

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

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

**FOR THE YEAR ENDED
JUNE 30, 2013**

SECOND HARVEST FOOD BANK OF
NORTHEAST TENNESSEE, INC.

JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc. (a Tennessee nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Northeast Tennessee, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The comparative schedules of assets, liabilities, and net assets, and revenues, and expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and State Financial Assistance, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 December 17, 2013, on our consideration of Second Harvest Food Bank of Northeast Tennessee, 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 Northeast Tennessee, Inc.'s internal control over financial reporting and compliance.

A handwritten signature in red ink that reads "Eddy + Eddy". The signature is written in a cursive, flowing style.

Eddy & Eddy, CPAs, P.C.
Johnson City, Tennessee
December 17, 2013

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2013**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,273,775
Investments	136,181
Accounts Receivable	89,393
Prepaid Expenses	12,678
Inventory	<u>1,167,420</u>
Total Current Assets	<u>2,679,447</u>

PROPERTY AND EQUIPMENT

Real Estate - Land	351,122
Buildings	1,593,471
Furniture and Fixtures	22,360
Warehouse Equipment	157,257
Office Equipment	117,651
Motor Vehicles	551,314
Less: Accumulated Depreciation	<u>(770,813)</u>
Net Property and Equipment	<u>2,022,362</u>

TOTAL ASSETS	<u><u>\$ 4,701,809</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 69,062
Deferred Revenue	<u>231,200</u>
Total Current Liabilities	<u>300,262</u>
Total Liabilities	<u>300,262</u>

NET ASSETS

Unrestricted	3,069,339
Temporarily Restricted	<u>1,332,208</u>
Total Net Assets	<u>4,401,547</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,701,809</u></u>
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The accompanying notes are an integral part of the financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>
Revenues, gains (losses) and other support				
Donations and Grants	\$ 517,688	\$ 1,888,370	\$ -	\$ 2,406,058
Summer Feeding Program	61,005	-	-	61,005
After-school Feeding Program	69,047	-	-	69,047
Food and Nonfood Items	-	10,611,903	-	10,611,903
USDA Commodities	-	870,422	-	870,422
Distribution Fees	710,673	-	-	710,673
Interest Income	3,389	-	-	3,389
USDA Commodities Monies	50,658	-	-	50,658
Donations of Equipment	14,405	-	-	14,405
Other In-kind Donations	31,708	-	-	31,708
Gain (Loss) on Investments	(18)	-	-	(18)
Insurance Reimbursements	18,155	-	-	18,155
Other Income	7,810	-	-	7,810
Subtotal	<u>1,484,520</u>	<u>13,370,695</u>	<u>-</u>	<u>14,855,215</u>
Special Events and Activities	62,816	-	-	62,816
Less Cost of Direct Benefits to Donors	<u>(14,700)</u>	<u>-</u>	<u>-</u>	<u>(14,700)</u>
Net Special Events and Activities	<u>48,116</u>	<u>-</u>	<u>-</u>	<u>48,116</u>
Net Assets Released from Restrictions: Programs, Equipment and Building	<u>12,867,432</u>	<u>(12,867,432)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses) and other support	<u>14,400,068</u>	<u>503,263</u>	<u>-</u>	<u>14,903,331</u>
Expenses				
Program Services - Food Distribution	13,184,957	-	-	13,184,957
Management and General	256,210	-	-	256,210
Fund Raising	305,793	-	-	305,793
Payments to Affiliates	4,732	-	-	4,732
Total Expenses	<u>13,751,692</u>	<u>-</u>	<u>-</u>	<u>13,751,692</u>
Change in Net Assets	648,376	503,263	-	1,151,639
Net Assets at Beginning of Year	<u>2,420,963</u>	<u>828,945</u>	<u>-</u>	<u>3,249,908</u>
Net Assets at End of Year	<u>\$ 3,069,339</u>	<u>\$ 1,332,208</u>	<u>\$ -</u>	<u>\$ 4,401,547</u>

