

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

***FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016***

Second Harvest Food Bank of Metrolina, Inc.

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June 30, 2017 and 2016

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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, 2017 and 2016, 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 Carolina

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

Other 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 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 10, 2017, 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 10, 2017

Second Harvest Food Bank of Metrolina, Inc.

Consolidated Statements of Financial Position

June 30, 2017 and 2016

	June 30,	
	2017	2016
<u>ASSETS</u>		
Current Assets:		
Cash - operating	\$ 3,226,680	\$ 2,680,201
Accounts receivable	454,765	102,674
Prepaid expenses	106,765	93,938
Inventories	463,730	405,707
Pledges receivable, net	601,774	678,791
Investments	774,390	1,034,689
<i>Total Current Assets</i>	<i>5,628,104</i>	<i>4,996,000</i>
<i>Property and Equipment, net</i>	<i>11,234,015</i>	<i>3,754,182</i>
Other Long-Term Assets:		
Cash held for long-term purposes	4,918,049	11,415,735
Pledges receivable, net of current portion	3,734,125	4,443,344
Loan origination cost, net	600,018	708,968
Notes receivable	8,981,200	8,981,200
Beneficial interest in assets held by others	49,301	43,326
<i>Total Other Long-Term Assets</i>	<i>18,282,693</i>	<i>25,592,573</i>
<i>TOTAL ASSETS</i>	<i>\$ 35,144,812</i>	<i>\$ 34,342,755</i>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ 2,173,492	\$ 1,321,693
Accrued expenses	146,505	132,374
Current portion of note payable	699,002	864,594
<i>Total Current Liabilities</i>	<i>3,018,999</i>	<i>2,318,661</i>
Non-Current Liabilities:		
Note payable (less current portion)	17,100,579	17,965,969
Net Assets:		
Unrestricted:		
Designated	-	892,158
Undesignated	7,774,767	5,748,908
<i>Total Unrestricted</i>	<i>7,774,767</i>	<i>6,641,066</i>
Temporarily restricted	7,209,814	7,376,406
Permanently restricted	40,653	40,653
<i>Total Net Assets</i>	<i>15,025,234</i>	<i>14,058,125</i>
<i>TOTAL LIABILITIES AND NET ASSETS</i>	<i>\$ 35,144,812</i>	<i>\$ 34,342,755</i>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTALS
<u>SUPPORT AND REVENUE</u>				
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	3,195,262	(3,195,262)	-	-
<i>Total Support, Revenue, and Reclassifications</i>	<i>99,263,790</i>	<i>(166,592)</i>	<i>-</i>	<i>99,097,198</i>
<u>EXPENSES</u>				
Program services:				
Distributed food and goods	89,823,151	-	-	89,823,151
All other	5,704,648	-	-	5,704,648
Management and general	825,474	-	-	825,474
Fund raising	1,607,876	-	-	1,607,876
<i>Total Expenses</i>	<i>97,961,149</i>	<i>-</i>	<i>-</i>	<i>97,961,149</i>
<i>CHANGE IN NET ASSETS</i>	<i>1,302,641</i>	<i>(166,592)</i>	<i>-</i>	<i>1,136,049</i>
<i>NET ASSETS, BEGINNING</i>	<i>6,641,066</i>	<i>7,376,406</i>	<i>40,653</i>	<i>14,058,125</i>
<i>NET ASSETS, ENDING</i>	<i>\$ 7,943,707</i>	<i>\$ 7,209,814</i>	<i>\$ 40,653</i>	<i>\$ 15,194,174</i>

