

**CHATTANOOGA AREA FOOD
BANK, INC. AND SUBSIDIARY**

CONSOLIDATED FINANCIAL REPORT

JUNE 30, 2016

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CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

ROSTER OF THOSE CHARGED WITH
GOVERNANCE AND MANAGEMENT OFFICIALS

Tom Sullivan, Board of Directors – Chairman of the Board

John Clark, Board of Directors – First Vice Chairman

Betsy McCright, Board of Directors – Secretary

Dallas Joseph, Board of Directors – Treasurer

Dan Gilmore, Board of Directors – Ex-Officio

Lewis Belknap, Board of Directors

Ben Brown, Board of Directors

Stefanie Crowe, Board of Directors

Mike Drew, Board of Directors

Matt Evans, Board of Directors

Fred Flint, Board of Directors

Mary Kilbride, Board of Directors

Doug Loveridge, Board of Directors

Jason Luna, Board of Directors

Jere Young, Board of Directors

Gina Crumbliss, President & CEO

David McCorkle, CFO



Independent Auditor's Report

To the Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Chattanooga Area Food Bank, Inc. (a nonprofit organization) and subsidiary (the Organization) which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Chattanooga Area Food Bank, Inc. and subsidiary as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* (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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 October 26, 2016, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
October 26, 2016

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash	\$1,013,686	\$1,267,246
Inventories	1,390,552	1,574,705
Accounts receivable, net	142,925	111,981
Contributions receivable	288,109	564,999
Grant receivable	103,535	35,229
Prepaid expenses and other assets	33,261	16,098
Land, building and equipment, net	3,468,708	2,860,129
Total assets	\$6,440,776	\$6,430,387
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 125,013	\$ 114,173
Accrued liabilities	36,607	78,043
Note payable	109,373	268,481
Total liabilities	270,993	460,697
NET ASSETS		
Unrestricted	4,345,417	3,384,679
Temporarily restricted	1,824,366	2,585,011
Total net assets	6,169,783	5,969,690
Total liabilities and net assets	\$6,440,776	\$6,430,387

