

Financial Report

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

June 30, 2017



Bourgeois Bennett
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS
A LIMITED LIABILITY COMPANY

Financial Report

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Greater New Orleans and Acadiana*

June 30, 2017

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June 30, 2017 and 2016

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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, 2017 and 2016 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, 2017 and 2016, 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 inventory correction. Accordingly, amounts reported for inventory and other items have been restated in the June 30, 2016 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. Schedule 2 is presented for purposes of additional analysis and is required by Louisiana Revised Statute 24:513(A)(3) and is not a required part of 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. The information in Schedule 2 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 in Schedule 2 is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2017, 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.
November 1, 2017.

STATEMENTS OF FINANCIAL POSITION

Second Harvest Food Bank of Greater New Orleans and Acadiana

June 30, 2017 and 2016

	<u>ASSETS</u>	
	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
Current Assets:		
Cash and cash equivalents	\$ 1,602,649	\$ 812,434
Contributions receivable:		
Pledges	128,191	180,192
United Way	281,425	298,100
Give NOLA	48,099	53,887
Grants receivable	593,379	873,816
Other receivables	87,338	131,777
Prepaid and other assets	64,504	66,343
Investments	2,962,768	2,622,320
Inventory	<u>5,199,618</u>	<u>4,364,439</u>
 Total current assets	 10,967,971	 9,403,308
 Noncurrent Assets:		
Pledges receivable, noncurrent	2,084	3,542
Property and equipment - net	9,817,366	9,931,817
Investments, permanently restricted	1,253,000	1,183,596
Other assets	<u>22,207</u>	<u>23,611</u>
 Total assets	 <u>\$ 22,062,628</u>	 <u>\$ 20,545,874</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u> (As Restated)
Current Liabilities:		
Accounts payable and accrued expenses	\$ 559,918	\$ 487,057
Note payable, current	229,476	229,476
Derivative liabilities	67,104	238,568
Other liabilities	-	30,000
	<u>856,498</u>	<u>985,101</u>
Noncurrent Liabilities:		
Note payable, net of current maturities	<u>3,595,131</u>	<u>3,824,607</u>
	<u>4,451,629</u>	<u>4,809,708</u>
Net Assets:		
Unrestricted:		
Undesignated	13,671,140	11,341,624
Designated	1,931,884	2,277,738
	<u>15,603,024</u>	<u>13,619,362</u>
Temporarily restricted	754,975	933,208
Permanently restricted	<u>1,253,000</u>	<u>1,183,596</u>
	<u>17,610,999</u>	<u>15,736,166</u>
	<u>\$ 22,062,628</u>	<u>\$ 20,545,874</u>

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

For the year ended June 30, 2017

	<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	\$ 50,355,361			\$ 50,355,361
Contributions, donations, and grants	6,171,435	\$ 340,850		6,512,285
Contributed goods and services	88,510			88,510
United Way				
Southeast Louisiana:				
Allocations		50,000		50,000
Designations	88,239			88,239
Combined Federal Campaign	36,014			36,014
St. Charles - allocations		162,800		162,800
Acadiana - allocations	1,563			1,563
St. John - allocations		30,000		30,000
Disaster	42,500			42,500
Other - allocations		20,000		20,000
Special events (net of direct costs of \$78,807)	290,828			290,828
Total public support	57,074,450	603,650	-	57,678,100
Governmental financial assistance:				
U.S.D.A. commodities	14,899,677			14,899,677
U.S.D.A. administration	800,695			800,695
Fees and grants from federal agencies	908,519			908,519
Non-Federal fees and grants	784,797			784,797
Total governmental financial assistance	17,393,688	-	-	17,393,688
Other Revenue				
Program generated	332,472			332,472
Investment income	283,160		\$ 138,561	421,721
Rental income	343,200			343,200
Other	84,527			84,527
Net assets released from restrictions	851,040	(781,883)	(69,157)	-
Total other revenue	1,894,399	(781,883)	69,404	1,181,920
Total revenue	76,362,537	(178,233)	69,404	76,253,708

**Exhibit B-1
(Continued)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Expenses				
Program services	72,393,597			72,393,597
Management and general	1,236,194			1,236,194
Fundraising	920,548			920,548
Total expenses	74,550,339	-	-	74,550,339
Change in Net Assets Before Change in Liability on Interest Rate Swap Agreement	1,812,198	(178,233)	69,404	1,703,369
Change in liability on interest rate swap agreement (Note 13)	171,464			171,464
Change in Net Assets	1,983,662	(178,233)	69,404	1,874,833
Net Assets				
Beginning of year	13,619,362	933,208	1,183,596	15,736,166
End of year	\$ 15,603,024	\$ 754,975	\$ 1,253,000	\$ 17,610,999

See notes to financial statements.