Second Harvest Food Bank of Metrolina, Inc.**Consolidated Statement of Activities****Year Ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTALS
<u>SUPPORT AND REVENUE</u>				
Value of inventory received	\$ 77,871,626	\$ -	\$ -	\$ 77,871,626
Shared maintenance and fees	843,158	-	-	843,158
Contributions and grants	3,718,094	3,915,096	-	7,633,190
Governmental revenue	344,241	437,347	-	781,588
Special events	1,421,052	-	-	1,421,052
Donated facilities	168,940	-	-	168,940
Investment earnings	69	-	-	69
Miscellaneous revenue	260	-	-	260
Net assets released from restrictions by payment	3,886,978	(3,886,978)	-	-
<i>Total Support, Revenue, and Reclassifications</i>	88,254,418	465,465	-	88,719,883
<u>EXPENSES</u>				
Program services:				
Distributed food and goods	78,433,722	-	-	78,433,722
All other	5,629,838	-	-	5,629,838
Management and general	759,020	-	-	759,020
Fund raising	1,660,394	-	-	1,660,394
<i>Total Expenses</i>	86,482,974	-	-	86,482,974
CHANGE IN NET ASSETS	1,771,444	465,465	-	2,236,909
NET ASSETS, BEGINNING	4,869,622	6,910,941	40,653	11,821,216
NET ASSETS, ENDING	\$ 6,641,066	\$ 7,376,406	\$ 40,653	\$ 14,058,125

Second Harvest Food Bank of Metrolina, Inc.

Consolidated Statements of Cash Flows

Year Ended June 30, 2017 and 2016

	June 30,	
	2017	2016
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 1,136,049	\$ 2,236,909
Adjustments to reconcile changes in net assets to cash flows from operating activities:		
Depreciation and amortization expense	600,902	422,044
Contributions for long-term purposes	(152,589)	(2,713,890)
Unrealized losses (gains) on investments	(5,975)	2,197
(Increase) decrease in operating assets:		
Accounts receivable	(352,091)	(14,760)
Prepaid expenses	(12,827)	32,732
Inventories	(58,023)	132,581
Increase (decrease) in operating liabilities:		
Accounts payable	55,992	(161,171)
Accrued expenses	14,131	31,736
<i>Cash Flows from Operating Activities</i>	<i>1,225,569</i>	<i>(31,622)</i>
<u>INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(7,971,785)	(2,811,708)
Increase in construction payables	795,807	1,236,338
Proceeds from sale of investments	1,034,689	1,481,690
Purchase of investments	(774,390)	(1,210,045)
<i>Cash Flows from Investing Activities</i>	<i>(6,915,679)</i>	<i>(1,303,725)</i>
<u>FINANCING ACTIVITIES</u>		
Contributions for long-term purposes	152,589	2,713,890
Decrease (increase) in pledges receivable	786,236	(1,236,550)
Loan origination fees incurred	-	(763,504)
Loans made	-	(8,981,200)
Proceeds from notes payable	-	20,400,000
Principal paid on note payable	(1,030,982)	(1,569,437)
<i>Cash Flows from Financing Activities</i>	<i>(92,157)</i>	<i>10,563,199</i>
<i>NET CHANGE IN CASH AND CASH EQUIVALENTS</i>	<i>(5,782,267)</i>	<i>9,227,852</i>
<i>CASH AND CASH EQUIVALENTS, BEGINNING</i>	<i>14,095,936</i>	<i>4,868,084</i>
<i>CASH AND CASH EQUIVALENTS, ENDING</i>	<i>\$ 8,313,669</i>	<i>\$ 14,095,936</i>
CASH AND EQUIVALENTS PER STATEMENT OF FINANCIAL POSITION:		
Cash - operating	\$ 3,226,680	\$ 2,680,201
Cash held for long-term purposes	4,918,049	11,415,735
<i>TOTAL CASH</i>	<i>\$ 8,144,729</i>	<i>\$ 14,095,936</i>

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

	Program Services		Management	Fund	
	Donated Inventory	All Other	and General	Raising	Totals
<u>PERSONNEL</u>					
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
<i>Total Personnel</i>	-	2,264,953	574,582	538,611	3,378,146
<u>OTHER EXPENSES</u>					
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	-	203,661	5,594	2,797	212,052
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
<i>Total Other Expenses</i>	89,823,151	3,439,695	250,892	1,069,265	94,583,003
TOTAL EXPENSES	\$ 89,823,151	\$ 5,704,648	\$ 825,474	\$ 1,607,876	\$ 97,961,149

