
Total	20,867,233	16,194,722
Less – accumulated depreciation and amortization	5,169,904	4,960,707
<b>TOTAL</b>	<b>\$ 15,697,329</b>	<b>\$ 11,234,015</b>

#### **NOTE 6 – DEBT FINANCING**

The Food Bank and Properties have entered into various agreements for the purpose of qualifying the Food Bank to receive New Markets Tax Credits (NMTC). These note agreements are secured with virtually all fixed assets and pledges receivable of the Food Bank.

##### Loan from Food Bank to Investment Fund

The Food Bank made two loans totaling \$8,981,200 to Second Harvest Charlotte Investment Fund, LLC, which is primarily owned by SunTrust Community Capital. The notes have identical terms, bearing interest at a fixed rate of 1% with quarterly payments of interest only due until the loans mature in June 2048.

##### Second Harvest Properties

Properties received the proceeds of five separate loans totaling \$13,000,000, which have identical terms. The notes all bear interest at a fixed rate of 1.118%, with quarterly payments of interest only due until the notes mature December 1, 2054.



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## ***Second Harvest Food Bank of Metrolina, Inc.***

### **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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#### **NOTE 6 – DEBT FINANCING, continued**

##### *Food bank bridge loan*

The Food Bank borrowed \$2,073,750 under an agreement with SunTrust which matures January 25, 2023, and had a balance at June 30, 2018 and 2017, of \$380,792 and \$885,363, respectively. The note bears interest at one-month *LIBOR* plus 2.0 percent, which was 4.09% as of June 30, 2018. Payments, which are applied first to interest and then to principal, are required as capital campaign pledges are collected.

##### *The Reinvestment Fund, Inc.*

The Food Bank borrowed \$4,128,577 under an agreement with The Reinvestment Fund, Inc., which matures January 25, 2023, and had a balance at June 30, 2018 and 2017, of \$3,785,216 and \$3,914,518, respectively. Quarterly payments of \$85,413 are applied first to interest at a fixed rate of 5.50 percent and then to principal.

##### *Seven-year compliance period*

During the seven-year compliance period beginning January 25, 2016, the Food Bank must utilize the real estate improvements financed by the NMTC for Food Bank operations only and comply with various provisions imposed by the NMTC agreement. At the conclusion of the seven-year period, the Food Bank has an option to purchase the Second Harvest Charlotte Investment Fund, LLC, as described above, for \$1,000, if the compliance requirements have been met. This transaction is expected to generate a significant gain. No amount has been recorded in the accompanying financial statements to reflect the fair value of this option due to the substantial compliance requirements.

##### *Maturities of notes*

Notes mature during the years ending June 30:

2019	\$ 517,037
2020	143,895
2021	151,973
2022	160,506
2023	3,192,598
Thereafter	13,000,000
<hr/>	
<b>TOTAL</b>	<b>\$ 17,166,009</b>

##### *Loan costs*

Loan costs of \$763,504 are being amortized over the seven-year compliance period of the NMTC agreement. Amortization expense of \$109,072 was recorded during the years ended June 30, 2018 and 2017, respectively. Unamortized loan costs of \$490,946 and \$600,018, as of June 30, 2018 and 2017, respectively, are presented as reductions of notes payable in the accompanying financial statements

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**Second Harvest Food Bank of Metrolina, Inc.****Notes to Consolidated Financial Statements****June 30, 2018 and 2017**

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**NOTE 6 – DEBT FINANCING, continued**Interest expense

Interest expense of \$365,833 and \$397,080 was incurred for the years ended June 30, 2018 and 2017, respectively. Interest expense of \$366,735 and \$399,926 was actually paid during the years ended June 30, 2018 and 2017, respectively. Interest expense incurred during the year ended June 30, 2018, of \$275,848 was capitalized as part of construction and interest of \$89,985 was expensed. All of the interest incurred during the year ended June 30, 2017, was capitalized.

**NOTE 7 - NET ASSETS**Temporarily restricted

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Backpacks	\$ 933,949	\$ 769,040
Food purchases	1,281,745	1,446,278
Senior boxes	31,432	22,038
Gift cards	20,000	106,765
Kid's Café and children's programs	294,758	317,803
Capital campaign	1,644,901	2,235,899
Donated occupancy	2,100,000	2,100,000
Other capital needs	364,561	210,700
All other funds	12,179	1,291
<b>TOTAL</b>	<b>\$ 6,683,525</b>	<b>\$ 7,209,814</b>

Net assets were released from restriction by payment for restricted purpose and temporarily net assets consist of:

	2018	2017
Cash and investments	\$ 2,918,624	\$ 2,767,150
Pledges receivable	3,744,901	4,335,899
Gift cards	20,000	106,765
<b>TOTAL</b>	<b>\$ 6,683,525</b>	<b>\$ 7,209,814</b>

Permanently restricted

Permanently restricted net assets consist of the principal portion of the beneficial interest in assets held for others, which was \$40,653 at June 30, 2018 and 2017, respectively.

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## ***Second Harvest Food Bank of Metrolina, Inc.***

### **Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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#### **NOTE 8 - DONATED FACILITIES**

The Food Bank occupies its warehouse facility under a sublease from Properties, who has a lease with Mecklenburg County, as described above. According to the terms of the lease, the cost of the utilities and most of the property maintenance is shared equally between Properties and Mecklenburg County. The estimated fair value of the free rent, utilities and maintenance for each of the years ended June 30, 2018 and 2017 was \$168,940. This amount has been recorded in the accompanying financial statements as both a contribution received and as occupancy expense.

