

Financial Report

*Second Harvest Food Bank of
Greater New Orleans and Acadiana*

June 30, 2016



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Greater New Orleans and Acadiana*

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Archbishop or Administrator of the
Archdiocese of New Orleans and Board of Directors,
Second Harvest Food Bank of Greater New Orleans and Acadiana,
New Orleans, Louisiana.

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest"), a non-profit organization, which comprise the statements of financial position as of June 30, 2016 and 2015 and the related 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 3, the financial statements have been restated to record the interest rate swap liability. Accordingly, amounts reported for the derivative liability have been restated in the June 30, 2015 financial statements now presented, and an adjustment has been made to net assets as of June 30, 2015, for this correction. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, Title 2 U.S. *Code of Federal Regulations* (CFR) 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information in Schedule 1 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. Such information in Schedule 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on the supplemental information. The accompanying supplemental information is not intended to present Second Harvest's financial position and results of operations.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2016, on our consideration of Second Harvest'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's internal control over financial reporting and compliance.


Certified Public Accountants.

New Orleans, Louisiana.
October 26, 2016.

STATEMENTS OF FINANCIAL POSITION

Second Harvest Food Bank of Greater New Orleans and Acadiana

June 30, 2016 and 2015

| | <u>ASSETS</u> | |
|-------------------------------------|--------------------------|-------------------------------------|
| | <u>2016</u> | <u>2015</u> <u>(As Restated)</u> |
| Current Assets: | | |
| Cash and cash equivalents | \$ 812,434 | \$ 654,347 |
| Contributions receivable: | | |
| Pledges | 180,192 | 161,266 |
| United Way | 298,100 | 345,492 |
| Give NOLA | 53,887 | 69,998 |
| Grants receivable | 873,816 | 724,202 |
| Other receivables | 131,777 | 111,887 |
| Prepaid and other assets | 66,343 | 26,720 |
| Investments | 2,622,320 | 2,657,443 |
| Inventory | <u>2,335,817</u> | <u>1,656,514</u> |
| Total current assets | 7,374,686 | 6,407,869 |
| Noncurrent Assets: | | |
| Pledges receivable, noncurrent | 3,542 | 178,443 |
| Property and equipment - net | 9,931,817 | 10,233,907 |
| Investments, permanently restricted | 1,183,596 | 1,315,598 |
| Other assets | <u>23,611</u> | <u>25,109</u> |
| Total assets | <u>\$ 18,517,252</u> | <u>\$ 18,160,926</u> |

See notes to financial statements.

LIABILITIES AND NET ASSETS

| | <u>2016</u> | <u>2015</u> (As Restated) |
|---|----------------------|------------------------------|
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 487,057 | \$ 484,783 |
| Note payable, current | 229,476 | 229,476 |
| Derivative liabilities | 238,568 | 126,852 |
| Other liabilities | <u>30,000</u> | <u>30,000</u> |
| Total current liabilities | 985,101 | 871,111 |
| Noncurrent Liabilities: | | |
| Note payable, net of current maturities | <u>3,824,607</u> | <u>4,054,084</u> |
| Total liabilities | <u>4,809,708</u> | <u>4,925,195</u> |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 9,313,002 | 9,061,820 |
| Designated | <u>2,277,738</u> | <u>2,075,135</u> |
| | 11,590,740 | 11,136,955 |
| Temporarily restricted | 933,208 | 783,178 |
| Permanently restricted | <u>1,183,596</u> | <u>1,315,598</u> |
| Total net assets | <u>13,707,544</u> | <u>13,235,731</u> |
| Total liabilities and net assets | <u>\$ 18,517,252</u> | <u>\$ 18,160,926</u> |

STATEMENT OF ACTIVITIES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals</u> |
|---|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Revenues and Other Support | | | | |
| Public support: | | | | |
| Donations of food, grocery, and other products from producers and brokers | \$ 36,505,467 | | | \$ 36,505,467 |
| Contributions, donations, and grants | 4,492,728 | \$ 640,108 | | 5,132,836 |
| Contributed goods and services | 39,900 | | | 39,900 |
| United Way | | | | |
| Southeast Louisiana: | | | | |
| Allocations | | 50,000 | | 50,000 |
| Designations | 38,071 | | | 38,071 |
| Combined Federal Campaign | 25,843 | | | 25,843 |
| St. Charles - allocations | | 148,600 | | 148,600 |
| Acadiana - allocations | 1,450 | | | 1,450 |
| St. John - allocations | | 25,000 | | 25,000 |
| Other - allocations | | 20,000 | | 20,000 |
| Special events (net of direct costs of \$65,546) | 258,403 | | | 258,403 |
| Total public support | <u>41,361,862</u> | <u>883,708</u> | <u>-</u> | <u>42,245,570</u> |
| Governmental financial assistance: | | | | |
| U.S.D.A. commodities | 15,535,326 | | | 15,535,326 |
| U.S.D.A. administration | 825,479 | | | 825,479 |
| Fees and grants from federal agencies | 1,055,159 | | | 1,055,159 |
| Non-Federal fees and grants | 628,346 | | | 628,346 |
| Total governmental financial assistance | <u>18,044,310</u> | <u>-</u> | <u>-</u> | <u>18,044,310</u> |
| Other Revenue | | | | |
| Program generated | 403,818 | | | 403,818 |
| Investment income | (102,250) | | \$ (63,088) | (165,338) |
| Rental income | 374,400 | | | 374,400 |
| Other | 130,508 | | | 130,508 |
| Net assets released from restrictions | 802,592 | (733,678) | (68,914) | - |
| Total other revenue | <u>1,609,068</u> | <u>(733,678)</u> | <u>(132,002)</u> | <u>743,388</u> |
| Total revenue | <u>61,015,240</u> | <u>150,030</u> | <u>(132,002)</u> | <u>61,033,268</u> |

**Exhibit B-1
(Continued)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Expenses | | | | |
| Program services | 58,391,338 | | | 58,391,338 |
| Management and general | 1,025,179 | | | 1,025,179 |
| Fundraising | 1,033,222 | | | 1,033,222 |
| | | | | |
| Total expenses | 60,449,739 | - | - | 60,449,739 |
| | | | | |
| Change in Net Assets Before Change in Liability on Interest Rate Swap Agreement | 565,501 | 150,030 | (132,002) | 583,529 |
| Change in liability on interest rate swap agreement (Note 13) | (111,716) | | | (111,716) |
| | | | | |
| Change in Net Assets | 453,785 | 150,030 | (132,002) | 471,813 |
| | | | | |
| Net Assets | | | | |
| Beginning of year | 11,136,955 | 783,178 | 1,315,598 | 13,235,731 |
| | | | | |
| End of year | <u>\$ 11,590,740</u> | <u>\$ 933,208</u> | <u>\$ 1,183,596</u> | <u>\$ 13,707,544</u> |

See notes to financial statements.