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 (As Restated)</u>
Revenues and Other Support				
Public support:				
Donations of food, grocery, and other products from producers and brokers	\$ 39,941,072			\$ 39,941,072
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
	<u>44,797,467</u>	<u>883,708</u>	<u>-</u>	<u>45,681,175</u>
Total public support				
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
	<u>18,044,310</u>	<u>-</u>	<u>-</u>	<u>18,044,310</u>
Total governmental financial assistance				
Other Revenue				
Program generated	403,818			403,818
Investment loss	(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)	-
	<u>1,609,068</u>	<u>(733,678)</u>	<u>(132,002)</u>	<u>743,388</u>
Total other revenue				
	<u>64,450,845</u>	<u>150,030</u>	<u>(132,002)</u>	<u>64,468,873</u>
Total revenue				

**Exhibit B-2
(Continued)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals (As Restated)</u>
Expenses				
Program services	61,873,462			61,873,462
Management and general	1,025,179			1,025,179
Fundraising	<u>1,033,222</u>			<u>1,033,222</u>
Total expenses	<u>63,931,863</u>	<u>-</u>	<u>-</u>	<u>63,931,863</u>
Change in Net Assets Before Change in Liability on Interest Rate Swap Agreement	518,982	150,030	(132,002)	537,010
Change in liability on interest rate swap agreement (Note 13)	<u>(111,716)</u>			<u>(111,716)</u>
Change in Net Assets	407,266	150,030	(132,002)	425,294
Net Assets				
Beginning of year, as restated	<u>13,212,096</u>	<u>783,178</u>	<u>1,315,598</u>	<u>15,310,872</u>
End of year	<u>\$ 13,619,362</u>	<u>\$ 933,208</u>	<u>\$ 1,183,596</u>	<u>\$ 15,736,166</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, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals</u>
Salaries	\$ 2,557,405	\$ 633,557	\$ 458,427	\$ 3,649,389
Employee benefits and taxes	675,995	192,354	105,596	973,945
Personnel development and recruitment	<u>139,158</u>	<u>60,496</u>	<u>9,429</u>	<u>209,083</u>
 Total salaries and related expenses	 3,372,558	 886,407	 573,452	 4,832,417
 Food distribution	 65,502,318		 73,348	 65,575,666
Occupancy	718,803	406	2,965	722,174
Transportation and freight	679,758	4,682	3,722	688,162
Mailings and solicitations	594,081	108	59,761	653,950
Other operating expenses	403,580	72,768	136,852	613,200
Depreciation	392,961	11,703		404,664
Professional fees and contract services	151,707	163,568	45,443	360,718
Equipment expenses	206,156	90,491	354	297,001
Supplies	237,692	6,061	24,651	268,404
Insurance	<u>133,983</u>			<u>133,983</u>
 Total expenses	 <u>\$ 72,393,597</u>	 <u>\$ 1,236,194</u>	 <u>\$ 920,548</u>	 <u>\$ 74,550,339</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, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Totals (As Restated)</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	56,098,950		68,208	56,167,158
Occupancy	552,206	31	2,965	555,202
Transportation and freight	488,048	5,088	3,545	496,681
Mailings and solicitations	368,341	5,330	270,455	644,126
Other operating expenses	372,805	68,533	106,674	548,012
Depreciation	461,427	6,857		468,284
Professional fees and contract services	128,972	93,331	58,423	280,726
Equipment expenses	98,089	47,893		145,982
Supplies	223,925	6,928	24,030	254,883
Insurance	<u>130,225</u>			<u>130,225</u>
Total expenses	<u>\$ 61,873,462</u>	<u>\$ 1,025,179</u>	<u>\$ 1,033,222</u>	<u>\$ 63,931,863</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, 2017 and 2016

	<u>2017</u>	<u>2016</u> <u>(As Restated)</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,874,833	\$ 425,294
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donation of property	(35,808)	-
Bad debt	26,832	6,875
Depreciation	404,664	468,284
Unrealized and realized (gains) losses on investments, net	(282,536)	245,583
Loss on sale of assets	31,935	34,544
Change in liability on interest rate swap agreement	(171,464)	111,716
Changes in assets and liabilities:		
Receivables and pledges	373,966	43,099
Other assets	1,404	1,498
Prepaid expenses	1,839	(39,623)
Inventory	(835,179)	(632,784)
Accounts payable and accrued expenses	72,861	2,274
Other liabilities	(30,000)	-
	<u>1,433,347</u>	<u>666,760</u>
Net cash provided by operating activities		
Cash Flows From Investing Activities		
Purchases of investments, net	(127,316)	(78,458)
Purchases of property and equipment	(371,840)	(224,238)
Proceeds from sale of property and equipment	85,500	23,500
	<u>(413,656)</u>	<u>(279,196)</u>
Net cash used in investing activities		

**Exhibit D
(Continued)**

	<u>2017</u>	<u>2016 (As Restated)</u>
Cash Flows From Financing Activities		
Principal payments on notes payable	<u>(229,476)</u>	<u>(229,477)</u>
Net Increase in Cash	790,215	158,087
Cash and Cash Equivalents		
Beginning of year	<u>812,434</u>	<u>654,347</u>
End of year	<u>\$ 1,602,649</u>	<u>\$ 812,434</u>
Supplemental Disclosure for Cash Flow Information		
Cash paid during the year for interest	<u>\$ 150,158</u>	<u>\$ 159,316</u>

See notes to financial statements.

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

June 30, 2017 and 2016

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 \$26,832 and \$6,875 for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, there was no reserve for bad debt.