The accompanying notes are an integral part of the financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	<u>\$ 1,151,639</u>
Adjustments to Reconcile Change in Net Assets	
to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	103,729
Equipment Donations	(14,405)
Net Loss on Sale of Investments	18
Stock Donations	(2,082)
Decrease (Increase) in Accounts Receivable	16,817
Decrease (Increase) in Prepaid Expenses	(11,678)
Decrease (Increase) in Inventory	(455,266)
Increase (Decrease) in Accounts Payable	43,098
Increase (Decrease) in Deferred Revenue	<u>26,700</u>
Total Adjustments	<u>(293,069)</u>
Net Cash Provided By Operating Activities	<u>858,570</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	(904,862)
Purchases of Certificates of Deposit	(135,789)
Proceeds from Sale of Investments	298,647
Interest Income Reinvested	<u>(2,631)</u>
Net Cash Provided By Investing Activities	<u>(744,635)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net Cash Provided By Financing Activities	<u>-</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	113,935
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,159,840</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,273,775</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Income Taxes	\$ -
Interest Expense	\$ -

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Stock Donations	\$ 2,082
Equipment Donations	\$ 14,405

The accompanying notes are an integral part of the financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013**

	Supporting Services			Total
	Program Services	Management and General	Fund- raising	
Salaries and Contract Labor	\$ 492,350	\$ 112,721	\$ 158,204	\$ 763,275
Other Employee Costs	88,644	20,294	28,483	137,421
Vehicle Expense	95,216	-	-	95,216
Incoming Freight Charges	52,464	-	-	52,464
Travel and Mileage	37	10	-	47
Insurance	9,484	6,669	-	16,153
Containers	388	-	-	388
Maintenance Fees - Food Banks	5,029	-	-	5,029
Warehouse Equipment Repairs	16,872	-	-	16,872
Warehouse Equipment and Supplies	10,272	2,568	-	12,840
Sanitation/Extermination	4,778	1,195	-	5,973
Building Repairs and Maintenance	4,303	1,076	-	5,379
Utilities	55,534	13,883	-	69,417
Professional Fees	-	16,335	-	16,335
Postage	6,501	1,625	-	8,126
Printing and Publications	3,670	918	-	4,588
Board and Committees	-	855	-	855
Other Administrative Expense	-	31,426	-	31,426
Security System	613	153	-	766
Computer Expense	-	10,817	-	10,817
Corporate Fees	-	322	-	322
Dues and Subscriptions	-	1,534	-	1,534
Seminars and Conventions	-	7,814	-	7,814
Special Events	-	-	2,461	2,461
Direct Mail Expense	-	-	100,014	100,014
Golf Tournament	-	-	3,163	3,163
Student Food Drive	-	-	4,791	4,791
Community Relations	8,676	8,677	8,677	26,030
Other Program Services	1,934	-	-	1,934
Summer Feeding	37,177	-	-	37,177
After-school Feeding	9,345	-	-	9,345
Depreciation Expense	86,411	17,318	-	103,729
Subtotal	<u>989,698</u>	<u>256,210</u>	<u>305,793</u>	<u>1,551,701</u>
Food Donated and Purchased	11,462,454	-	-	11,462,454
COS - USDA Commodities	732,805	-	-	732,805
Subtotal	<u>12,195,259</u>	<u>-</u>	<u>-</u>	<u>12,195,259</u>
Total Functional Expenses	13,184,957	256,210	305,793	13,746,960
Unallocated Payments to Affiliated Organizations	-	-	-	4,732
Total Expenses	<u>\$ 13,184,957</u>	<u>\$ 256,210</u>	<u>\$ 305,793</u>	<u>\$ 13,751,692</u>

The accompanying notes are an integral part of the financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

Basis of Accounting

The financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc. have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recorded when incurred.

Basis of Presentation

Net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations;

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time;

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets would permit the Organization to use all or part of the income earned on the assets.

In addition, the Organization is required to present a statement of cash flows.

The Organization 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 expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are not recognized until they become unconditional – when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3).

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments purchased with a maturity date of three months or less, cash on hand, and all cash accounts which are not subject to withdrawal penalties.