STATEMENT OF ACTIVITIES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Totals (As Restated)</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Revenues and Other Support | | | | |
| Public support: | | | | |
| Donations of food, grocery, and other products from producers and brokers | \$ 31,720,496 | | | \$ 31,720,496 |
| Contributions, donations, and grants | 4,464,619 | \$ 378,561 | | 4,843,180 |
| Contributed goods and services | 65,660 | | | 65,660 |
| United Way | | | | |
| Southeast Louisiana: | | | | |
| Allocations | | 51,387 | | 51,387 |
| Designations | 50,107 | | | 50,107 |
| Combined Federal Campaign | 35,375 | | | 35,375 |
| St. Charles - allocations | | 132,600 | | 132,600 |
| Acadiana - allocations | 385 | 110,000 | | 110,385 |
| St. John - allocations | | 20,000 | | 20,000 |
| Washington Parish - allocations | 1,750 | 7,130 | | 8,880 |
| Other - allocations | - | 20,000 | | 20,000 |
| Special events (net of direct costs of \$90,377) | 227,425 | | | 227,425 |
| | <u>36,565,817</u> | <u>719,678</u> | <u>-</u> | <u>37,285,495</u> |
| Total public support | | | | |
| Governmental financial assistance: | | | | |
| U.S.D.A. commodities | 9,854,708 | | | 9,854,708 |
| U.S.D.A. administration | 603,941 | | | 603,941 |
| Fees and grants from federal agencies | 1,196,132 | | | 1,196,132 |
| Non-Federal fees and grants | 745,340 | | | 745,340 |
| | <u>12,400,121</u> | <u>-</u> | <u>-</u> | <u>12,400,121</u> |
| Total governmental financial assistance | | | | |
| Other Revenue | | | | |
| Program generated | 453,745 | | | 453,745 |
| Investment income | 42,517 | | \$ 15,336 | 57,853 |
| Rental income | 361,200 | | | 361,200 |
| Other | 131,914 | | | 131,914 |
| Net assets released from restrictions | 916,560 | (839,179) | (77,381) | - |
| | <u>1,905,936</u> | <u>(839,179)</u> | <u>(62,045)</u> | <u>1,004,712</u> |
| Total other revenue | | | | |
| Total revenue | | | | |
| | <u>50,871,874</u> | <u>(119,501)</u> | <u>(62,045)</u> | <u>50,690,328</u> |

**Exhibit B-2
(Continued)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Totals (As Restated) |
|--|---------------|---------------------------|---------------------------|-------------------------|
| Expenses | | | | |
| Program services | 49,776,766 | | | 49,776,766 |
| Management and general | 1,151,672 | | | 1,151,672 |
| Fundraising | 1,388,189 | | | 1,388,189 |
| Total expenses | 52,316,627 | - | - | 52,316,627 |
| Change in Net Assets Before Change in Liability on Interest Rate Swap Agreement | (1,444,753) | (119,501) | (62,045) | (1,626,299) |
| Change in liability on interest rate swap agreement (Note 13) | (20,201) | | | (20,201) |
| Change in Net Assets | (1,464,954) | (119,501) | (62,045) | (1,646,500) |
| Net Assets | | | | |
| Beginning of year, as restated | 12,601,909 | 902,679 | 1,377,643 | 14,882,231 |
| End of year | \$ 11,136,955 | \$ 783,178 | \$ 1,315,598 | \$ 13,235,731 |

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2016

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Totals</u> |
|--|-----------------------------|-----------------------------------|-------------------------|--------------------------|
| Salaries | \$ 2,257,537 | \$ 599,409 | \$ 395,806 | \$ 3,252,752 |
| Employee benefits and taxes | 589,820 | 151,975 | 99,063 | 840,858 |
| Personnel development and recruitment | <u>103,117</u> | <u>39,804</u> | <u>4,053</u> | <u>146,974</u> |
| Total salaries and related expenses | 2,950,474 | 791,188 | 498,922 | 4,240,584 |
| Food distribution | 52,616,826 | | 68,208 | 52,685,034 |
| Mailings and solicitations | 368,341 | 5,330 | 270,455 | 644,126 |
| Occupancy | 552,206 | 31 | 2,965 | 555,202 |
| Other operating expenses | 372,805 | 68,533 | 106,674 | 548,012 |
| Transportation and freight | 488,048 | 5,088 | 3,545 | 496,681 |
| Depreciation | 461,427 | 6,857 | | 468,284 |
| Professional fees and contract services | 128,972 | 93,331 | 58,423 | 280,726 |
| Supplies | 223,925 | 6,928 | 24,030 | 254,883 |
| Equipment expenses | 98,089 | 47,893 | | 145,982 |
| Insurance | <u>130,225</u> | | | <u>130,225</u> |
| Total expenses | <u>\$ 58,391,338</u> | <u>\$ 1,025,179</u> | <u>\$ 1,033,222</u> | <u>\$ 60,449,739</u> |

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the year ended June 30, 2015

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Totals</u> |
|--|-----------------------------|-----------------------------------|-------------------------|--------------------------|
| Salaries | \$ 2,597,871 | \$ 664,442 | \$ 475,698 | \$ 3,738,011 |
| Employee benefits and taxes | 630,151 | 154,265 | 105,695 | 890,111 |
| Personnel development and recruitment | <u>105,037</u> | <u>73,104</u> | <u>7,290</u> | <u>185,431</u> |
| Total salaries and related expenses | 3,333,059 | 891,811 | 588,683 | 4,813,553 |
| Food distribution | 43,656,567 | | 91,418 | 43,747,985 |
| Mailings and solicitations | 351,166 | 6,480 | 345,387 | 703,033 |
| Occupancy | 490,631 | | 1,368 | 491,999 |
| Other operating expenses | 338,157 | 71,586 | 214,254 | 623,997 |
| Transportation and freight | 596,170 | 1,914 | 4,426 | 602,510 |
| Depreciation | 467,280 | 3,676 | 1,118 | 472,074 |
| Professional fees and contract services | 113,780 | 96,801 | 110,777 | 321,358 |
| Supplies | 228,400 | 6,566 | 30,155 | 265,121 |
| Equipment expenses | 60,691 | 72,838 | 217 | 133,746 |
| Insurance | <u>140,865</u> | | <u>386</u> | <u>141,251</u> |
| Total expenses | <u>\$ 49,776,766</u> | <u>\$ 1,151,672</u> | <u>\$ 1,388,189</u> | <u>\$ 52,316,627</u> |

See notes to financial statements.