Second Harvest Food Bank of Metrolina, Inc.**Consolidated Statement of Functional Expenses****Year Ended June 30, 2016**

	Program Services		Management	Fund	
	Donated Inventory	All Other	and General	Raising	Totals
<u>PERSONNEL</u>					
Salaries and wages	\$ -	\$ 1,581,892	\$ 429,506	\$ 337,782	\$ 2,349,180
Payroll taxes	-	116,143	30,835	26,110	173,088
Employee benefits	-	348,701	93,325	82,001	524,027
<i>Total Personnel</i>	-	2,046,736	553,666	445,893	3,046,295
<u>OTHER EXPENSES</u>					
Food and household goods distributed	78,433,722	-	-	-	78,433,722
Kids Café, other programs	-	1,606,015	-	-	1,606,015
Professional fees	-	50,153	77,838	14,452	142,443
Supplies	-	59,003	5,379	5,297	69,679
Occupancy	-	369,367	12,623	6,311	388,301
Telephone	-	30,338	7,584	6,895	44,817
Transportation and freight	-	960,831	-	-	960,831
Printing and postage	-	6,464	9,899	66,514	82,877
Direct mail	-	65,490	-	589,407	654,897
Repairs and maintenance	-	26,090	6,523	5,930	38,543
Insurance	-	18,255	777	388	19,420
Public relations, marketing	-	-	-	503,754	503,754
Travel and conferences	-	15,648	3,714	5,298	24,660
Dues and subscriptions	-	29,476	15,200	-	44,676
Depreciation	-	345,972	65,817	10,255	422,044
<i>Total Other Expenses</i>	78,433,722	3,583,102	205,354	1,214,501	83,436,679
<i>TOTAL EXPENSES</i>	\$ 78,433,722	\$ 5,629,838	\$ 759,020	\$ 1,660,394	\$ 86,482,974

Second Harvest Food Bank of Metrolina, Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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.

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.

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.

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.

Second Harvest Food Bank of Metrolina, Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 265,304 and 161,584 hours (an increase of sixty-four percent) during the years ended June 30, 2017 and 2016, 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.

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, 2017 and 2016. Management has determined the allowance for doubtful accounts based on a review of individual accounts, historical experience, and current economic conditions.

Second Harvest Food Bank of Metrolina, Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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, 2017 and 2016 was \$1.73 and \$1.67, respectively. The average per pound valuation of food provided by governmental agencies during the year ended June 30, 2017 and 2016 was \$.86 and \$.76, respectively. During the years ended June 30, 2017 and 2016, the pounds of food and household products distributed were 55,924,838 and 50,875,248, respectively, which represents an increase of ten 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.

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.

Second Harvest Food Bank of Metrolina, Inc.**Notes to Consolidated Financial Statements****June 30, 2017 and 2016**

NOTE 3 - INVESTMENTS AND INVESTMENT INCOME

The fair value of investments at June 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Certificates of deposit, various dates of maturity	\$ 774,390	\$ 1,034,689
Beneficial Interest in Assets Held by Others:		
Moderate Growth Pool	49,301	43,326
TOTAL	\$ 823,691	\$ 1,078,015

Investment income

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. The \$69 of investment income for the year ended June 30, 2016 consisted of \$2,266 of interest and dividends net of \$2,197 of realized and unrealized capital losses. In addition, for the years ended June 30, 2017 and 2016 interest income of \$89,812 and \$36,424, respectively, on notes receivable related to the Food Banks' expansion financing, as described below, was earned and offset to capitalized 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.

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, 2017.