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Support:			
Donations of food	\$24,370,462	\$ -	\$24,370,462
Contributions	1,682,298	-	1,682,298
Special events	332,389	-	332,389
Grants - foundations and corporations	635,690	882,041	1,517,731
Grants - state	25,000	-	25,000
Total support	<u>27,045,839</u>	<u>882,041</u>	<u>27,927,880</u>
Revenue:			
Shared maintenance fees	1,642,327	-	1,642,327
Commodity service revenue - USDA	148,263	-	148,263
Commodity service revenue - other	36,855	-	36,855
Agency fees	10,680	-	10,680
Harvested Here Food Hub sales	129,503	-	129,503
Miscellaneous income	14,288	-	14,288
Total revenue	<u>1,981,916</u>	<u>-</u>	<u>1,981,916</u>
Net assets released from restrictions	<u>1,642,686</u>	<u>(1,642,686)</u>	<u>-</u>
Total support and revenue	<u>30,670,441</u>	<u>(760,645)</u>	<u>29,909,796</u>
Expenses:			
Program services:			
Food distribution services	<u>28,939,588</u>	<u>-</u>	<u>28,939,588</u>
Supporting services:			
Management and general	387,912	-	387,912
Fund-raising	<u>382,203</u>	<u>-</u>	<u>382,203</u>
Total supporting services	<u>770,115</u>	<u>-</u>	<u>770,115</u>
Total expenses	<u>29,709,703</u>	<u>-</u>	<u>29,709,703</u>
Increase (decrease) in net assets	960,738	(760,645)	200,093
Net assets, beginning of year	<u>3,384,679</u>	<u>2,585,011</u>	<u>5,969,690</u>
Net assets, end of year	<u>\$ 4,345,417</u>	<u>\$ 1,824,366</u>	<u>\$ 6,169,783</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Support:			
Donations of food	\$21,909,614	\$ -	\$21,909,614
Contributions	1,538,959	-	1,538,959
Special events	254,564	-	254,564
Grants - foundations and corporations	318,157	1,150,700	1,468,857
Grants - state	9,728	-	9,728
Total support	<u>24,031,022</u>	<u>1,150,700</u>	<u>25,181,722</u>
Revenue:			
Shared maintenance fees	1,406,878	-	1,406,878
Commodity service revenue - USDA	65,328	-	65,328
Commodity service revenue - other	24,687	-	24,687
Agency fees	9,906	-	9,906
Harvested Here Food Hub Sales	33,769	-	33,769
Miscellaneous income	20,123	-	20,123
Total revenue	<u>1,560,691</u>	<u>-</u>	<u>1,560,691</u>
Net assets released from restrictions	<u>487,146</u>	<u>(487,146)</u>	<u>-</u>
Total support and revenue	<u>26,078,859</u>	<u>663,554</u>	<u>26,742,413</u>
Expenses:			
Program services:			
Food distribution services	<u>25,295,603</u>	<u>-</u>	<u>25,295,603</u>
Supporting services:			
Management and general	275,936	-	275,936
Fund-raising	377,142	-	377,142
Total supporting services	<u>653,078</u>	<u>-</u>	<u>653,078</u>
Total expenses	<u>25,948,681</u>	<u>-</u>	<u>25,948,681</u>
Increase in net assets	130,178	663,554	793,732
Net assets, beginning of year	<u>3,254,501</u>	<u>1,921,457</u>	<u>5,175,958</u>
Net assets, end of year	<u>\$ 3,384,679</u>	<u>\$2,585,011</u>	<u>\$ 5,969,690</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 200,093	\$ 793,732
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	206,787	157,466
Change in operating assets and liabilities		
Accounts receivable, net	(30,944)	(54,376)
Contributions receivable	276,890	(534,999)
Grant receivable	(68,306)	(35,229)
Prepaid expenses and other assets	(17,163)	(13,844)
Inventories	184,153	43,812
Accounts payable	10,840	(9,823)
Accrued liabilities	(41,436)	(11,862)
Net cash provided by operating activities	<u>720,914</u>	<u>334,877</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, building and equipment	<u>(815,366)</u>	<u>(212,747)</u>
Net cash used in investing activities	<u>(815,366)</u>	<u>(212,747)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	<u>(159,108)</u>	<u>(91,762)</u>
Net cash used in financing activities	<u>(159,108)</u>	<u>(91,762)</u>
NET INCREASE (DECREASE) IN CASH	(253,560)	30,368
CASH, beginning of year	<u>1,267,246</u>	<u>1,236,878</u>
CASH, end of year	<u>\$ 1,013,686</u>	<u>\$ 1,267,246</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 8,899</u>	<u>\$ 16,238</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

	Program Services		Supporting Services		Total Expenses
	Food Distribution	Management and General	Fund-raising		
Cost of food distribution	\$ 26,309,478	\$ -	\$ -		\$26,309,478
Freight and packaging	224,031	-	-		224,031
Salaries	1,417,744	130,795	69,038		1,617,577
Employee benefit	126,795	12,092	6,046		144,933
Payroll taxes	94,326	9,225	4,612		108,163
Special events	-	-	21,352		21,352
Warehouse supplies and expenses	120,931	-	-		120,931
Vehicle expense	74,939	-	-		74,939
Utilities	53,688	17,896	-		71,584
Office supplies	17,980	4,891	-		22,871
Advertising	27,974	-	-		27,974
Printing and postage	13,036	4,173	-		17,209
Telephone	17,431	4,600	-		22,031
Rental expenses	26,470	5,681	-		32,151
Repairs and maintenance	25,408	-	-		25,408
Miscellaneous	20,792	6,648	-		27,440
Bad debt expense	6,874	-	-		6,874
Contracted services	33,064	-	-		33,064
Professional services	6,668	97,776	-		104,444
Dues and subscriptions	33,191	10,598	-		43,789
Education and training	11,414	1,380	-		12,794
Fund-raising	-	-	281,155		281,155
Programs	7,383	-	-		7,383
Travel and lodging	42,325	12,442	-		54,767
Insurance	63,631	18,693	-		82,324
Interest expense	6,188	2,062	-		8,250
Total expenses before depreciation	28,781,761	338,952	382,203		29,502,916
Depreciation	157,827	48,960	-		206,787
Total expenses	\$ 28,939,588	\$ 387,912	\$ 382,203		\$29,709,703