STATEMENTS OF CASH FLOWS**Second Harvest Food Bank of Greater New Orleans and Acadiana**

For the years ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> <u>(As Restated)</u> |
|--|------------------|-------------------------------------|
| Cash Flows From Operating Activities | | |
| Change in net assets | \$ 471,813 | \$ (1,646,500) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Bad debt | 6,875 | 50,733 |
| Depreciation | 468,284 | 472,074 |
| Unrealized and realized losses on investments, net | 245,583 | 59,423 |
| Loss on sale of assets | 34,544 | 7,167 |
| Change in liability on interest rate swap agreement | 111,716 | 20,201 |
| Changes in assets and liabilities: | | |
| Receivables and pledges | 43,099 | (71,807) |
| Other assets | 1,498 | 2,313 |
| Prepaid expenses | (39,623) | 7,563 |
| Inventory | (679,303) | 906,412 |
| Accounts payable and accrued expenses | <u>2,274</u> | <u>(98,013)</u> |
| Net cash provided by (used in) operating activities | <u>666,760</u> | <u>(290,434)</u> |
| Cash Flows From Investing Activities | | |
| Purchases of investments, net | (78,458) | (110,987) |
| Purchases of property and equipment | (224,238) | (368,844) |
| Proceeds from sale of property and equipment | <u>23,500</u> | <u>-</u> |
| Net cash used in investing activities | <u>(279,196)</u> | <u>(479,831)</u> |

**Exhibit D
(Continued)**

| | <u>2016</u> | <u>2015 (As Restated)</u> |
|--|-------------------|-------------------------------|
| Cash Flows From Financing Activities | | |
| Principal payments on notes payable | <u>(229,477)</u> | <u>(229,476)</u> |
| Net Increase (Decrease) in Cash | 158,087 | (999,741) |
| Cash | | |
| Beginning of year | <u>654,347</u> | <u>1,654,088</u> |
| End of year | <u>\$ 812,434</u> | <u>\$ 654,347</u> |
| Supplemental Disclosure for Cash Flow Information | | |
| Cash paid during the year for interest | <u>\$ 159,316</u> | <u>\$ 167,139</u> |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS**Second Harvest Food Bank of Greater New Orleans and Acadiana**

June 30, 2016 and 2015

Note 1 - NATURE OF ACTIVITIES

Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest"), a Louisiana non-profit corporation, is a certified member of Feeding America. Its mission is to lead the fight against hunger and build food security in South Louisiana by providing food access, advocacy, education and disaster response. Second Harvest provides distribution of food and related products to qualified charitable organizations. The Archbishop or Administrator of the Archdiocese of New Orleans (the "Archdiocese") is the sole member of Second Harvest.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Basis of Accounting**

The financial statements of Second Harvest are prepared on the accrual basis of accounting.

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

c. Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, Second Harvest considers all unrestricted, highly liquid, short-term investments, including money market account deposits, commercial paper investments, and certificates of deposit purchased with an initial maturity of 90 days or less to be cash equivalents.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Allowance for Doubtful Accounts

Second Harvest uses the reserve method to recognize uncollectible accounts. The reserve is based on management's assessment of the collectability of specific accounts. Management monitors outstanding receivable balances and charges off to bad debt expense any balances that are determined to be uncollectible. Bad debt expense totaled \$6,875 and \$50,733 for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, there was no reserve for bad debts.

e. Investments

Second Harvest records investments in the investment pool with the Catholic Foundation of the Archdiocese of New Orleans at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities. Unrealized gains and losses on investments are recorded as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Interest earned on donor restricted investments is reported based on the existence or absence of donor-imposed restrictions. Realized gains and losses on the sales of securities are determined using the specific-identification method. A decline in the fair value of investments below cost that is deemed to be other than temporary, results in a charge to the change in net assets and the establishment of a new cost basis for the investment.

f. Inventory

Second Harvest's inventory is comprised of donated food and grocery products, U.S.D.A. commodities, and purchased food and grocery products. Donated food and U.S.D.A. commodities inventory, including food received, distributed and undistributed, is valued using the estimated fair value as determined by the Feeding America Product Valuation Survey prepared by KPMG, LLP on an annual basis. The report provides the average wholesale value of products donated to the network and is considered to be a reasonable basis upon which to estimate these amounts. The average wholesale value used was \$1.67 and \$1.70 per pound for years ended June 30, 2016 and 2015, respectively.

Purchased food inventory is recorded at cost. As of June 30, 2016 and 2015, there was no obsolete inventory.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Derivatives Instruments

Second Harvest has a derivative instrument that is used as a hedge to the variable interest rate loan issued by a financial institution (Note 13).

Second Harvest follows Topic 815, *Derivatives and Hedges*, which requires Second Harvest to recognize all of its derivative instruments as either assets or liabilities on the Statements of Financial Position at fair value. The accounting for the change in fair value of the derivative instrument is recognized as a component of change in unrestricted net assets in the Statement of Activities.

h. Property and Equipment

Second Harvest has adopted the policy of capitalizing all expenditures for depreciable assets where the unit cost exceeds \$2,000. Property is stated at cost or at fair market value on the date of donation for donated assets. Depreciation of these assets is provided over their estimated useful lives, which ranges from three years to 50 years, on a straight-line basis. Repairs and maintenance are charged to expense as incurred; major renewals and replacements and betterments are capitalized.

For the years ended June 30, 2016 and 2015, depreciation expense totaled \$468,284 and \$472,074, respectively.

i. Financial Statement Presentation

Net assets are included in one of the following three classes of net assets, depending on the presence and type of donor-imposed restrictions.

Unrestricted Net Assets - Those net assets whose use is not restricted by donors. On March 6, 2013, the Board of Directors passed a resolution which approved the adoption of the Operating Reserve Policy.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Financial Statement Presentation (Continued)

The Operating Reserve Policy of Second Harvest is designed to ensure the stability of the Organization's mission and ongoing operations. The Operating Reserve is intended to provide a source of funds for situations such as extraordinary expenses that arise, reserve variability, unanticipated losses of funding, or other unexpected financial events. The Operating Reserve is not intended to replace a permanent loss of funds or eliminate an ongoing budget deficit. Second Harvest's Operating Reserve will be supported by investments in the form of cash deposits or publicly traded investments to be available based on Finance Committee recommendations and Board of Directors' approvals. As of June 30, 2016 and 2015, the Operating Reserve requirements were \$2,277,738 and \$2,075,135 respectively.

Temporarily Restricted Net Assets - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

Permanently Restricted Net Assets - Contributions subject to donor-imposed restrictions and that are to be held in perpetuity by Second Harvest.

j. Contributions and Revenue Recognition

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of restrictions. Other support and/or contributions not restricted are recorded as unrestricted revenue. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support. The value of contributed goods and services has been recorded as support and revenue and expense in the period received, provided there is an objective basis for measurement of the value of such goods and services, and they are significant and form an integral part of the efforts of the program.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Contributions and Revenue Recognition (Continued)

Contributions receivable are recognized when the donor makes a promise to give to Second Harvest that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. There were no conditional promises to give as of June 30, 2016 and 2015.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. There were no donated assets received for the years ended June 30, 2016 and 2015.

k. Functional Allocation of Expenses

The costs of providing the various programs and supporting services are summarized on a functional basis in the Statements of Functional Expenses. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.

l. Donated Services

Support arising from donated services is recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation.