Balance, beginning of year	\$ 43,326
Net increase in value	5,975
Balance, end of year	\$ 49,301

Second Harvest Food Bank of Metrolina, Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

NOTE 4 – PLEDGES

Capital campaign

During 2015 the Food Bank began accepting 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 1.49%, based on the ten-year *U.S. Treasury* rate, was recorded on the financial statements. 70% 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:

2018		\$	680,114
2019			555,000
2020			535,000
2021			230,000
2022			170,000
Thereafter			500,000
Total Promises to Give			2,670,114
Deduct:			
Allowance for bad debt		\$	279,956
Present value discount			154,259
NET CAPITAL CAMPAIGN PLEDGES			\$ 2,235,899

The \$2,235,899 of net pledges receivable in the accompanying financial statements are classified as current of \$601,774 and long-term of \$2,175,722.

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.

Second Harvest Food Bank of Metrolina, Inc.**Notes to Consolidated Financial Statements****June 30, 2017 and 2016**

NOTE 5 - FIXED ASSETS

Fixed assets consist of the following at June 30,

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 2,052,722	\$ 1,996,367
Construction in process	10,225,017	2,664,277
Vehicles	2,487,418	2,270,210
Furniture, fixtures and equipment	1,429,565	1,401,155
Total	16,194,722	8,332,009
Less – accumulated depreciation and amortization	4,960,707	4,577,827
TOTAL	\$ 11,234,015	\$ 3,754,182

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.

Food bank bridge loan

The Food Bank borrowed \$2,073,750 under an agreement with SunTrust which matures January 25, 2023. The note bears interest at one-month *LIBOR* plus 2.0 percent, which was 3.0505% as of June 30, 2017. Payments, which are applied first to interest and then to principal, are required as capital campaign pledges are collected. Subsequent to June 30, 2017, an additional \$1,200,000 was advanced for construction costs.

The Reinvestment Fund, Inc.

The Food Bank borrowed \$4,128,577 from The Reinvestment Fund, Inc., which matures January 25, 2023. Quarterly payments of \$85,413 are applied first to interest at a fixed rate of 5.50 percent and then to principal.

Second Harvest Food Bank of Metrolina, Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

NOTE 6 – DEBT FINANCING

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:

2018	\$ 699,002
2019	451,608
2020	143,895
2021	151,974
2022	160,506
Thereafter	16,192,597
<hr/>	
TOTAL	\$ 17,799,582

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 and \$54,536 was recorded during the years ended June 30, 2017 and 2016, respectively.

Interest expense

Interest expense of \$397,080 and \$208,663 for the years ended June 30, 2017 and 2016, respectively, was incurred and capitalized as a component of construction in process. Interest expense of \$399,926 and \$180,545 was actually paid during the years ended June 30, 2017 and 2016, respectively.

NOTE 7 - NET ASSETS

Designated

The balance in designated net assets as of June 30, 2016, which are included in cash and cash equivalents on the statement of financial position, were set aside by the Board of Directors for capital improvements. There were no designated net assets as of June 30, 2017.

Second Harvest Food Bank of Metrolina, Inc.**Notes to Consolidated Financial Statements****June 30, 2017 and 2016**

NOTE 7 - NET ASSETS, continuedTemporarily restricted

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Backpacks	\$ 769,040	\$ 520,036
Food purchases	1,446,278	1,216,268
Senior boxes	22,038	44,569
Gift cards	106,765	90,947
Kid's Café and children's programs	317,803	146,715
Capital campaign	2,235,899	3,022,135
Donated occupancy	2,100,000	2,100,000
Other capital needs	210,700	227,200
All other funds	1,291	8,536
TOTAL	\$ 7,209,814	\$ 7,376,406

Temporarily net assets consist of:

	<u>2017</u>	<u>2016</u>
Cash	\$ 2,767,150	\$ 2,163,324
Pledges receivable	4,335,899	5,122,135
Gift cards	106,765	90,947
TOTAL	\$ 7,209,814	\$ 7,376,406,

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, 2017 and 2016, respectively.