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 \$1.73 per pound for assorted donations and \$1.52 per pound for food only donations for the year ended June 30, 2017. The average wholesale value used was \$1.67 per pound for all donations for the year ended June 30, 2016.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f. Inventory (Continued)

Purchased food inventory is recorded at cost. As of June 30, 2017 and 2016, there was no obsolete inventory.

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 Statements of Activities.

h. Property and Equipment

Second Harvest has adopted the policy of capitalizing all expenditures for depreciable assets where the unit cost exceeds \$10,000 (the capitalization policy was \$2,000 for the year ended June 30, 2016). 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, 2017 and 2016, depreciation expense totaled \$404,664 and \$468,284, 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 Second Harvest'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, 2017 and 2016, the Operating Reserve requirements were \$1,931,884 and \$2,277,738, 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, 2017 and 2016.

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. On February 14, 2017, a new 2016 Kia Sorrento SUV valued at \$35,808 was donated to Second Harvest. There were no donated assets received for the year ended June 30, 2016.

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, 2017 and 2016, Second Harvest recognized \$48,328 and \$39,900, respectively, for donated advertising services. The related advertising costs were expensed as incurred.

The donated volunteer services in Second Harvest's functional areas were 60,342 hours for the year ended June 30, 2017 and 52,807 hours for the year ended June 30, 2016. The services provided for the years ended June 30, 2017 and 2016 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 60,342 hours for the year ended June 30, 2017 and 52,807 hours for the year ended June 30, 2016 that

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Donated Services (Continued)

do not meet either of the recognition criteria described above have not been recognized in the accompanying financial statements. The value for donated volunteer services for the years ended June 30, 2017 and 2016 was \$1,335,969 and \$1,244,142, 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, 2017 and 2016, 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, 2014 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 November 1, 2017, which is the date the financial statements were available to be issued.

Note 3 - RESTATEMENT

The Louisiana Department of Agriculture and Forestry contracts with Second Harvest to warehouse and distribute District 1 National School Lunch Program Commodities. Management received verification from Feeding America that these commodities were eligible to be included in receipts and distribution reporting. As of June 30, 2015, net assets were restated to include the value of these commodities in inventory. In addition, certain amounts in the June 30, 2016 financial statements were restated to reflect the value of these commodities in donations, food distribution, and inventory.

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Net assets as of June 30, 2015, as previously reported	\$ 11,136,955	\$ 783,178	\$ 1,315,598	\$ 13,235,731
Prior period adjustment: Inventory correction	2,075,141	-	-	2,075,141
Net assets as of June 30, 2015, as restated	\$ 13,212,096	\$ 783,178	\$ 1,315,598	\$ 15,310,872
	2016 As Previously Reported	Adjustments	2016 As Restated	
Inventory	\$ 2,335,817	\$ 2,028,622	\$ 4,364,439	
Donations of food, grocery, and other products from producers and brokers	\$ 36,505,467	\$ 3,435,193	\$ 39,941,072	
Food distribution	\$ 52,685,034	\$ 3,481,712	\$ 56,167,158	
Change in net assets	\$ 471,813	\$ (46,519)	\$ 425,294	
Unrestricted net assets	\$ 11,590,740	\$ 2,028,622	\$ 13,619,362	

Note 4 - GRANTS RECEIVABLE

The grants receivable balances as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Department of Education - Summer Food Service Program	\$ 198,402	\$ 318,470
Morgan Stanley Foundation	150,000	150,000
Joe W. and Dorothy Dorsett Brown Foundation	100,000	100,000
U.S.D.A. distribution fees	82,339	87,041
Department of Children and Family Services	19,848	15,356
City of Lafayette Consolidated Government	15,000	6,923
Other grants	11,680	9,000
Freeport McMoran	10,000	10,000
Walmart Foundation	6,110	12,946
Chevron	-	100,000
Kresge Foundation	-	30,000
Mazon	-	17,000
Share Our Strength	-	10,000
Single Stop USA	-	7,080
Totals	\$ 593,379	\$ 873,816

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.

Pledges receivable as of June 30, 2017 and 2016 consist of the following:

	2017	2016
In less than one year	\$ 128,191	\$ 180,192
One to five years	2,542	4,000
Totals	130,733	184,192
Unamortized discount	(458)	(458)
Net pledges receivable	\$ 130,275	\$ 183,734

Note 6 - INVESTMENTS

Investments of the various agencies of 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, 2017 and 2016:

	2017	2016
Investment balances	\$ 4,215,768	\$ 3,805,916
Unrealized gain (loss) on investments	\$ 328,975	\$ (220,322)
Realized (loss) on investments	(46,439)	(25,261)
	282,536	(245,583)
Interest and dividend income	139,185	80,245
Investment income (loss)	\$ 421,721	\$ (165,338)

The current and long-term values of investments are \$2,962,768 and \$1,253,000, respectively, as of June 30, 2017, and \$2,622,320 and \$1,183,596, respectively, as of June 30, 2016.

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.

Note 7 - FAIR VALUE MEASUREMENTS (Continued)

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/or
- 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.

The following is a description of the valuation methodologies used for assets measured at fair value.

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

Note 7 - FAIR VALUE MEASUREMENTS (Continued)

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. There have been no changes in the methodologies used as of June 30, 2017 and 2016.