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015

	Program Services	Supporting Services		Total Expenses
	Food Distribution	Management and General	Fund-raising	
Cost of food distribution	\$ 23,059,620	\$ -	\$ -	\$23,059,620
Freight and packaging	168,324	-	-	168,324
Salaries	1,160,601	83,147	57,102	1,300,850
Employee benefit	101,005	10,456	5,228	116,689
Payroll taxes	79,601	7,999	3,999	91,599
Special events	-	-	32,081	32,081
Warehouse supplies and expenses	56,133	-	-	56,133
Vehicle expense	85,626	-	-	85,626
Utilities	46,967	15,656	-	62,623
Office supplies	15,809	4,696	-	20,505
Advertising	8,872	-	-	8,872
Printing and postage	18,575	6,048	-	24,623
Telephone	15,459	4,205	-	19,664
Rental expenses	23,652	5,884	-	29,536
Repairs and maintenance	8,726	-	-	8,726
Miscellaneous	18,251	7,920	-	26,171
Contracted services	2,978	-	-	2,978
Professional services	4,378	46,230	-	50,608
Dues and subscriptions	32,661	10,578	-	43,239
Education and training	6,658	2,065	-	8,723
Volunteer expenses	305	-	-	305
Fund-raising	-	-	278,732	278,732
Programs	155,292	-	-	155,292
Travel and lodging	37,717	10,899	-	48,616
Insurance	58,210	17,203	-	75,413
Interest expense	11,750	3,917	-	15,667
Total expenses before depreciation	25,177,170	236,903	377,142	25,791,215
Depreciation	118,433	39,033	-	157,466
Total expenses	<u>\$ 25,295,603</u>	<u>\$ 275,936</u>	<u>\$ 377,142</u>	<u>\$25,948,681</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Chattanooga Area Food Bank, Inc. (the Organization) conform with United States generally accepted accounting principles (GAAP) and practices within the not-for-profit industry. The policies that materially affect financial position and results of operations are summarized as follows:

Nature of operations:

The Organization operates as a nonprofit entity that receives donations of food which it distributes to other tax-exempt organizations in Tennessee and Georgia to eliminate hunger and promote better nutrition for the region. The Organization is also a certified member of Feeding America, the Nation's Food Bank Network.

The Organization has a wholly-owned subsidiary, Harvested Here Food Hub, LLC, which seeks to connect local farmers with local restaurants, retail grocers, and institutions.

Principles of consolidation:

The consolidated financial statements include the accounts of the Organization and its subsidiary. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue recognition:

Grants and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions to the Organization of appreciated assets are valued at fair market value at the date of receipt by the Organization.

Revenue that is restricted by the donor is reported as increases in unrestricted net assets if the restriction expires or is met in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies (continued)

Revenue recognition: (continued)

The Organization also receives grant revenue from various federal and state agencies. Grant revenue is recognized in the period the liability is incurred for eligible expenditures under the terms of the grant. Grant funds received prior to expenditure are recorded initially as deferred revenue.

Net assets:

Based on the existence or absence of donor-imposed restrictions, the Organization's net assets have been grouped into the following three classes:

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

Temporarily restricted – Net assets whose use by the Organization is subject to donor-imposed or legal stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

As of June 30, 2016 and 2015, the Organization had only unrestricted and temporarily restricted net assets.