During the years ended June 30, 2016 and 2015, Second Harvest recognized \$39,900 and \$65,660, respectively, for donated advertising services. The related advertising costs were expensed as incurred.

The donated volunteer services in Second Harvest's functional areas were approximately 52,807 hours for the year ended June 30, 2016 and 56,149 hours for the year ended June 30, 2015. The services provided for the years ended June 30, 2016 and 2015 do not meet either criterion described above. The computation of the value of these services represents the amount of compensation, which would be paid if non-volunteer personnel were to occupy these positions. The 52,807 hours for the year ended June 30, 2016 and 56,149 hours for the year ended June 30, 2015 that do not meet either of the recognition

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Donated Services (Continued)

criteria described above have not been recognized in the accompanying financial statements. The value for donated volunteer services for the years ended June 30, 2016 and 2015 was \$1,244,142 and \$1,243,141, respectively.

m. Income Taxes

Second Harvest operates as a non-profit corporation pursuant to section 501(c)(3) of the Internal Revenue Code. As such, Second Harvest is subject to income tax only on unrelated business taxable income.

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosures of uncertain tax positions recognized in an entity's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. As of June 30, 2016 and 2015, management of Second Harvest believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years ended June 30, 2013 and later remain subject to examination by the taxing authorities.

n. Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 26, 2016, which is the date the financial statements were available to be issued.

o. Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Note 3 - RESTATEMENT

During the year ended June 30, 2016, Second Harvest corrected net assets as of June 30, 2015 and 2014 to record the interest rate swap liability. The following tables show the corrections:

| | <u>Unrestricted Net Assets</u> | <u>Temporarily Restricted Net Assets</u> | <u>Permanently Restricted Net Assets</u> | <u>Total Net Assets</u> |
|---|------------------------------------|--|--|-----------------------------|
| Net assets as of June 30, 2014 as previously reported | \$ 12,708,560 | \$ 902,679 | \$ 1,377,643 | \$ 14,988,882 |
| Prior period adjustment: Recording interest rate swap agreement | <u>(106,651)</u> | <u>-</u> | <u>-</u> | <u>(106,651)</u> |
| Net assets as of June 30, 2014 as restated | <u>\$ 12,601,909</u> | <u>\$ 902,679</u> | <u>\$ 1,377,643</u> | <u>\$ 14,882,231</u> |

| | <u>2015 As Previously Reported</u> | <u>Adjustments</u> | <u>2015 As Restated</u> |
|--|--|---------------------|-----------------------------|
| Change in liability on interest rate swap agreement | <u>\$ -</u> | <u>\$ 20,201</u> | <u>\$ 20,201</u> |
| Change in net assets | <u>\$ (1,626,299)</u> | <u>\$ (20,201)</u> | <u>\$ (1,646,500)</u> |
| Derivative liability | <u>\$ -</u> | <u>\$ 126,852</u> | <u>\$ 126,852</u> |
| Unrestricted net assets | <u>\$ 11,263,807</u> | <u>\$ (126,852)</u> | <u>\$ 11,136,955</u> |

Note 4 - GRANTS RECEIVABLE

The grants receivable balances as of June 30, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|--|------------|------------|
| Department of Education - Summer Food Service Program | \$ 318,470 | \$ 226,099 |
| Morgan Stanley Foundation | 150,000 | - |
| Chevron | 100,000 | 125,000 |
| Joe W. and Dorothy Dorsett Brown Foundation | 100,000 | 100,000 |
| U.S.D.A. distribution fees | 87,041 | 62,646 |
| Kresge Foundation | 30,000 | - |
| Mazon | 17,000 | - |
| Department of Children and Family Services | 15,356 | 12,784 |
| Walmart Foundation | 12,946 | - |
| Freeport McMoran | 10,000 | - |
| Share Our Strength | 10,000 | - |
| Other grants | 9,000 | 56,341 |
| Single Stop USA | 7,080 | - |
| City of Lafayette Consolidated Government | 6,923 | 4,985 |
| Louisiana Food Bank Association | - | 97,000 |
| McCormick & Company | - | 25,000 |
| Kiwanis Club of Lafayette | - | 14,347 |
| | \$ 873,816 | \$ 724,202 |
| Totals | | |

Note 5 - PLEDGES RECEIVABLE

Promises of donors to make contributions to Second Harvest are included in the financial statements as pledges receivable and contributions after discounting projected future cash flows to present value using a discount rate of 5% as determined by management to be a market rate of interest.

Note 5 - PLEDGES RECEIVABLE (Continued)

Pledges receivable as of June 30, 2016 and 2015 consist of the following:

| | 2016 | 2015 |
|------------------------|------------|------------|
| In less than one year | \$ 180,192 | \$ 161,266 |
| One to five years | 4,000 | 190,000 |
| Totals | 184,192 | 351,266 |
| Unamortized discount | (458) | (11,557) |
| Net pledges receivable | \$ 183,734 | \$ 339,709 |

Note 6 - INVESTMENTS

Investments of the various agencies of the Archdiocese of New Orleans (the "Archdiocese") are held in pooled assets and separately invested portfolios. Pooled assets represent funds that are invested in a commingled portfolio of investments, as opposed to separately invested assets. Investments in such pooled assets consist primarily of debt and equity securities and mutual fund investments. The amounts recorded in the Statements of Financial Position represent Second Harvest's share of the pool.

The following summarizes the market value of investments and the investment return as of and for the years ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|---------------------------------------|--------------|--------------|
| Investment balances | \$ 3,805,916 | \$ 3,973,041 |
| Unrealized gain (loss) on investments | \$ (220,322) | \$ (52,080) |
| Realized loss on investments | (25,261) | (7,343) |
| | (245,583) | (59,423) |
| Interest and dividend income | 80,245 | 117,276 |
| Investment income | \$ (165,338) | \$ 57,853 |

The current and long-term value of investments is \$2,622,320 and \$1,183,596, respectively, as of June 30, 2016, and \$2,657,443 and \$1,315,598, respectively, as of June 30, 2015.

Note 7 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Second Harvest has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2016 and 2015.

Note 7 - FAIR VALUE MEASUREMENTS (Continued)

Investments of Second Harvest are maintained by the Catholic Foundation of the Archdiocese of New Orleans. The investment pool holds investments in government obligations, corporate stocks, money market funds, mutual funds, exchange traded funds, government agency mortgage obligations, municipal obligations, corporate and foreign obligations, collateralized mortgage obligations, asset-backed securities, common trust commingled funds, segregated portfolio companies, and limited partnerships. The investment pool is included in Level 2 of the fair value hierarchy as the investment pool is valued using the net asset value as reported by the custodian. The net asset values are determined based on the fair values of the underlying investments. The custodian of the portfolio uses independent pricing services, where available, to value the securities included in this portfolio. If an independent pricing service does not value a security or the value is not, in the view of the custodian, representative of the market value, the custodian will attempt to obtain a price quote from a secondary pricing source, which may include third party brokers, investment advisers, and principal market makers or affiliated pricing services. If a secondary source is unable to provide a price, the custodian may obtain a quote from the counterparty that sold the security.