Assets measured at fair value on a recurring basis as of June 30, 2017 and 2016 are comprised of and determined as follows:

Description	2017			
	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	\$ 4,215,768	\$ -	\$ 4,215,768	\$ -

Description	2016			
	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	\$ 3,805,916	\$ -	\$ 3,805,916	\$ -

As of June 30, 2017 and 2016, 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, 2017 and 2016 consist of the following:

	2017		2016 (As Restated)	
	Dollars	Pounds	Dollars	Pounds
Donated and purchased	\$ 3,751,932	2,433,644	\$ 3,448,638	2,189,030
U.S.D.A. commodities	1,447,686	952,425	915,801	548,384
Totals	\$ 5,199,618	3,386,069	\$ 4,364,439	2,737,414

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, 2017 and 2016 were as follows:

	2017		2016 (As Restated)	
	Dollars	Pounds	Dollars	Pounds
Receipts:				
Donated product	\$ 50,355,361	29,612,322	\$ 39,941,072	23,916,563
Purchased product	1,273,744	990,471	1,724,215	1,358,534
U.S.D.A. commodities	14,899,677	9,802,419	15,535,326	9,302,591
Totals	\$ 66,528,782	40,405,212	\$ 57,200,613	34,577,688
Distributions, net of adjustments:				
Donated product	\$ 50,032,916	29,313,760	\$ 39,875,278	23,829,185
Purchased product	1,292,895	1,044,418	1,674,665	1,229,286
U.S.D.A. commodities	14,367,792	9,398,378	15,017,886	8,988,537
Totals	\$ 65,693,603	39,756,556	\$ 56,567,829	34,047,008

Note 10 - PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Building and improvements	\$ 8,200,262	\$ 8,082,481
Land	1,960,000	1,960,000
Vehicles	1,550,059	1,685,029
Furniture, fixtures, and equipment	1,853,495	1,628,049
Construction in progress	156,580	127,968
Leasehold improvements	<u>56,843</u>	<u>56,843</u>
	13,777,239	13,540,370
Less: accumulated depreciation	<u>(3,959,873)</u>	<u>(3,608,553)</u>
Totals	<u>\$ 9,817,366</u>	<u>\$ 9,931,817</u>

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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
School pantry program	\$ 247,163	\$ 382,000
Food distribution program	225,312	254,500
Backpack program	150,000	116,000
Community wellness program	51,700	32,200
Kids Café program	45,000	-
Mobile pantry program	15,800	67,600
Cooking matters program	10,000	10,000
Warehouse operations	10,000	-
Technology	-	33,000
Food sourcing	-	19,808
Volunteers	-	10,500
Summer feeding program	-	5,000
Aquaponics	<u>-</u>	<u>2,600</u>
Totals	<u>\$ 754,975</u>	<u>\$ 933,208</u>

Note 11 - RESTRICTIONS ON NET ASSETS (Continued)

The following temporarily restricted net assets were released during the years ended June 30, 2017 and 2016:

	2017	2016
Food distribution program	\$ 244,188	\$ 217,940
School pantry program	240,987	63,500
Backpack program	116,000	218,500
Mobile pantry program	67,600	22,600
Technology	33,000	7,800
Community wellness program	32,200	63,500
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
	\$ 781,883	\$ 733,678
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. 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, 2017 and 2016 is as follows:

	2017	2016
Donor-restricted	\$ 1,253,000	\$ 1,183,596

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

	2017		Totals
	Unrestricted	Permanently Restricted	
Endowment net assets,			
Beginning of year	\$ 146,295	\$ 1,183,596	\$ 1,329,891
Earnings	1,295	149,038	150,333
Fees	(1,295)	(10,477)	(11,772)
Transfers	69,157	(69,157)	-
End of year	\$ 215,452	\$ 1,253,000	\$ 1,468,452
	2016		
	Unrestricted	Permanently Restricted	Totals
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)	-
End of year	\$ 146,295	\$ 1,183,596	\$ 1,329,891

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, 2017 and 2016.

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 (1.227% and .457% as of June 30, 2017 and 2016, respectively) based on USD-LIBOR BBA plus a base rate of 1.50% (2.727% and 1.957% as of June 30, 2017 and 2016, 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, 2017 and 2016 was \$3,824,607 and \$4,054,083, 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 (\$3,824,607 as of June 30, 2017) bears interest at a fixed rate of 2.25% minus a variable interest rate based on the USD-LIBOR BBA (1.227% and .457% as of June 30, 2017 and 2016, 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 \$67,104 and \$238,568 as a derivative liability on the Statements of Financial Position as of June 30, 2017 and 2016, respectively, and recorded unrealized gains (losses) of \$171,464 and (\$111,716) on the Statements of Activities for the years ended June 30, 2017 and 2016, respectively.

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

	Principal	Interest	Totals
2018	\$ 229,476	\$ 139,479	\$ 368,955
2019	229,476	130,873	360,349
2020	229,476	122,268	351,744
2021	3,136,179	76,731	3,212,910
	\$ 3,824,607	\$ 469,351	\$ 4,293,958

Interest expense on the note payable and swap agreement for the years ended June 30, 2017 and 2016 was \$150,158 and \$159,316, respectively.

The mortgage agreement contains certain covenants, including the maintenance of certain financial ratios. As of June 30, 2017 and 2016, 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.