Property and Equipment

Property and Equipment are carried at cost, or in the case of contributed assets, at fair market value at the date of the gift. The Organization's current policy is to capitalize assets costing more than \$2,500, with a life greater than one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Building and Improvements	20 to 40 years
Equipment and Furniture	5 to 15 years
Vehicles	5 to 10 years

As reported on the statement of functional expenses, depreciation expense for the year ended June 30, 2013 was \$103,729. Maintenance and repairs are charged to expense as incurred; significant betterments and renovations are capitalized. When items of equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in income.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

The Organization believes all accounts receivable are collectible and no allowance account has been considered necessary. Accounts overdue more than sixty (60) days are considered past due. The Executive Director and the Director of Finance determine when an account is uncollectible and should be written off. A list is maintained of the uncollectible accounts and those agencies cannot order again until the amount written off has been paid.

Inventories

Inventories are valued using the first-in, first-out method. USDA commodities are valued at the prices indicated by USDA. Purchased commodities are valued at the lower of cost or market and all donated commodities are valued at the approximate average wholesale value of one pound of donated product. These values were established at the national level by independent auditors. For the year ended June 30, 2013, the approximate average price per pound was \$1.69.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. INVESTMENTS

At June 30, 2013 investments consisted of certificates of deposit at three local financial institutions and are carried at fair market value.

Investments at June 30, 2013 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Unrestricted:			
Certificates of Deposit	\$ 136,181	\$ 136,181	\$ 136,181
	<u>\$ 136,181</u>	<u>\$ 136,181</u>	<u>\$ 136,181</u>

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 2. INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest	\$ 3,389	\$ -	\$ -	\$ 3,389
Capital Losses	(18)	-	-	(18)
Total Investment Return	<u>\$ 3,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,371</u>

NOTE 3. CASH AND CASH EQUIVALENTS

The total deposits held at June 30, 2013 by the Organization include \$1,196,917 held in commercial banks and \$215,330 held in a credit union. Total deposits at June 30, 2013 not insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Share Insurance Fund (NCUSIF) was \$558,943.

NOTE 4. FUNCTIONAL ALLOCATION OF EXPENSES

Some expenses relate solely to a single function and have been distributed entirely to that function. The other expenses have been allocated based on an estimate of usage or time devoted to the various functions. Salaries were allocated based on approximate hours for each function. The development director's and development writer's salaries were considered 100% fundraising. Twenty-five percent of the executive director's salary was allocated to fundraising. The remaining 75% of the director's salary was allocated 66 2/3% to program services and 33 1/3% to administrative duties. Other salaries were allocated 75-90% to program services and 10-25% to fundraising. All other expenses were allocated 80% to program services and 20% to management and general services.

NOTE 5. DONATED SERVICES

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Second Harvest Food Bank with the food distribution programs, campaign solicitations, warehouse space, and various committee assignments. For the year ended June 30, 2013, 15,237 hours were received from volunteers.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 6. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Organization has concentrations of credit risk resulting from cash deposits being maintained in banks within the same geographic region, deposits not insured by the FDIC or the NCUSIF, and its customer base also being located in that same geographic region.

NOTE 7. COMPENSATED ABSENCES

No accrual for vacation pay was recorded at June 30, 2013 because the Organization requires vacation be taken by June 30 of each year.

NOTE 8. RELATED PARTY TRANSACTIONS

Some board members are employed by companies doing business with the Organization. Their duties are not directly related to the transactions with the Organization.

NOTE 9. RETIREMENT PLAN

The Organization has a 403(b) plan. Full-time employees are eligible to participate in this plan once they have attained the age of twenty-one and have completed twelve months of service. The Organization matches participating employee contributions up to 3% of their wages. For the year ended June 30, 2013, retirement expense amounted to \$12,594.

NOTE 10. SHIPPING AND HANDLING/FREIGHT

The Organization expenses freight costs as they are incurred. At June 30, 2013, freight amounted to \$52,464 as shown on the statement of functional expenses.