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, 2017 and 2016 was \$168,940. This amount has been recorded in the accompanying financial statements as both a contribution received and as occupancy expense.

Second Harvest Food Bank of Metrolina, Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016, the Food Bank's contributions were six percent of eligible participants' salaries, which amounted to \$94,825 and \$76,338 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, 2017 and 2016, the Food Bank's executive director was the only employee covered by the supplemental retirement plan and contributions on her behalf were \$10,816 and \$10,398, 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, 2017 was \$40,485. Future minimum payments due under operating lease agreements were as follows:

Year Ending June 30:	
2018	\$ 31,924
2019	32,179
2020	12,935
<hr/>	
TOTAL	\$ 77,038

NOTE 11 – CONSTRUCTION COMMITMENTS

As of June 30, 2017, 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 \$3,353,530 under the terms of the contracts.

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, 2017 includes \$7,536,707 in excess of insured limits covered by FDIC.

Second Harvest Food Bank of Metrolina, Inc.

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

NOTE 12 - BUSINESS RISKS AND CREDIT CONCENTRATIONS continued

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, other than the additional borrowings on the Bridge Loan described above.

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PHILLIP G. WILSON
TERRY W. LANCASTER

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, 2017, 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 7, 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 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 10, 2017

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 program for the year ended June 30, 2017. The Food Bank's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for 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 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 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 program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

C. DeWitt Ford & Company, P.A.

November 10, 2017

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT

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

Report on Compliance for Each Major State Program

We have audited the compliance of Second Harvest Food Bank of Metrolina, Inc. (the “Food Bank”), with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on its major State program for the year ended June 30, 2017. The Food Bank’s major State program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of the Food Bank’s major state 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 and applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act 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 State program occurred. An audit includes examining, on a test basis, evidence about the entity’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination on the Food Bank’s compliance with those requirements.

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

Opinion on Each Major State 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 State program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The 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, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine our auditing procedures for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance with applicable sections of the Uniform Guidance and the State Single Audit Implementation Act, 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 State 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 State program that is more than inconsequential will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State 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 deficiencies, significant deficiencies, or material weaknesses. 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 10, 2017

Second Harvest Food Bank of Metrolina, Inc.
Schedule of Federal and State Awards Expended
Year Ended June 30, 2017

Agency	CFDA Number	Amount Received	Amount Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Emergency Food Assistance Cluster:			
Passed through the N.C. Department of Agriculture:			
Emergency Food Assistance Program (Administrative Funds)	10.568	\$ 217,226	\$ 198,327
Emergency Food Assistance Program (Food Commodities)	10.569	3,694,601	3,694,601
Passed through the S.C. Department of Social Services:			
Emergency Food Assistance Program (Administrative Funds)	10.568	139,440	139,440
Emergency Food Assistance Program (Food Commodities)	10.569	1,675,395	1,675,395
Total U.S. Department of Agriculture		<u>5,726,662</u>	<u>5,707,763</u>
<u>FEDERAL EMERGENCY MANAGEMENT ASSISTANCE</u>			
Passed through Mecklenburg County:			
Emergency Food and Shelter National Board Program	97.024	30,000	30,000
Total Federal Awards		<u>5,756,662</u>	<u>5,737,763</u>
<u>N.C. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>			
Social Services Block Grant		213,642	493,447
TOTAL FEDERAL AND STATE AWARDS		<u><u>\$ 5,970,304</u></u>	<u><u>\$ 6,231,210</u></u>

Second Harvest Food Bank of Metrolina, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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>
10.568	Emergency Food Assistance Program
10.569	Emergency Food Assistance Program

State Programs -

North Carolina Department of Health and Human Services	Social Services Block Grant
--	-----------------------------

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

Auditee qualified as low-risk auditee? X yes ___no

Second Harvest Food Bank of Metrolina, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SUMMARY OF PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN

None