Assets measured at fair value on a recurring basis as of June 30, 2016 and 2015 are comprised of and determined as follows:

| <u>Description</u> | <u>2016</u> | | | |
|--|---|---|--|-------------------------------------|
| | <u>Based on</u> | | | |
| | Total Assets Measured At Fair Value | Quoted Prices In Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Archdiocese of New Orleans Investment Pool | <u>\$ 3,805,916</u> | <u>\$ -</u> | <u>\$ 3,805,916</u> | <u>\$ -</u> |

Note 7 - FAIR VALUE MEASUREMENTS (Continued)

| Description | 2015 | | | |
|--|---|---|--|-------------------------------------|
| | Based on | | | |
| | Total Assets Measured At Fair Value | Quoted Prices In Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Archdiocese of New Orleans Investment Pool | \$ 3,973,041 | \$ - | \$ 3,973,041 | \$ - |

As of June 30, 2016 and 2015, there were no assets measured at fair value on a non-recurring basis.

Note 8 - INVENTORY

Undistributed food and grocery products as of June 30, 2016 and 2015 consist of the following:

| | 2016 | | 2015 | |
|---|-------------------------|--------------------|-------------------------|--------------------|
| | Dollars | Pounds | Dollars | Pounds |
| Donated and purchased U.S.D.A. commodities | \$ 1,420,016 915,801 | 974,286 548,384 | \$ 1,258,153 398,361 | 765,927 234,330 |
| Totals | <u>\$ 2,335,817</u> | <u>1,522,670</u> | <u>\$ 1,656,514</u> | <u>1,000,257</u> |

Note 9 - SECOND HARVEST FOOD AND GROCERY PRODUCTS RECEIVED AND DISTRIBUTED

Second Harvest receipts and distribution of food and grocery products for the years ended June 30, 2016 and 2015 were as follows:

| | 2016 | | 2015 | |
|---------------------------------------|---------------|------------|---------------|------------|
| | Dollars | Pounds | Dollars | Pounds |
| Receipts: | | | | |
| Donated product | \$ 36,505,467 | 21,859,561 | \$ 31,720,496 | 18,659,115 |
| Purchased product | 1,724,215 | 1,358,534 | 1,140,160 | 1,053,921 |
| U.S.D.A. commodities | 15,535,326 | 9,302,591 | 9,854,708 | 5,796,887 |
| Totals | \$ 53,765,008 | 32,520,686 | \$ 42,715,364 | 25,509,923 |
| Distributions, net of adjustments: | | | | |
| Donated product | \$ 36,393,154 | 21,780,450 | \$ 31,293,508 | 18,402,718 |
| Purchased product | 1,674,665 | 1,229,286 | 1,213,365 | 1,053,043 |
| U.S.D.A. commodities | 15,017,886 | 8,988,537 | 11,114,903 | 6,526,834 |
| Totals | \$ 53,085,705 | 31,998,273 | \$ 43,621,776 | 25,982,595 |

Note 10 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|------------------------------------|--------------|---------------|
| Building and improvements | \$ 8,082,481 | \$ 8,082,481 |
| Land | 1,960,000 | 1,960,000 |
| Vehicles | 1,685,029 | 1,743,665 |
| Furniture, fixtures, and equipment | 1,628,049 | 1,386,474 |
| Construction in progress | 127,968 | 196,289 |
| Leasehold improvements | 56,843 | 46,656 |
| | 13,540,370 | 13,415,565 |
| Less: accumulated depreciation | (3,608,553) | (3,181,658) |
| Totals | \$ 9,931,817 | \$ 10,233,907 |

Note 11 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are restricted by donors for specific programs, purposes, to assist specific departments of Second Harvest, or designated for subsequent periods. These restrictions are considered to expire when expenditures for restricted purposes are made or when contributions in subsequent periods are received.

Temporarily restricted net assets as of June 30, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-------------------|-------------------|
| School pantry program | \$ 382,000 | \$ 63,500 |
| Food distribution program | 254,500 | 267,440 |
| Backpack program | 116,000 | 218,500 |
| Mobile pantry program | 67,600 | 22,600 |
| Community wellness program | 32,200 | 63,500 |
| Technology | 33,000 | 7,800 |
| Food sourcing | 19,808 | 20,000 |
| Volunteers | 10,500 | 25,000 |
| Cooking matters program | 10,000 | 1,000 |
| Summer feeding program | 5,000 | - |
| Aquaponics | 2,600 | 18,838 |
| Acquisition of plant and property | - | 50,000 |
| Kids café program | - | 25,000 |
| | <u> </u> | <u> </u> |
| Totals | <u>\$ 933,208</u> | <u>\$ 783,178</u> |

Note 11 - RESTRICTIONS ON NET ASSETS (Continued)

The following temporarily restricted net assets were released during the years ended June 30, 2016 and 2015:

| | 2016 | 2015 |
|-----------------------------------|------------|------------|
| Backpack program | \$ 218,500 | \$ 232,497 |
| Food distribution program | 217,940 | 151,536 |
| School pantry program | 63,500 | 16,667 |
| Community wellness program | 63,500 | 120,000 |
| Acquisition of plant and property | 50,000 | - |
| Volunteers | 25,000 | 35,000 |
| Kids café program | 25,000 | 25,000 |
| Mobile pantry program | 22,600 | 205,329 |
| Food sourcing | 20,000 | - |
| Aquaponics | 18,838 | - |
| Technology | 7,800 | - |
| Cooking matters program | 1,000 | 31,200 |
| Summer feeding program | - | 21,950 |
| | \$ 733,678 | \$ 839,179 |
| Totals | | |

Permanently restricted net assets consist of endowment fund assets (Note 12) to be held indefinitely.

Note 12 - ENDOWMENT

The Board of Directors (the "Board") of Second Harvest is of the belief that they have a strong fiduciary duty to manage the assets of Second Harvest's endowments in the most prudent manner possible. The Board recognizes that the intent of the endowment is to protect the donor with respect to expenditures from endowments. If this intent is clearly expressed by the donor, whether the intent is in a written gift instrument or not, the intent of the donor is followed. Earnings, including appreciation, that are not required by the donor to be reinvested in corpus are maintained in unrestricted net assets.

