



**SECOND HARVEST FOOD BANK  
OF NORTH CENTRAL OHIO**

**AUDITED  
FINANCIAL STATEMENTS**

**FIFTEEN MONTH PERIOD  
ENDED JUNE 30, 2017**

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Second Harvest Food Bank of North Central Ohio  
Lorain, Ohio

**Report on the Financial Statements**

We have audited the accompanying financial statements of Second Harvest Food Bank of North Central Ohio (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the fifteen month period then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of North Central Ohio as of June 30, 2017, and the changes in its net assets and its cash flows for the fifteen month period then ended in accordance with accounting principles generally accepted in the United States of America.



**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017 on our consideration of Second Harvest Food Bank of North Central Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest Food Bank of North Central Ohio's internal control over financial reporting and compliance.

*Barnes Wendling CPAs Inc.*

Sheffield Village, Ohio  
November 28, 2017

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Statement of Financial Position June 30, 2017

### ASSETS

|  |    |                  |                                   |
|--|----|------------------|-----------------------------------|
| Cash and cash equivalents:                 | \$ | 455,826          |                                   |
| Promises to give - capital campaign, net   |    | 67,271           |                                   |
| Grants receivable                          |    | 11,609           |                                   |
| Accounts receivable                        |    | 41,395           |                                   |
| Inventory                                  |    | 676,916          |                                   |
| Investments                                |    | 1,451,487        |                                   |
| Board designated funds held by third party |    | 89,604           |                                   |
| Prepaid expenses                           |    | 23,031           |                                   |
| Property and equipment, net                |    | <u>4,932,613</u> |                                   |
| <b>TOTAL ASSETS</b>                        |    |                  | <b><u><u>\$ 7,749,752</u></u></b> |

### Liabilities

|                                   |    |               |               |
|-----------------------------------|----|---------------|---------------|
| Accounts payable                  | \$ | 17,435        |               |
| Accrued payroll and payroll taxes |    | <u>56,505</u> |               |
| <b>TOTAL LIABILITIES</b>          |    |               | <b>73,940</b> |

### Net Assets

|   |  |               |                                   |
|---|--|---------------|-----------------------------------|
| Unrestricted:                           |  |               |                                   |
| General                                 |  | 7,039,586     |                                   |
| Board designated                        |  | <u>89,604</u> |                                   |
|   |  |               | <u>7,129,190</u>                  |
| Temporarily restricted                  |  |               | <u>546,622</u>                    |
| <b>TOTAL NET ASSETS</b>                 |  |               | <b><u><u>7,675,812</u></u></b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> |  |               | <b><u><u>\$ 7,749,752</u></u></b> |

See Notes to Financial Statements

## **SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO**

### **Statement of Activities and Changes in Net Assets Fifteen Month Period Ended June 30, 2017**

|   | Unrestricted               | Temporarily<br>Restricted | Total                      |
|---|----------------------------|---------------------------|----------------------------|
| <b>Support</b>  |                            |                           |                            |
| Government grants and contracts                           | \$ -0-                     | \$ 151,561                | \$ 151,561                 |
| Contributed food  | 11,491,229                 | -0-                       | 11,491,229                 |
| Contributions, grants, and bequests - operations          | 1,219,749                  | 1,391,496                 | 2,611,245                  |
| United Way  | -0-                        | 36,847                    | 36,847                     |
|   | <u>12,710,978</u>          | <u>1,579,904</u>          | <u>14,290,882</u>          |
| <b>Revenue</b>  |                            |                           |                            |
| Shared maintenance fees                                   | 133,644                    | -0-                       | 133,644                    |
| Sales of food products                                    | 255,314                    | -0-                       | 255,314                    |
| Legal settlement  | 81,995                     | -0-                       | 81,995                     |
| Loss on disposal of property and equipment                | ( 114,625)                 | -0-                       | ( 114,625)                 |
| Investment income, net                                    | 157,183                    | -0-                       | 157,183                    |
| Change in beneficial interest in<br>community foundations | 4,795                      | -0-                       | 4,795                      |
|   | <u>518,306</u>             | <u>-0-</u>                | <u>518,306</u>             |
| Net assets released<br>from restrictions                  | 1,866,194                  | ( 1,866,194)              | -0-                        |
| Total support and revenue                                 | <u>15,095,478</u>          | <u>( 286,290)</u>         | <u>14,809,188</u>          |
| <b>Expenses</b>   |                            |                           |                            |
| Program services  |                            |                           |                            |
| Food distribution   | 14,154,514                 | -0-                       | 14,154,514                 |
| Support services  |                            |                           |                            |
| Management and general                                    | 288,037                    | -0-                       | 288,037                    |
| Fundraising   | 438,592                    | -0-                       | 438,592                    |
|   | <u>14,881,143</u>          | <u>-0-</u>                | <u>14,881,143</u>          |
| Changes in net assets                                     | 214,335                    | ( 286,290)                | ( 71,955)                  |
| Net assets, beginning of period                           | <u>6,914,855</u>           | <u>832,912</u>            | <u>7,747,767</u>           |
| <b>NET ASSETS, end of period</b>                          | <u><b>\$ 7,129,190</b></u> | <u><b>\$ 546,622</b></u>  | <u><b>\$ 7,675,812</b></u> |