NOTE 11. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2013 consisted of the following:

Donated Inventory	\$ 999,245
Food for Kids	164,788
USDA Commodities	<u>168,175</u>
	<u>\$ 1,332,208</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 11. RESTRICTIONS ON NET ASSETS (Continued)

Program restrictions met for year ended June 30, 2013:

Donated Inventory	\$ 11,121,354
Food for Kids	361,391
USDA Commodities	732,805
Capital Assets	651,882
	<u>\$ 12,867,432</u>

NOTE 12. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2013 are as follows:

Fair Value Measurements at Reporting Date Using

	<u>Total</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Unrestricted	\$ <u>136,181</u>	\$ <u>136,181</u>	\$ <u>-</u>	\$ <u>-</u>
Total Assets	\$ <u>136,181</u>	\$ <u>136,181</u>	\$ <u>-</u>	\$ <u>-</u>

NOTE 13. LINE OF CREDIT

On December 20, 2012, the Organization obtained a \$700,000 revolving line of credit from First Tennessee Bank to provide temporary funding for construction/renovation of the new facility, if needed. Interest is payable monthly on outstanding balances at an interest rate of 0.5% over the "Wall Street Journal" Prime Rate of 3.25% at the time of the agreement. At June 30, 2013, the line's effective rate of interest was 3.75%. No borrowings occurred during the year ended June 30, 2013, and none have occurred in 2013 through the date of the independent auditor's report. The line was closed November 12, 2013.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013**

NOTE 14. COMMITMENTS

On April 5, 2013, the Organization executed a contract with J.A. Street & Associates, Inc. for the design and construction material, labor and equipment for creation of approximately 12,032 square feet new repack and contaminated food storage area in its new facility for \$124,832 with work to be completed by July 31, 2013. These renovations were completed timely.

NOTE 15. SUBSEQUENT EVENTS

On July 19, 2013 the Organization entered into a contract for J.A. Street & Associates, Inc. to provide material, labor and equipment for creation of approximately 10,747 square feet new office area in its new facility for \$496,721 with work to be completed by October 31, 2013. These renovations were completed and the Organization celebrated its grand opening on December 12, 2013. The former facility at Gray, Tennessee was sold November 8, 2013 for \$700,000, consisting of \$500,000 cash at closing plus \$200,000 second mortgage held by the Organization. The second mortgage note is scheduled to be paid in 59 monthly payments of \$1,530 (including principal and interest at 4.5%) beginning December 8, 2013, plus a final payment of \$149,157 on November 8, 2018.

In connection with the preparation of the financial statements, management has evaluated events subsequent to June 30, 2013 through December 17, 2013, which is the date the financial statements were available to be issued.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2013**

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR</u>	<u>CFDA NUMBER</u>	<u>CONTRACT/GRANT/ AWARD NUMBER</u>	<u>DEFERRED (ACCRUED) 7/1/2012</u>	<u>CASH RECEIPTS</u>	<u>EXPEND- ITURES</u>	<u>DEFERRED (ACCRUED) 6/30/2013</u>
<u>FEDERAL AWARDS:</u>						
US Dept of Agriculture/ TN Dept of Agriculture	10.568	Contract No 20854 Contract No 28292	\$ (25,932)	\$ 28,590	\$ 2,658	\$ -
			<u>-</u>	<u>25,144</u>	<u>48,000</u>	<u>(22,856)</u>
Total Program 10.568			<u>(25,932)</u>	<u>53,734</u>	<u>50,658</u>	<u>(22,856)</u>
US Dept of Agriculture/ TN Dept of Agriculture (Noncash Assistance)	10.569		<u>30,558</u>	<u>870,422</u>	<u>732,805</u>	<u>168,175</u>
US Dept of Agriculture/ TN Dept of Human Services	10.559	Agreement No 30126 Agreement No 30126	(26,742)	49,370	22,628	-
			<u>-</u>	<u>19,253</u>	<u>38,377</u>	<u>(19,124)</u>
Total Program 10.559			<u>(26,742)</u>	<u>68,623</u>	<u>61,005</u>	<u>(19,124)</u>
US Dept of Agriculture/ TN Dept of Human Services	10.558	Agreement No 034730083000 Agreement No 034730083000	(3,817)	3,817	-	-
			<u>-</u>	<u>69,047</u>	<u>69,047</u>	<u>-</u>
Total Program 10.558			<u>(3,817)</u>	<u>72,864</u>	<u>69,047</u>	<u>-</u>
US Dept of Homeland Security Total Program 97.024	97.024		<u>-</u>	<u>9,828</u>	<u>9,828</u>	<u>-</u>
			<u>-</u>	<u>9,828</u>	<u>9,828</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>(25,933)</u>	<u>1,075,471</u>	<u>923,343</u>	<u>126,195</u>
<u>STATE FINANCIAL ASSISTANCE:</u>						
TN Dept of Human Services	N/A	Direct Appropriation Grant	<u>-</u>	<u>31,600</u>	<u>31,600</u>	<u>-</u>
TOTAL STATE AWARDS			<u>-</u>	<u>31,600</u>	<u>31,600</u>	<u>-</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ (25,933)</u>	<u>\$ 1,107,071</u>	<u>\$ 954,943</u>	<u>\$ 126,195</u>