Note 14 - RETIREMENT PLAN (Continued)

The plan administrator is the Archdiocese. The plan trustee is Voya. Second Harvest contributed \$116,724 and \$99,206, for the years ended June 30, 2017 and 2016, 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 the years ended June 30, 2017 and 2016 was \$144,695 and \$146,390, respectively.

As of June 30, 2017, 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>
2018	\$ 93,263
2019	41,831
2020	41,831
2021	<u>41,831</u>
Total	<u>\$ 218,756</u>

Second Harvest as Lessor

Second Harvest leased approximately 86,000 square feet of warehouse space in New Orleans. The lease term was for the period June 1, 2015 through May 31, 2017 and was not renewed upon expiration of the lease. Monthly lease payments for this lease were \$31,200 per month. Rental income was \$343,200 and \$374,400 for the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017, the warehouse space was not leased.

Note 16 - SIGNIFICANT CONTRACTS AND GRANTS

For the years ended June 30, 2017 and 2016, \$16,382,194 and \$16,898,355, respectively, (which includes \$681,822 and \$537,550, 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, 2017 and 2016.

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, 2017, the cash balance in excess of insured amounts was approximately \$1,276,000.

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, 2017 and 2016.

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 \$199,812 and \$204,268 for general liability, property coverage, workmen's compensation, and vehicle insurances for the years ended June 30, 2017 and 2016, respectively, and \$11,484 for internet service for each of the years ended June 30, 2017 and 2016.

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, 2017
(Unaudited)

FORM 1

FUNCTIONAL BUDGET SPREADSHEET 2016 - 2017		AGENCY	ADMINISTRATION FUNDRAISING	TOTAL	PROGRAM
			Management and General	PROGRAM SERVICES	SERVICES
		1	2	3	4
REVENUE:					
1	4200 BOARD GENERATED SELF SUPPORT	\$ -	\$ -	\$ -	\$ -
2	4201 CLIENT GENERATED SELF SUPPORT	5,546,673	-	5,546,673	5,546,673
3	5000 GOVERNMENT GRANTS/CONTRACTS	17,393,688	-	17,393,688	17,393,688
4	4800 OTHER FOUNDATIONS OR NATIONAL GRANTS	1,256,440	-	1,256,440	1,256,440
5	6700 OTHER REVENUE	1,181,920	-	1,181,920	1,181,920
6	9200 IN-KIND/NON-CASH CONTRIBUTIONS	50,443,871	-	50,443,871	50,443,871
7	TOTAL SELF GENERATED REVENUE	75,822,592	-	75,822,592	75,822,592
8	4702 UNITED WAY DESIGNATIONS & ALLOCATIONS	88,239	-	88,239	88,239
9	4703 CFC DESIGNATIONS	36,014	-	36,014	36,014
10	4704 OTHER UNITED WAY GRANTS	256,863	-	256,863	256,863
11	TOTAL REVENUE	76,203,708	-	76,203,708	76,203,708
12	4701 UNITED WAY GNO REQUEST	50,000	-	50,000	50,000
13	GRAND TOTAL REVENUE	\$ 76,253,708	\$ -	\$ 76,253,708	\$ 76,253,708
EXPENSES:					
14	7000 SALARIES	\$ 3,649,390	\$ 1,091,985	\$ 2,557,405	\$ 2,557,405
15	7100 BENEFITS	700,689	217,647	483,042	483,042
16	7200 TAXES	273,256	80,303	192,953	192,953
17	8400 OCCUPANCY EXPENSES	722,174	3,371	718,803	718,803
18	8700 TRAVEL & TRANSPORTATION EXP.	688,162	8,404	679,758	679,758
19	8100 OFFICE SUPPLIES	106,832	30,710	76,122	76,122
20	8600 PRINTING	27,087	15,695	11,392	11,392
21	8900 DIRECT ASSISTANCE TO INDIVIDUALS	1,174,956	73,348	1,101,608	1,101,608
22	9400 OTHER	2,100,433	522,708	1,577,725	1,577,725
23	9401 IN-KIND/NON-CASH CONTRIBUTIONS	64,453,410	52,702	64,400,708	64,400,708
24	9402 BOARD GENERATED SELF SUPPORT	653,950	59,869	594,081	594,081
25	GRAND TOTAL EXPENSES	\$ 74,550,339	\$ 2,156,742	\$ 72,393,597	\$ 72,393,597
26	NET DIFFERENCE	\$ 1,703,369	\$ (2,156,742)	\$ 3,860,111	\$ 3,860,111

EXPENSES ANALYSIS:

27-Total Direct Program Expenses	\$ 72,393,597
28-Percent of Total Program Expenses	100%
29-Distribution of M & G Expenses	\$ 2,156,742
30-Grand Total Program Expenses	\$ 74,550,339
31-Projected Undup. People Served	210,000
32-Cost per Person	\$ 355

See Accountant's Disclaimer of Opinion.

**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER**

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2017

Agency Head Name: Natalie Jayroe, CEO

Purpose

Salary	\$ 144,840
Benefits - insurance	5,802
Benefits - retirement	5,258
Benefits - other	3,005
Car allowance	0
Vehicle provided by government	0
Per diem	0
Reimbursements	1,389
Travel	3,575
Registration fees	3,055
Conference travel	7,661
Continuing professional education fees	1,225
Housing	0
Unvouchered expenses	0
Special meals	0
	<hr/>
	<u>\$ 175,810</u>

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, 2017, 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 November 1, 2017.