Cash:

Cash consists principally of checking account balances. The Organization considers all cash and highly liquid investments with original maturities of three months or less to be cash equivalents.

Concentrations of credit risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash equivalents. The Organization places its cash equivalents with financial institutions and limits the amount of credit exposure to any one financial institution. From time to time, the Organization's cash balances exceed federal depository insurance coverage and management considers this to be a normal business risk. The Organization has not experienced any losses on its cash equivalents.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies (continued)

Land, building and equipment:

Land, building and equipment are stated at cost if purchased or fair value if donated. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Vehicles	5 years
Office furniture and fixtures	5-20 years
Greenhouse	6-15 years
Warehouse equipment	5-15 years

Donated non-cash items other than food:

The Organization reports donations of non-cash items other than food as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated services:

No amounts have been reflected in the accompanying consolidated financial statements for donated services. The Organization depends upon the services donated by volunteers to carry out many of its internal operations. However, the services donated do not meet the current reporting requirements under ASC Topic 958, *Not-for-Profit Entities*, which would require recognition in the consolidated financial statements.

Inventories:

Food inventories include donated food, purchased inventory, and undistributed USDA commodities. Donated food received from food drives, food companies, grocery stores, Feeding America, and the USDA is valued at \$1.67 per pound for the year ending June 30, 2016 and \$1.70 per pound for the year ending June 30, 2015. These values represent the estimated average market value at the date of gift, based on studies commissioned by Feeding America. Purchased inventory is reported at cost.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies (continued)

Accounts receivable:

The Organization charges a share maintenance fee to recover a portion of the cost of food purchasing, storage, handling and delivery to other not-for-profit agencies. Accounts receivable are reported at gross sales price less any applicable payments, adjustments or allowances for uncollectible accounts. The Organization extends credit based on evaluation of those agencies' financial condition and generally does not require collateral.

The Organization estimates an allowance for uncollectible accounts based on its knowledge of agencies' individual credit circumstances, the Organization's historical loss experience, and other current economic conditions. Accounts determined to be uncollectible are charged-off against the allowance in the period of determination. Subsequent recoveries of amount previously charged-off are credited to the allowance in the period received.

Functional expenses:

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

Income tax status:

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes on related income pursuant to Section 501 of the Code. However, any income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

The Organization accounts for income taxes in accordance with income tax accounting guidance in ASC Topic 740, *Income Taxes*. The Organization follows the statutory requirement for its income tax accounting and generally avoids risks associated with potentially problematic tax positions that may be challenged upon examination. Management believes any liability resulting from taxing authorities imposing additional income taxes from activities deemed to be unrelated to the Organization's non-taxable status would not have a material effect on the Organization's financial statements. With few exceptions, the Organization is no longer subject to tax examinations by tax authorities for years before 2013.

Advertising costs:

Advertising costs are charged to expense as incurred.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies (continued)

Subsequent events:

Management performed an evaluation of subsequent events through October 26, 2016, the date these consolidated financial statements were available to be issued.

Note 2. Inventories

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

	2016	2015
Donated inventory	\$1,185,247	\$1,466,610
Purchased inventory	205,305	108,095
	\$1,390,552	\$1,574,705

Note 3. Accounts Receivable

Accounts receivable consist of the following at June 30, 2016 and 2015:

	2016	2015
Member agencies	\$130,975	\$107,813
Other customers	16,570	10,048
Allowance for bad debts	(4,620)	(5,880)
	\$142,925	\$111,981

Note 4. Contributions Receivable

Contributions receivable were \$288,109 and \$564,999 at June 30, 2016 and 2015, respectively, and are due within one year. Management believes that all contributions receivable are fully collectible at June 30, 2016 and 2015, and, therefore, there are no allowances for uncollectible contributions receivable.