Basis of Presentation: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Second Harvest Food Bank of Northeast Tennessee, Inc. under programs of the federal and state governments for the year ended June 30, 2013. The schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Food Distribution: Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed. At June 30, 2013, Second Harvest Food Bank of Northeast Tennessee, Inc. had food commodities totaling \$168,175 in inventory.

The accompanying notes are an integral part of the financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
COMPARATIVE SCHEDULE OF ASSETS,
LIABILITIES, AND NET ASSETS
June 30, 2013 and June 30, 2012**

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
Cash and Cash Equivalents	\$ 1,273,775	\$ 1,159,840	\$ 113,935
Investments	136,181	294,344	(158,163)
Accounts Receivable	89,393	106,210	(16,817)
Prepaid Expenses	12,678	1,000	11,678
Inventory	1,167,420	712,154	455,266
Net Property and Equipment	<u>2,022,362</u>	<u>1,206,824</u>	<u>815,538</u>
 Total Assets	 <u>\$ 4,701,809</u>	 <u>\$ 3,480,372</u>	 <u>\$ 1,221,437</u>
 Accounts Payable	 \$ 69,062	 \$ 25,964	 \$ 43,098
Deferred Revenue	<u>231,200</u>	<u>204,500</u>	<u>26,700</u>
 Total Liabilities	 <u>\$ 300,262</u>	 <u>\$ 230,464</u>	 <u>\$ 69,798</u>
 Unrestricted	 \$ 3,069,339	 \$ 2,420,963	 \$ 648,376
Temporarily Restricted	<u>1,332,208</u>	<u>828,945</u>	<u>503,263</u>
 Total Net Assets	 <u>\$ 4,401,547</u>	 <u>\$ 3,249,908</u>	 <u>\$ 1,151,639</u>

The accompanying notes are an integral part of the financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
COMPARATIVE SCHEDULE OF REVENUES
For the Years Ended June 30, 2013 and June 30, 2012**

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
Donations and Grants	\$ 2,406,058	\$ 1,661,555	\$ 744,503
Summer Feeding Program	61,005	48,456	12,549
After-school Feeding Program	69,047	11,474	57,573
Food and Nonfood Items	10,611,903	7,761,792	2,850,111
USDA Commodities	870,422	616,466	253,956
Distribution Fees	710,673	594,267	116,406
Interest Income	3,389	6,108	(2,719)
USDA Commodities Monies	50,658	46,128	4,530
Donations of Equipment	14,405	7,700	6,705
Other In-Kind Donations	31,708	36,481	(4,773)
Gain (Loss) on Investments	(18)	(80)	62
Insurance Reimbursements	18,155	-	18,155
Other Income	7,810	3,824	3,986
Net Special Events and Activities	<u>48,116</u>	<u>38,425</u>	<u>9,691</u>
 Total Revenues	 <u>\$ 14,903,331</u>	 <u>\$ 10,832,596</u>	 <u>\$ 4,070,735</u>

The accompanying notes are an integral part of the financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHEAST TENNESSEE, INC.
COMPARATIVE SCHEDULE OF EXPENSES
For the Years Ended June 30, 2013 and June 30, 2012**