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.
November 1, 2017.

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, 2017. 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, 2017.

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.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana.
November 1, 2017.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2017

<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	\$ 14,899,677	\$ 14,899,677
Emergency Food Assistance Program (Administrative Costs)	10.568		<u>800,695</u>
Total Food Distribution Cluster			15,700,372
<u>Louisiana Department of Education:</u>			
Child and Adult Care Food Program	10.558		640,111
Summer Food Service Program	10.559		207,591
United States Department of Homeland Security:			
Emergency Food Assistance Program National Board Program	97.024		<u>60,817</u>
Total expenditures of federal awards		<u>\$ 14,899,677</u>	<u>\$ 16,608,891</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, 2017

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, 2017. 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, 2017.

c. Payments to Subrecipients

There were no payments to subrecipients for the year ended June 30, 2017.

Note 2 - RELATIONSHIP TO FINANCIAL STATEMENTS

Federal revenues of \$16,608,891 are reported on the Statement of Activities and classified as fees and grants from federal agencies of \$908,519, *U.S.D.A.* commodities of \$14,899,677, and *U.S.D.A.* administration of \$800,695.

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 \$14,899,677 for the year ended June 30, 2017.

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, 2017.

No significant deficiencies were noted during the audit of the financial statements for the year ended June 30, 2017.

Compliance and Other Matters

There were no compliance findings material to the financial statements reported during the audit for the year ended June 30, 2017.

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, 2017 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, 2017

**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, 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 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.

MANAGEMENT'S CORRECTIVE ACTION PLAN

Second Harvest Food Bank of Greater New Orleans and Acadiana

For the year ended June 30, 2017

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, 2017.

No significant deficiencies were noted during the audit of the financial statements for the year ended June 30, 2017.

Compliance and Other Matters

There were no compliance findings material to the financial statements reported during the audit for the year ended June 30, 2017.

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, 2017, 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, 2017.

STATEWIDE AGREED UPON PROCEDURES (R.S. 24:513)

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED UPON PROCEDURES

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 performed the procedures enumerated below, which were agreed to by the management of Second Harvest Food Bank of Greater New Orleans and Acadiana ("Second Harvest") and the Louisiana Legislative Auditor, State of Louisiana, solely to assist the specified users of the report in evaluating management's assertions about the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures (SAUPs) accompanying the annual financial statements of Second Harvest for the year ended June 30, 2017 and to determine whether the C/C areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures are free of obvious errors and omissions. Management of Second Harvest is responsible for its C/C areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures. The sufficiency of these procedures is solely the responsibility of the specified parties in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that were performed and our findings are as follows:

Written Policies and Procedures

- 1. Obtain Second Harvest's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that Second Harvest does not have any written policies and procedures), as applicable:**

We obtained the written policies and verified that they addressed the areas as follows:

- a) **Budgeting, including preparing, adopting, monitoring, and amending the budget.**

No exceptions were noted.

Written Policies and Procedures (Continued)

- b) Purchasing, including (1) how purchases are initiated, (2) how vendors are added to the vendor list, (3) the preparation and approval process of purchase requisitions and purchase orders, (4) controls to ensure compliance with the Louisiana Public Bid Law, and (5) documentation required to be maintained for all bids and price quotes, if any.**

No exceptions were noted.

- c) Disbursements, including processing, reviewing, and approving.**

No exceptions were noted.

- d) Receipts, including receiving, recording, and preparing deposits.**

No exceptions were noted.

- e) Payroll/Personnel, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.**

No exceptions were noted.

- f) Contracting, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.**

No exceptions were noted.

- g) Credit Cards (and debit cards, fuel cards, P-Cards, if applicable), including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage.**

No exceptions were noted.

- h) Travel and expense reimbursement, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.**

No exceptions were noted.

Written Policies and Procedures (Continued)

- i) Ethics, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofit organizations.**

Not applicable.

- j) Debt Service, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.**

Not applicable.

Board (or Finance Committee, if applicable)

2. Obtain and review the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.**

We reviewed Second Harvest's by laws and determined that at a minimum quarterly meetings are required. Second Harvest fulfilled this requirement as the managing board met nine times in total during the fiscal year.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in Second Harvest's prior audit (GAAP-basis).**

Budget-to-actual information was provided and referenced at each finance committee meeting.

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g., approval of contracts and disbursements) for at least one meeting during the fiscal period.**

No exceptions were noted.

Bank Reconciliations

- 3. Obtain a listing of Second Harvest's bank accounts from management and management's representation that the listing is complete.**

We obtained the listing of the bank accounts from management and obtained a representation from management that the listing is complete.

- 4. Using the listing provided by management, select all of Second Harvest's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than five accounts). For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:**

We selected all of Second Harvest's bank accounts. For each bank account we verified the following:

- a) Bank reconciliations have been prepared.**

No exceptions were noted.

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation.**

No exceptions were noted. A member of management reviewed each bank reconciliation.

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than six months as of the end of the fiscal period.**

No exceptions were noted.