A local foundation has agreed to provide the Organization with up to \$1,000,000 in total funding for the start-up operational costs associated with the Harvested Here Food Hub, LLC, depending on the Organization's funding needs. Approximately \$200,000 of this pledge was outstanding as of June 30, 2016. The total amount that the Organization will receive is not readily determinable; and therefore, this amount has not been recorded.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 5. Land, Building and Equipment

A summary of land, building and equipment at June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Land and land improvements	\$ 685,028	\$ 401,112
Building	2,680,019	2,665,183
Vehicles	647,647	394,219
Office furniture and fixtures	291,983	290,092
Greenhouse	26,741	26,741
Warehouse equipment	414,923	245,128
Construction in process	<u>116,874</u>	<u>29,684</u>
	4,863,215	4,052,159
Accumulated depreciation	<u>(1,394,507)</u>	<u>(1,192,030)</u>
	<u>\$ 3,468,708</u>	<u>\$ 2,860,129</u>

Note 6. Note Payable

The Organization has a note payable to a bank due in monthly installments of \$5,399 through August 1, 2017, with the remaining unpaid principal and interest due September 1, 2017. The note bears interest at 4.91%. The note is secured by land owned by the Organization. Aggregate payments required on principal are as follows:

Year Ending June 30,	
2017	\$ 60,768
2018	<u>48,605</u>
	<u>\$109,373</u>

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Undistributed food inventory	\$1,185,247	\$1,466,610
Closing the Meal Gap program	354,823	485,000
Capital improvements	30,000	299,266
Harvested Here Food Hub, LLC operations	77,911	263,590
Children's programs	5,250	15,545
Other restrictions	<u>171,135</u>	<u>55,000</u>
Total temporarily restricted net assets	<u>\$1,824,366</u>	<u>\$2,585,011</u>

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 7. Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets are included in cash, inventory, and contributions receivable.

During the year ended June 30, 2016 and 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of events specified by donors as follows:

	<u>2016</u>	<u>2015</u>
Distributed food inventory	\$ 281,363	\$ 62,404
Closing the Meal Gap program	245,177	-
Capital improvements	444,134	21,569
Harvested Here Food Hub, LLC operations	419,583	254,971
Harvested Here Food Hub, LLC capital assets	103,412	26,533
Children's programs	15,545	86,669
Other restrictions	<u>133,472</u>	<u>35,000</u>
	<u>\$1,642,686</u>	<u>\$487,146</u>

Note 8. Lease Commitments

The Organization leases office space and equipment pursuant to lease agreements with varying terms. The leases expire at various dates through June 2019. Rent expense totaled \$32,151 and \$29,536 for the years ended June 30, 2016 and 2015, respectively. All leases are accounted for as operating leases. Future minimum rental payments required under the operating leases are as follows:

Year Ending June 30,	
2017	\$42,468
2018	36,356
2019	36,000

Note 9. Retirement Plan

The Organization has established a deferred salary reduction plan under Section 403(b) of the Internal Revenue Code covering employees who have attained the age of 21 and have completed at least one year of service. The Organization matches contributions by eligible employees up to 3% of compensation. Employer contributions immediately vest. The Organization's matching contributions were \$14,507 and \$14,654 for the years ended June 30, 2016 and 2015, respectively.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

Note 10. Fair Value Measurements

The Organization utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques.

Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

ASC Topic 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

ASC Topic 820 also establishes a three-tier fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

Note 10. Fair Value Measurements (continued)

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

Donated inventory: Valued based on poundage times a standard rate. The standard rate is updated annually based on a study commissioned by Feeding America, which is classified as Level 3. The inputs used in the valuation include twenty-nine product types calculating a weighted average value for the year based on actual donated pounds by type on a national level.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of donated inventory could result in a different fair value measurement at the reporting date.

The table below presents additional information about assets and liabilities measured at fair value on a recurring basis by reliance on Level 3 inputs to determine fair value at June 30, 2016 and 2015.