The Endowments. The Second Harvest's endowment fund consists of a permanently restricted fund established for the purpose of generating income to support general operations. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 12 - ENDOWMENT (Continued)

During the year ended June 30, 2000, the donor amended the "Agreement to Donate" dated August 26, 1997, which revised the method of distributing the earnings to Second Harvest, whereby 5% of the average market value of the investment for the last twelve fiscal quarters is allowed to be distributed annually to Second Harvest. All amounts in excess of the 5% distribution are to be reinvested as corpus. The amended "Agreement to Donate" also required that the principal balance should never be reduced below \$1,000,000.

Interpretation of Relevant Law. Second Harvest has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as expressly requiring the preservation of the historical dollar value for donor restricted endowment funds absent explicit donor stipulations to the contrary.

The following are classified as permanently restricted net assets in the accompanying financial statements.

- the original value of gifts donated to the permanent endowment;
- the original value of subsequent gifts to the permanent endowment; and
- accumulations to the permanent endowment, made in accordance with donor's amended "Agreement to Donate".

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Second Harvest considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of Second Harvest and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of Second Harvest
- The investment policies of Second Harvest

Note 12 - ENDOWMENT (Continued)

Endowment net asset composition as of June 30, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|------------------|---------------------|---------------------|
| Donor-restricted | <u>\$ 1,183,596</u> | <u>\$ 1,315,598</u> |

Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

| | 2016 | | Totals |
|-----------------------|-------------------|------------------------|---------------------|
| | Unrestricted | Permanently Restricted | |
| Endowment net assets, | | | |
| Beginning of year | \$ 77,381 | \$ 1,315,598 | \$ 1,392,979 |
| Earnings | 520 | (54,256) | (53,736) |
| Fees | (520) | (8,832) | (9,352) |
| Transfers | 68,914 | (68,914) | - |
| Endowment net assets, | | | |
| End of year | <u>\$ 146,295</u> | <u>\$ 1,183,596</u> | <u>\$ 1,329,891</u> |
| | | | |
| | 2015 | | Totals |
| | Unrestricted | Permanently Restricted | |
| Endowment net assets, | | | |
| Beginning of year | \$ 79,988 | \$ 1,377,643 | \$ 1,457,631 |
| Distribution | (79,988) | - | (79,988) |
| Earnings | 570 | 25,145 | 25,715 |
| Fees | (570) | (9,809) | (10,379) |
| Transfers | 77,381 | (77,381) | - |
| Endowment net assets, | | | |
| End of year | <u>\$ 77,381</u> | <u>\$ 1,315,598</u> | <u>\$ 1,392,979</u> |

Note 12 - ENDOWMENT (Continued)

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that either the donor or UPMIFA requires Second Harvest to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions. There were no such deficiencies in permanently restricted net assets as of June 30, 2016 and 2015.

Return Objectives and Risk Parameters. Second Harvest follows the investment and spending policies of the Archdiocese through the Catholic Foundation as mandated by the "Agreement to Donate" for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term.

Strategies Employed for Achieving Objectives. The endowment's assets are invested in the Archdiocese of New Orleans' investment pool, as previously described. Second Harvest's spending and investment policies work together to achieve this objective.

Spending Policy and How Investment Objectives Relate to the Spending Policy. Spending is approved by the Board, based on the needs of Second Harvest.

Note 13 - NOTES PAYABLE AND INTEREST RATE SWAP AGREEMENT

On January 21, 2011, Second Harvest entered into a mortgage loan agreement totaling \$5,100,000. The loan was payable in monthly principal and interest amounts of \$31,703 at an interest rate of 4.22% beginning March 2011 through January 2016 with all remaining principal and interest due February 2016.

On February 5, 2014, Second Harvest refinanced the mortgage loan balance of \$4,589,528. The loan is payable in monthly principal amounts of \$19,123 plus interest at a variable rate of interest (.457% and .186% as of June 30, 2016 and 2015, respectively) based on USD-LIBOR BBA plus a base rate of 1.50% (1.957% and 1.686% as of June 30, 2016 and 2015, respectively) beginning March 2014 through February 2021 with all remaining principal and interest due February 2021. The loan is collateralized with land, building, and improvements. The loan balance as of June 30, 2016 and 2015 was \$4,054,083 and \$4,283,560, respectively.

Note 13 - NOTES PAYABLE AND INTEREST RATE SWAP AGREEMENT (Continued)

In conjunction with this note, Second Harvest entered into an interest rate swap agreement with the financial institution whereby the current notional amount (\$4,054,083 as of June 30, 2016) bears interest at a fixed rate of 2.25% minus a variable interest rate based on the USD-LIBOR BBA (.457% and .186% as of June 30, 2016 and 2015, respectively). The swap agreement is designed to hedge the risk of changes in interest rate payments on the refinanced mortgage loan.

Second Harvest has recognized an unfavorable position with the counterparty in the amount of \$238,568 and \$126,852 as a derivative liability on the Statements of Financial Position as of June 30, 2016 and 2015, respectively, and recorded unrealized losses of \$111,716 and \$20,201 on the Statements of Activities for the years ended June 30, 2016 and 2015, respectively.

Future principal and interest payments to be made on the note and swap agreement are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|------|---------------------|-------------------|---------------------|
| 2017 | \$ 229,476 | \$ 148,084 | \$ 377,560 |
| 2018 | 229,476 | 139,479 | 368,955 |
| 2019 | 229,476 | 130,873 | 360,349 |
| 2020 | 229,476 | 122,268 | 351,744 |
| 2021 | <u>3,136,179</u> | <u>76,731</u> | <u>3,212,910</u> |
| | <u>\$ 4,054,083</u> | <u>\$ 617,435</u> | <u>\$ 4,671,518</u> |

Interest expense on the note payable and swap agreement for the years ended June 30, 2016 and 2015 was \$159,316 and \$167,139, respectively.

The mortgage agreement contains certain covenants, including the maintenance of certain financial ratios. As of June 30, 2016 and 2015, management of Second Harvest was not aware of any violations of the covenants.

Note 14 - RETIREMENT PLAN

Second Harvest offers a 401(k) retirement plan for its employees. Employees electing to participate in the plan are required to contribute a minimum of 3% of their salaries, and may elect to contribute up to a 16% maximum. The plan requires Second Harvest to contribute 3.5% of the participants' salaries. The retirement plan expense also includes an additional 2% contribution by Second Harvest to cover plan costs including life insurance and disability insurance for the employees. Any remaining funds from the additional 2% contribution may be used as a discretionary employer contribution to the plan.

The plan administrator is the Archdiocese. The plan trustee is Voya. Second Harvest contributed \$99,206 and \$119,093, for the years ended June 30, 2016 and 2015, respectively.