Collections

- 5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.**

We obtained the listing of collection locations and a representation from management that the listing is complete.

- 6. Using the listing provided by management, select all of Second Harvest's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than five locations). For each cash collection location selected:**

Collections (Continued)

- a) **Obtain existing written documentation (e.g., insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.**

We obtained written documentation and determined that each person collecting cash is (1) bonded, (2) not responsible for depositing cash in the bank, recording the related transaction, or reconciling the related bank account, (3) not required to share the same cash register or drawer with another employee.

- b) **Obtain existing written documentation (e.g., sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether Second Harvest has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.**

We verified that Second Harvest has a formal process and written documentation to reconcile cash collections to the general ledger by a person who is not responsible for cash collections.

- c) **Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:**

1. **Using Second Harvest's collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.**

No exceptions were noted.

Second Harvest maintains reports which document daily cash collections. We noted that cash deposits were made within one day of collection.

2. **Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.**

No exceptions were noted.

Collections (Continued)

7. **Obtain existing written documentation (e.g., policy manual, written procedure) and report whether Second Harvest has a process specifically defined (identified as such by Second Harvest) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.**

We obtained written documentation and verified that there is a process to determine completeness of collections.

No exceptions were noted.

Disbursements - General (excluding credit card/debit card/fuel card/P-card purchases, or payments)

8. **Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.**

We obtained the listing of Second Harvest disbursements and a representation from management that the listing is complete.

9. **Using the disbursement population from Step 8 above, randomly select 25 disbursements (or randomly selected disbursements constituting at least one-third of the dollar disbursement population if Second Harvest had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g., purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:**

We selected 25 disbursements, examined supporting documentation and verified the following:

- a) **Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.**

No exceptions were noted.

- b) **Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.**

No exceptions were noted.

Disbursements - General (excluding credit card/debit card/fuel card/P-card purchases, or payments) (Continued)

- c) **Payments for purchases were not processed without an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.**

11 of the 25 disbursements were for services provided. Since no goods were received for these disbursements, there were no related receiving reports. For the 14 disbursements for goods, we obtained documentation of the purchase order, receiving report, and invoice.

No exceptions were noted.

- 10. Using Second Harvest's documentation (e.g., electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.**

The accounts payable clerk is responsible for adding vendors to the purchasing/disbursement system and processing payments. Second Harvest's controller reviews all disbursements each month to mitigate the risk of improper payments. Second Harvest's management represented that they are in the process of removing this capability from the accounts payable clerk.

- 11. Using Second Harvest's documentation (e.g., electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.**

No exceptions were noted.

- 12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review Second Harvest's documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.**

Second Harvest uses electronically printed checks. Persons with signatory authority do not print checks. Unused checks are maintained in a locked location with restricted access.

The Vice President and Chief Administrative Officer has access to the check printing system, but does not utilize this function. A mitigating control is in place which requires a third party review of the bank statements and bank reconciliations.

Disbursements - General (excluding credit card/debit card/fuel card/P-card purchases, or payments) (Continued)

The controller reviews all monthly disbursements for accuracy.

- 13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.**

Second Harvest prints the authorized signer's signature on checks only with the knowledge and consent of the signer. Checks are not maintained under the control of the signer, rather they are maintained in a locked safe. The controller reviews all monthly disbursements for accuracy.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

- 14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.**

We obtained the listing of credit cards and a representation from management that the listing is complete.

- 15. Using the listing prepared by management, randomly select ten cards (or at least one-third of the cards if the entity has less than ten cards) that were used during the fiscal period, rotating cards each year.**

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

We selected 10 of the 15 credit cards (Second Harvest does not have debit cards, fuel cards, or P-cards) and obtained the monthly statements for the largest month.

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.**

For all 10 credit cards selected in step 15, we reviewed approval of the credit card statement by someone other than the authorized card holder.

Credit Cards/Debit Cards/Fuel Cards/P-Cards (Continued)

No exceptions were noted.

- b) Report whether finance charges and/or late fees were assessed on the selected statements.**

No finance charges or late fees were assessed on the selected statements.

- 16. Using the monthly statements or combined statements selected under Step 15 above, obtain supporting documentation for all transactions for each of the ten cards selected (i.e., each of the ten cards should have one month of transactions subject to testing).**

We obtained supporting documentation for the statements selected in Step 15 and verified the following:

- a) For each transaction, report whether the transaction is supported by:**

- 1. An original itemized receipt (i.e., identifies precisely what was purchased)**

There were 118 total charges on the 10 credit card statements selected in Step 15. Of the 118 charges, 5 did not include an original itemized receipt. However, each charge without an itemized receipt was accompanied by a memo from the person making the charge which documented the price and the business purpose of the charge.

- 2. Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.**

No exceptions were noted.

- 3. Other documentation that may be required by written policy (e.g., purchase order, written authorization.)**

No exceptions were noted.

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to Second Harvest's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e., transaction is a large or recurring purchase requiring the solicitation of bids or quotes), if applicable, and report any exceptions.**

No exceptions were noted. None of the transactions were subject to the Louisiana Public Bid Law.

Credit Cards/Debit Cards/Fuel Cards/P-Cards (Continued)

- c) For each transaction, compare Second Harvest's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g., cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

No exceptions were noted.