	<u>Donated Inventory</u>	
	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 1,466,610	\$ 1,529,015
Food received	24,370,462	21,909,614
Food distributed	<u>(24,651,825)</u>	<u>(21,972,019)</u>
Ending balance	<u>\$ 1,185,247</u>	<u>\$ 1,466,610</u>

SUPPLEMENTARY INFORMATION

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	(Accrued) Deferred Grant Revenue June 30, 2015	Grant Revenue Received	Expenditures	(Accrued) Deferred Grant Revenue June 30, 2016
FEDERAL GRANTS						
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Tennessee Department of Agriculture:						
Food Distribution Cluster:						
Emergency Food Assistance Program (Food Commodities)	10.569	GR-20802	\$ 108,078	\$ 3,441,910	\$ 3,319,192	\$ 230,796
Emergency Food Assistance Program (Administrative Costs) October 1, 2014 - September 30, 2015	10.568	GR-45783	(35,229)	39,900	4,671	-
Emergency Food Assistance Program (Administrative Costs) October 1, 2015 - August 31, 2016	10.568	GR-54371	-	35,000	131,000	(96,000)
Emergency Food Assistance Program (Administrative Costs) September 1, 2015 - September 30, 2015	10.568	GR-53925	-	12,592	12,592	-
Total Food Distribution Cluster			72,849	3,529,402	3,467,455	134,796
Local Food Promotion Program						
• September 30, 2015 - September 29, 2017	10.172	15LFPPTN0085	-	29,781	37,316	(7,535)
TOTAL EXPENDITURES OF FEDERAL AWARDS			72,849	3,559,183	3,504,771	127,261
STATE GRANTS						
TENNESSEE DEPARTMENT OF HUMAN SERVICES						
Second Harvest Food Bank	N/A		-	25,000	25,000	-
TOTAL EXPENDITURES OF STATE AWARDS			-	25,000	25,000	-
TOTAL FEDERAL AND STATE AWARDS			\$ 72,849	\$ 3,584,183	\$ 3,529,771	\$ 127,261

The Notes to the Schedule of Expenditures of Federal and State Awards are an integral part of this schedule.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
June 30, 2016 and 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Organization under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

Note 3. Deferred Grant Revenue

The amount of deferred grant revenue for contract GR-20802 at June 30, 2016 and 2015, represents the amount of USDA inventory on hand.



Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

To the Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

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 consolidated financial statements of the Chattanooga Area Food Bank, Inc. and subsidiary (the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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

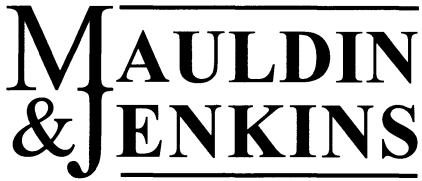
As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Chattanooga, Tennessee
October 26, 2016



Independent Auditor's Report on Compliance For Each Major Program and
on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Chattanooga Area Food Bank, Inc.
Chattanooga, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the Chattanooga Area Food Bank, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect the Organization's major federal program for the year ended June 30, 2016. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Chattanooga Area Food Bank, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

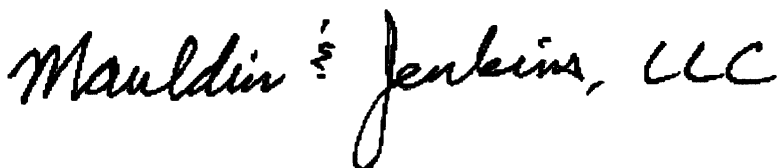
Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Chattanooga, Tennessee
October 26, 2016

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR Section 200 516(a)? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	U.S. Department of Agriculture – Food Distribution Cluster
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 low-risk auditee? Yes No

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

CHATTANOOGA AREA FOOD BANK, INC. AND SUBSIDIARY

SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

None.