Note 15 - LEASES

Second Harvest as Lessee

Second Harvest leases warehouse and office space in Lafayette under an operating lease. The current lease agreement is for the period January 1, 2013 through December 31, 2017. Monthly payments on the lease are \$8,572. Second Harvest also leases two trucks under an operating lease. The current lease agreement is for the period July 1, 2014 through June 30, 2021. Monthly payments on these leases are \$3,486. Rent expense for both years ended June 30, 2016 and 2015 was \$146,390 and \$144,695, respectively.

As of June 30, 2016, minimum future obligations under operating leases having an initial lease term of one year or more are as follows:

| <u>Year Ending June 30,</u> | <u>Amounts</u> |
|---------------------------------|-------------------|
| 2017 | \$ 144,695 |
| 2018 | 93,263 |
| 2019 | 41,831 |
| 2020 | 41,831 |
| 2021 | <u>41,831</u> |
| Total | <u>\$ 363,451</u> |

Note 15 - LEASES (Continued)

Second Harvest as Lessor

Second Harvest leases approximately 86,000 square feet of warehouse space in New Orleans. The prior lease term was for the period May 15, 2013 through May 31, 2015. Monthly lease payments for this lease were approximately \$30,000 per month. The current lease term is for the period June 1, 2015 through May 31, 2017. Monthly lease payments are \$31,200 per month. Rental income was \$374,400 and \$361,200 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments due as of June 30, 2016 are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|---------------------------------|-------------------|
| 2017 | <u>\$ 343,200</u> |

Note 16 - SIGNIFICANT CONTRACTS AND GRANTS

For the years ended June 30, 2016 and 2015, \$16,898,355 and \$11,109,200, respectively, (which includes \$537,550 and \$650,551, respectively, of revenue included in non-Federal fees and grants on the Statements of Activities) of Second Harvest's governmental financial assistance was from the U.S. Department of Agriculture. Management believes that Second Harvest is in compliance with the provisions of these contracts and grants and that the findings of an audit, if any, would not have a material impact on the financial statements.

Note 17 - RISK MANAGEMENT

Second Harvest is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no settled claims that exceeded this commercial coverage during the years ended June 30, 2016 and 2015.

Note 18 - CONCENTRATIONS OF CREDIT RISK

Second Harvest maintains deposits with local financial institutions. Accounts at these institutions are insured by the U.S. Federal Deposit Insurance Corporation up to \$250,000 per account. The balances at times may exceed federally insured limits. As of June 30, 2016, the cash balance in excess of insured amounts was approximately \$345,000.

Note 19 - RISKS AND UNCERTAINTIES

Investment securities are exposed to various risks, such as interest rate, currency, credit, and market volatility. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in risk in the near term would materially affect the fair market value of investments held by Second Harvest.

Note 20 - BOARD OF DIRECTORS COMPENSATION

The members of Second Harvest's Board were not compensated during the years ended June 30, 2016 and 2015.

Note 21 - RELATED PARTY TRANSACTIONS

The Archdiocese, through the operations of the Administrative Offices, serves as a conduit in providing insurance coverage to Second Harvest. The Administrative Office assesses premiums to Second Harvest based on relevant factors for each type of coverage. In the normal course of operations, the Archdiocese will make available to Second Harvest specific assistance in the form of internet services. Second Harvest is assessed separately for this assistance.

Second Harvest paid the Archdiocese \$204,268 and \$200,156 for general liability, property coverage, workmen's compensation, and vehicle insurances and \$11,484 and \$12,838 for internet services secured on its behalf for the years ended June 30, 2016 and 2015, respectively.

SUPPLEMENTAL INFORMATION

**SCHEDULE OF SUPPORT, REVENUE, AND EXPENSES PREPARED
FOR THE UNITED WAY OF SOUTHEAST LOUISIANA**

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2016
(Unaudited)

FORM 1

| FUNCTIONAL BUDGET SPREADSHEET | | AGENCY TOTAL (Sum 2 + 3) | ADMINISTRATION FUNDRAISING | TOTAL PROGRAM SERVICES | PROGRAM SERVICES |
|-------------------------------|--|--------------------------------|-------------------------------|------------------------------|----------------------|
| | | | Management and General | | Second Harvest |
| | | 1 | 2 | 3 | 4 |
| REVENUE: | | | | | |
| 1 | 4200 BOARD GENERATED SELF SUPPORT | \$ - | \$ - | \$ - | \$ - |
| 2 | 4201 CLIENT GENERATED SELF SUPPORT | 5,391,239 | - | 5,391,239 | 5,391,239 |
| 3 | 5000 GOVERNMENT | 18,044,310 | - | 18,044,310 | 18,044,310 |
| 4 | 4800 OTHER FOUNDATIONS OR NATIONAL GRANTS | - | - | - | - |
| 5 | 6700 OTHER REVENUE | 743,388 | - | 743,388 | 743,388 |
| 6 | 9200 IN-KIND/NON-CASH CONTRIBUTIONS | 36,545,367 | - | 36,545,367 | 36,545,367 |
| 7 | TOTAL SELF GENERATED REVENUE | 60,724,304 | - | 60,724,304 | 60,724,304 |
| 8 | 4702 UNITED WAY DESIGNATIONS | 38,071 | - | 38,071 | 38,071 |
| 9 | 4703 CFC DESIGNATIONS | 25,843 | - | 25,843 | 25,843 |
| 10 | 4704 OTHER UNITED WAY GRANTS | 245,050 | - | 245,050 | 245,050 |
| 11 | TOTAL REVENUE | 61,033,268 | - | 61,033,268 | 61,033,268 |
| 12 | 4701 UNITED WAY GNO REQUEST | - | - | - | - |
| 13 | GRAND TOTAL REVENUE | \$ 61,033,268 | \$ - | \$ 61,033,268 | \$ 61,033,268 |
| EXPENSES: | | | | | |
| 14 | 7000 SALARIES | \$ 3,252,752 | \$ 995,215 | \$ 2,257,537 | \$ 2,257,537 |
| 15 | 7100 BENEFITS | 604,793 | 180,947 | 423,846 | 423,846 |
| 16 | 7200 TAXES | 236,065 | 70,091 | 165,974 | 165,974 |
| 17 | 8400 OCCUPANCY EXPENSES | 555,202 | 2,996 | 552,206 | 552,206 |
| 18 | 8700 TRAVEL & TRANSPORTATION EXP. | 496,681 | 8,633 | 488,048 | 488,048 |
| 19 | 8100 OFFICE SUPPLIES | 93,897 | 13,146 | 80,751 | 80,751 |
| 20 | 8600 PRINTING | 20,484 | 2,868 | 17,616 | 17,616 |
| 21 | 8900 DIRECT ASSISTANCE TO INDIVIDUALS | 1,273,994 | 68,208 | 1,205,786 | 1,205,786 |
| 22 | 9400 OTHER | 1,820,805 | 380,549 | 1,440,256 | 1,440,256 |
| 23 | 9401 IN-KIND/NON-CASH CONTRIBUTIONS | 51,450,940 | 39,900 | 51,411,040 | 51,411,040 |
| 24 | 9402 BOARD GENERATED SELF SUPPORT | 644,126 | 295,848 | 348,278 | 348,278 |
| 25 | GRAND TOTAL EXPENSES | \$ 60,449,739 | \$ 2,058,401 | \$ 58,391,338 | \$ 58,391,338 |
| 26 | NET DIFFERENCE | \$ 583,529 | \$ (2,058,401) | \$ 2,641,930 | \$ 2,641,930 |

| | | |
|--------------------|--------------------------------------|---------------|
| EXPENSES ANALYSIS: | 27-Total Direct Program Expenses | \$ 58,391,338 |
| | 28-Percent of Total Program Expenses | 100% |
| | 29-Distribution of M & G Expenses | \$ 2,058,401 |
| | 30-Grand Total Program Expenses | \$ 60,449,739 |
| | 31-Projected Undup. People Served | 210,000 |
| | 32-Cost per Person | \$ 288 |

See Accountant's Disclaimer of Opinion.

SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

**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 Archbishop or Administrator of the
Archdiocese of New Orleans and Board of Directors,
Second Harvest Food Bank of Greater New Orleans and Acadiana,
New Orleans, Louisiana.

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 Greater New Orleans and Acadiana (a nonprofit organization) ("Second Harvest"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest'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's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest'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's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Second Harvest's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Second Harvest's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants.

New Orleans, Louisiana.
October 26, 2016.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE

To the Archbishop or Administrator of the
Archdiocese of New Orleans and Board of Directors,
Second Harvest Food Bank of Greater New Orleans and Acadiana,
New Orleans, Louisiana.

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Greater New Orleans and Acadiana's ("Second Harvest") (a nonprofit organization) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of Second Harvest's major federal programs for the year ended June 30, 2016. Second Harvest'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's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Second Harvest'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's compliance.

Opinion on Each Major Federal Program

In our opinion, Second Harvest 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, 2016.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control Over Compliance

Management of Second Harvest is responsible for establishing and maintaining effective internal control over compliance with requirements referred to above. In planning and performing our audit, we considered Second Harvest's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing our opinion on compliance 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 Second Harvest's internal control over compliance.

A deficiency in internal control over compliance 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 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 control 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 would not necessarily identify all deficiencies in internal control that might be 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.

A handwritten signature in black ink that reads "Bourgeois Bennett, L.L.C." in a cursive script.

Certified Public Accountants.

New Orleans, Louisiana.
October 26, 2016.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2016

| <u>Federal Grantor / Pass-Through Agency / Program Title</u> | <u>Federal CFDA Number</u> | <u>Passed-through to Subrecipients (Food Commodities)</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---|---------------------------------|
| United States Department of Agriculture: | | | |
| <u>Pass-through Programs From:</u> | | | |
| <u>Louisiana Department of Agriculture and Forestry:</u> | | | |
| <i>Food Distribution Cluster</i> | | | |
| Emergency Food Assistance Program (Food Commodities) | 10.569 | \$ 15,535,326 | \$ 15,535,326 |
| Emergency Food Assistance Program (Administrative Costs) | 10.568 | | <u>825,479</u> |
| Total Food Distribution Cluster | | | 16,360,805 |
| <u>Louisiana Department of Education:</u> | | | |
| Child and Adult Care Food Program | 10.558 | | 325,600 |
| Summer Food Service Program | 10.559 | | <u>729,559</u> |
| Total expenditures of federal awards | | <u>\$ 15,535,326</u> | <u>\$ 17,415,964</u> |

See accompanying notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2016

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest"). Second Harvest's reporting entity is defined in Note 1 to the financial statements for the year ended June 30, 2016. All federal awards received directly from federal agencies are included on the schedule, as well as federal awards passed-through other government agencies.

b. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 to Second Harvest's financial statements for the year ended June 30, 2016.

c. Payments to Subrecipients

There were no payments to subrecipients for the year ended June 30, 2016.

Note 2 - RELATIONSHIP TO FINANCIAL STATEMENTS

Federal revenues of \$17,415,964 are reported on the Statement of Activities as unrestricted fees and grants from federal agencies of \$1,055,159, *U.S.D.A.* commodities of \$15,535,326, and *U.S.D.A.* administration of \$825,479.

Note 3 - FOOD DISTRIBUTION

Non-monetary assistance is reported in the Schedule of Expenditures of Federal Awards at the average wholesale value of the commodities received and disbursed. Non-monetary assistance included on the Schedule of Expenditures of Federal Awards was \$15,535,326 for the year ended June 30, 2016.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2016

Section I - Summary of Auditor's Results

a) Financial Statements

Type of report issued on the financial statements: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be a material weakness? Yes None reported

Noncompliance material to financial statements noted? Yes No

b) Federal Awards

Internal controls over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be a material weakness? Yes No

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

- Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance? Yes No

Section I - Summary of Auditors' Results (Continued)

c) Identification of Major Programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|---|
| 10.569 | Emergency Food Assistance Program (Food Commodities) |
| 10.568 | Emergency Food Assistance Program (Administrative Costs) |

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

Auditee qualified as a low-risk auditee? X Yes No

**Section II - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements**

Internal Control Over Financial Reporting

No material weaknesses were noted during the audit of the financial statements for the year ended June 30, 2016.

No significant deficiencies were noted during the audit of the financial statements for the year ended June 30, 2016.

Compliance and Other Matters

There were no compliance findings material to the financial statements reported during the audit for the year ended June 30, 2016.

Section III - Federal Award Findings and Questioned Costs

Internal Control and Compliance Material to Federal Awards

There were no findings or questioned costs reported during the audit of the financial statements for the year ended June 30, 2016 related to internal control and compliance material to federal awards.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS AND
QUESTIONED COSTS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2016

**Section I - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements**

Internal Control Over Financial Reporting

No material weaknesses were noted during the audit of the financial statements for the year ended June 30, 2015.

No significant deficiencies were noted during the audit of the financial statements for the year ended June 30, 2015.

Compliance and Other Matters

There were no compliance findings material to the financial statements reported during the audit for the year ended June 30, 2015.

Section II - Internal Control and Compliance Material to Federal Awards

There were no findings or questioned costs reported during the audit of the financial statements for the year ended June 30, 2015 related to internal control and compliance material to federal awards.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2015.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2016

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No material weaknesses were noted during the audit of financial statements for the fiscal year ended June 30, 2016.

No significant deficiencies were noted during the audit of the financial statements for the fiscal year ended June 30, 2016.

Compliance and Other Matters

There were no compliance findings material to the financial statements reported during the audit for the fiscal year ended June 30, 2016.

Section II - Internal Control and Compliance Material to Federal Awards

There were no findings or questioned costs reported during the audit of the financial statements for the year ended June 30, 2016, related to internal control and compliance material to federal awards.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 2016.