	2013	2012	Increase (Decrease)
Salaries and Contract Labor	\$ 763,275	\$ 653,877	\$ 109,398
Other Employee Costs	137,421	126,141	11,280
Vehicle Expense	95,216	71,205	24,011
Incoming Freight Charges	52,464	35,934	16,530
Travel and Mileage	47	241	(194)
Insurance	16,153	9,910	6,243
Containers	388	1,522	(1,134)
Maintenance Fees - Food Banks	5,029	-	5,029
Warehouse Equipment Repairs	16,872	15,558	1,314
Warehouse Equipment and Supplies	12,840	5,917	6,923
Sanitation/Extermination	5,973	2,864	3,109
Building Repairs and Maintenance	5,379	1,811	3,568
Utilities	69,417	49,084	20,333
Professional Fees	16,335	15,280	1,055
Postage	8,126	7,195	931
Printing and Publications	4,588	3,211	1,377
Board and Committees	855	534	321
Other Administrative Expense	31,426	36,934	(5,508)
Security System	766	336	430
Computer Expense	10,817	11,765	(948)
Corporate Fees	322	322	-
Dues and Subscription	1,534	1,781	(247)
Seminars and Conventions	7,814	12,549	(4,735)
Special Events	2,461	3,630	(1,169)
Direct Mail Expense	100,014	89,831	10,183
Golf Tournament	3,163	3,183	(20)
Student Food Drive	4,791	5,589	(798)
Community Relations	26,030	6,917	19,113
Other Program Services	1,934	666	1,268
Food for Kids	-	29	(29)
Summer Feeding	37,177	24,027	13,150
After-school Feeding	9,345	12,495	(3,150)
Depreciation Expense	103,729	81,426	22,303
Payments to Affiliated Organizations	4,732	4,784	(52)
Food Donated and Purchased	11,462,454	8,883,264	2,579,190
COS - USDA Commodities	732,805	692,995	39,810
Total Expenses	<u>\$ 13,751,692</u>	<u>\$ 10,872,807</u>	<u>\$ 2,878,885</u>

The accompanying notes are an integral part of the financial statements.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of Northeast Tennessee, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, 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 December 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank of Northeast Tennessee, Inc.'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 Second Harvest Food Bank of Northeast Tennessee, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the organization'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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Northeast Tennessee, Inc.'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 or 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.



Eddy & Eddy, CPAs, P.C.
Johnson City, Tennessee

December 17, 2013



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Northeast Tennessee, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank of Northeast Tennessee, Inc.'s major federal programs for the year ended June 30, 2013. Second Harvest Food Bank of Northeast Tennessee, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Second Harvest Food Bank of Northeast Tennessee, Inc.'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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

Second Harvest Food Bank of Northeast Tennessee, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Second Harvest Food Bank of Northeast Tennessee, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Second Harvest Food Bank of Northeast Tennessee, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Second Harvest Food Bank of Northeast Tennessee, Inc. 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 Second Harvest Food Bank of Northeast Tennessee, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Second Harvest Food Bank of Northeast Tennessee, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in red ink that reads "Eddy + Eddy". The script is cursive and fluid.

Eddy & Eddy, CPAs, P.C.
Johnson City, Tennessee

December 17, 2013

Second Harvest Food Bank of Northeast Tennessee, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section 1 – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unmodified

Material weaknesses identified – no

Significant deficiencies identified not considered to be material weaknesses – no

Noncompliance material to financial statements noted – no

Federal Awards

Internal control over major programs:

Material weaknesses identified – no

Reportable conditions identified not considered to be material weaknesses – no

Type of auditor’s report issued on compliance for major programs – unmodified

Audit findings that are required to be reported in accordance with OMB Circular A-133, Section .510(a) – no

Identification of major program cluster:

CFDA Number 10.568 Department of Agriculture / Emergency Food Assistance Program /Administrative Costs

CFDA Number 10.569 Department of Agriculture / Emergency Food Assistance Program /Food Commodities

Dollar threshold used to distinguish between Type A and Type B programs - \$300,000

Auditee qualified as low-risk auditee – no