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

We obtained the listing of travel expenses and general ledger detail and a representation from management that it is complete.

18. Obtain Second Harvest's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

The GSA rates were used for all reimbursements made with state funds.

No exceptions were noted.

19. Using the listing or general ledger from Step 17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (Step 18 above) and report each reimbursement that exceeded those rates.

Travel and Expense Reimbursement (Continued)

We obtained the largest travel expense for each of the three persons incurring the most travel costs during the fiscal period. We compared reimbursed rates to the GSA rates noted in Step 18.

All travel reimbursements using state funds were reimbursed at the GSA rates in accordance with written policy.

b) Report whether each expense is supported by:

- 1. An original itemized receipt that identifies precisely what was purchased. (Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.)**

No exceptions were noted.

- 2. Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).**

No exceptions were noted.

- 3. Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance).**

No additional documentation is required by written policy.

- c) Compare Second Harvest's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g., hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.**

No exceptions were noted.

- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.**

For each expense selected in Step 19a, we reviewed written approval by someone other than the person receiving reimbursement.

No exceptions were noted.

Contracts

- 20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.**

We obtained a listing of all contracts in effect during the year ended June 30, 2017.

We obtained management's representation that the listing is complete.

- 21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:**

We selected the five contract vendors paid the most money and the related contracts and invoices and performed the following:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.**

We verified that there is a written contract supporting the amount paid for services.

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:**

- 1. If yes, obtain/compare supporting contract documentation to legal requirements and report whether Second Harvest complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder).**

We confirmed that each contract we obtained in Step 21a was not subject to Louisiana Public Bid Law.

No exceptions were noted.

- 2. If no, obtain supporting contract documentation and report whether Second Harvest solicited quotes as a best practice.**

Second Harvest solicited quotes for two of the five contracts we obtained in Step 21a. The remaining three contracts were for specialized professional services or rent of a specialized facility which are excluded from the bid process.

No exceptions were noted.

Contracts (Continued)

- c) **Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.**

There were no amendments made to any contract selected in Step 21a.

- d) **Select the largest payment from each of the five contracts; obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.**

We selected the largest payment from each of the five contracts, obtained supporting invoices, and verified payments were in accordance with contract terms.

One of the contract payments was for an amount less than the terms of the contract. This was due to the vendor not applying the annual price escalation per the terms of the agreement. The other four payments were made in accordance with contract terms.

- e) **Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g., Lawrason Act or Home Rule Charter).**

We determined that none of the contracts selected in Step 21a require board approval by policy or law.

Payroll and Personnel

22. **Obtain a listing of employees with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:**

We obtained a listing of employees and a representation from management that the listing is complete. We selected five employees and obtained their personnel files and performed the following:

- a) **Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.**

We verified compensation was in accordance with the terms of the employment contracts for each for the five employees selected.

No exceptions were noted.

Payroll and Personnel (Continued)

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.**

For each employee selected in Step 22a, we obtained management's approval of the employee's pay rate. If the employee's pay rate changed during the year, we obtained specific approval of the change.

No exceptions were noted.

- 23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees (or randomly select one-third of employees if Second Harvest had less than 25 employees during the fiscal period), and:**

We selected one pay period in which leave was taken and performed the following:

- a) Report whether all selected employees documented their daily attendance and leave (e.g., vacation, sick, compensatory).**

We randomly selected 25 employees from the pay period and obtained electronic time sheets noting documentation of daily attendance and leave.

No exceptions were noted.

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees.**

For each time sheet selected in Step 23a, we observed a supervisor's electronic approval.

No exceptions were noted.

- c) Report whether there is written documentation that Second Harvest maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees that earn leave.**

We observed that Second Harvest's time keeping system is integrated with their payroll system and hours earned, hours used, and balance available are tracked through this system.

No exceptions were noted.

Payroll and Personnel (Continued)

- 24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.**

We obtained a list of terminations and a representation that the list is complete. We selected the two largest termination payments and verified that they were in accordance with the contract and were approved by management.

No exceptions were noted.

- 25. Obtain supporting documentation (e.g., cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.**

We examined supporting documentation and verified that required payments of payroll taxes and retirement contributions as well as the required reporting forms were made timely.

No exceptions were noted.

Other

- 26. Inquire of management whether Second Harvest had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether Second Harvest reported the misappropriation to the Louisiana Legislative Auditor and the district attorney of the parish in which Second Harvest is domiciled.**

Management represented that there were no misappropriations of public funds. In addition, management signed a management representation letter stating there were no misappropriations of public funds.

- 27. Observe and report whether Second Harvest has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.lla.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.**

Other (Continued)

We verified that Second Harvest has posted on its premises the notice required by R.S. 24:523.1. The notice was not present on Second Harvest's website. Second Harvest's management has represented that the notice will be posted on its website.

28. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

We did not observe or otherwise identify any exceptions regarding management's representations in the procedures above.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of Government Auditing Standards. We are not engaged to, and did not perform an examination, or review, the objective of which would be the expression of an opinion or conclusion, respectively, on management's assertions. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Second Harvest, the Louisiana Legislature, and the Louisiana Legislative Auditor, and it is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.



Certified Public Accountants.

New Orleans, Louisiana,
November 1, 2017.