#### **NOTE 9 - RETIREMENT PLAN**

The Food Bank has in place a 403(b) plan under which employees can make pretax contributions to the plan. The Food Bank makes no contributions on behalf of its employees under this plan. Additionally, the Food Bank has in place a defined contribution plan. Under this plan, employees make no contributions and the Food Bank's contributions are discretionary. For fiscal years ended June 30, 2018 and 2017, the Food Bank's contributions were six percent of eligible participants' salaries, which amounted to \$116,910 and \$94,825, respectively. In addition, the Food Bank has established a supplemental retirement plan, which covers employees on a discriminatory basis. During the years ended June 30, 2018 and 2017, the Food Bank's executive director was the only employee covered by the supplemental retirement plan and contributions on her behalf were \$11,250 and \$10,816, respectively.

#### **NOTE 10 - LEASES**

##### Operating leases

The Food Bank and Properties lease warehouse space and office equipment under operating lease agreements. Lease expense for the year ended June 30, 2018 was \$50,023. Future minimum payments due under operating lease agreements were as follows:

Year Ending June 30:		
2019	\$	32,179
2020		12,935
<hr/>		
<b>TOTAL</b>	<b>\$</b>	<b>45,114</b>

#### **NOTE 11 – CONSTRUCTION COMMITMENTS**

As of June 30, 2018, Properties had entered into binding contracts for construction of a major addition to its Charlotte facility. Upon acceptable completion of this construction, Properties will owe an additional \$1,306,819 under the terms of the contracts.

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## ***Second Harvest Food Bank of Metrolina, Inc.***

**Notes to Consolidated Financial Statements**

**June 30, 2018 and 2017**

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### **NOTE 12 - BUSINESS RISKS AND CREDIT CONCENTRATIONS**

#### *Concentrations*

Second Harvest Food Bank of Metrolina, Inc. relies on continued support from its area contributors, volunteers, grantors, and member organizations to maintain its operations. Significant declines in funding from these sources could have a potentially adverse impact on operations of the Food Bank.

#### *Cash in excess of insured limits*

Cash and certificates of deposit held in bank accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The total cash and certificates of deposit held by the Food Bank at June 30, 2018 includes \$3,494,918 in excess of insured limits covered by FDIC.

#### *Government grants*

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Food Bank for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

#### *Geographic area*

The Food Bank operates in a limited geographic area, and is therefore sensitive to changes in the local economy.

### **NOTE 13 - SUBSEQUENT EVENTS**

The Food Bank has evaluated subsequent events from the date of the statement of financial position through the date of the audit report, which is the date the financial statements were available to be issued. During this period no material subsequent events were identified.

# ***C. DEWITT FOARD & COMPANY, P.A.***

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## **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 Metrolina, Inc.  
Charlotte, North Carolina

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 Metrolina, Inc. (the "Food Bank", a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2018.

### 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 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 the 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 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 organization's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*C. DeWitt Ford & Company, P.A.*

November 2, 2018

# ***C. DEWITT FOARD & COMPANY, P.A.***

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

To the Board of Directors of  
Second Harvest Food Bank of Metrolina, Inc.  
Charlotte, North Carolina

### Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Metrolina, Inc.'s (the "Food Bank", a nonprofit organization) compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Food Bank's major federal programs for the year ended June 30, 2018. 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 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 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 programs. However, our audit does not provide a legal determination on the Food Bank's compliance.

### Opinion on Each 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 its major federal programs for the year ended June 30, 2018.

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 its major federal programs 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.

*C. Dewitt Ford & Company, P.A.*

November 2, 2018



***Second Harvest Food Bank of Metrolina, Inc.***  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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**SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes      X no
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_yes      X no

Noncompliance material to financial statements noted? \_\_\_yes      X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_yes      X no
- Significant deficiency(s) identified that are not considered to be material weaknesses \_\_\_yes      X no

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200 of the Uniform Guidance? \_\_\_yes      X no

Identification of Major Programs

Federal Programs -

<u>CFDA Number</u>	<u>Name of Program or Cluster</u>
10.565	Commodity Supplemental Food Program
10.568	Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? X yes      \_\_\_no

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***Second Harvest Food Bank of Metrolina, Inc.***  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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**FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SUMMARY OF PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN**

None

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**Second Harvest Food Bank of Metrolina, Inc.****Schedule of Expenditures of Federal and State Awards****Year Ended June 30, 2018**

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Agency	CFDA Number	Amount Received	Amount Expended
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>			
Emergency Food Assistance Cluster:			
Passed through the N.C. Department of Agriculture:			
Commodity Supplemental Food Program (Administrative Funds)	10.565	\$ 3,043	\$ 5,097
Commodity Supplemental Food Program (Food Commodities)	10.565	31,229	31,229
Emergency Food Assistance Program (Administrative Funds)	10.568	231,355	233,698
Emergency Food Assistance Program (Food Commodities)	10.569	2,968,335	2,968,335
Passed through the S.C. Department of Social Services:			
Emergency Food Assistance Program (Administrative Funds)	10.568	127,820	139,440
Emergency Food Assistance Program (Food Commodities)	10.569	1,451,588	1,451,588
Total U.S. Department of Agriculture		<u>4,813,370</u>	<u>4,829,387</u>
<b><u>FEDERAL EMERGENCY MANAGEMENT ASSISTANCE</u></b>			
Passed through Mecklenburg County:			
Emergency Food and Shelter National Board Program	97.024	30,000	30,000
Total Federal Awards		<u>4,843,370</u>	<u>4,859,387</u>
<b><u>N.C. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</u></b>			
Social Services Block Grant		772,597	492,792
Total Statal Awards		<u>772,597</u>	<u>492,792</u>
TOTAL FEDERAL AND STATE AWARDS		<u>\$ 5,615,967</u>	<u>\$ 5,352,179</u>