See Notes to Financial Statements

## SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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### Statement of Functional Expenses Fifteen Month Period Ended June 30, 2017

|                                      | Program              | Management        | Fundraising       | Total                |
|--------------------------------------|----------------------|-------------------|-------------------|----------------------|
| Salaries and wages                   | \$ 736,641           | \$ 155,230        | \$ 159,494        | \$ 1,051,365         |
| Payroll taxes and benefits           | 252,506              | 65,014            | 74,193            | 391,713              |
| Food distributed                     | 12,339,849           | -0-               | -0-               | 12,339,849           |
| Food processing and fees             | 17,428               | -0-               | -0-               | 17,428               |
| Professional fees and contracts      | 45,910               | 38,237            | 9,387             | 93,534               |
| Repairs and maintenance              | 67,887               | 6,076             | 8,989             | 82,952               |
| Supplies                             | 37,565               | 1,444             | 2,138             | 41,147               |
| Telephone                            | 14,336               | 377               | 377               | 15,090               |
| Dues and fees                        | 16,835               | 750               | 1,500             | 19,085               |
| Utilities                            | 76,310               | 2,008             | 2,008             | 80,326               |
| Insurance                            | 15,762               | 2,250             | -0-               | 18,012               |
| Mileage                              | 6,398                | 1,049             | 3,041             | 10,488               |
| Freight                              | 149,901              | -0-               | -0-               | 149,901              |
| Printing and postage                 | 11,042               | 829               | 111,938           | 123,809              |
| Promotions                           | 31,846               | 263               | 48,714            | 80,823               |
| Conferences, meetings, and education | 2,847                | 3,542             | 2,234             | 8,623                |
| Depreciation and amortization        | 280,648              | 4,357             | 4,357             | 289,362              |
| Interest                             | 43,682               | 1,150             | 1,150             | 45,982               |
| Miscellaneous                        | 7,121                | 5,461             | 9,072             | 21,654               |
|                                      | <u>\$ 14,154,514</u> | <u>\$ 288,037</u> | <u>\$ 438,592</u> | <u>\$ 14,881,143</u> |
|                                      | <u>95.2%</u>         | <u>1.9%</u>       | <u>2.9%</u>       | <u>100.0%</u>        |

See Notes to Financial Statements

## SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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### Statement of Cash Flows

Fifteen Month Period Ended June 30, 2017

#### Cash Flows From Operating Activities

|  |     |          |              |
|--|-----|----------|--------------|
| Change in net assets   | (\$ | 71,955)  |              |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities: |     |          |              |
| Depreciation and amortization  |     | 289,362  |              |
| Realized and unrealized gain on investments  | (   | 118,708) |              |
| Gain from board designated funds held by third party   | (   | 4,795)   |              |
| Change in present value allowance on promises to give  | (   | 8,139)   |              |
| Loss on disposal of property and equipment   |     | 114,625  |              |
| Decrease in assets   |     |          |              |
| Promises to give - capital campaign  |     | 953,425  |              |
| Notes receivable   |     | 100,009  |              |
| Grants receivable  |     | 938      |              |
| Accounts receivable  |     | 5,429    |              |
| Inventory  |     | 58,188   |              |
| Prepaid expenses   |     | 14,410   |              |
| Increase (decrease) in liabilities   |     |          |              |
| Accounts payable   | (   | 3,707)   |              |
| Accrued payroll and payroll taxes  |     | 31,351   |              |
| Net cash and cash equivalents provided by operating activities   |     |          | \$ 1,360,433 |

#### Cash Flows From Investing Activities

|  |   |            |                |
|--|---|------------|----------------|
| Purchases of property and equipment                            | ( | 128,098)   |                |
| Proceeds from the sale of property                             |   | 444,675    |                |
| Proceeds from the sale of investments                          |   | 1,067,988  |                |
| Purchases of investments                                       | ( | 1,103,599) |                |
| Net cash and cash equivalents provided by investing activities |   |            | <u>280,966</u> |

#### Cash Flows From Financing Activities

|   |   |                |                          |
|---|---|----------------|--------------------------|
| Payment on notes payable                          | ( | 2,082,500)     |                          |
| Net decrease in cash and cash equivalents         | ( | 441,101)       |                          |
| Cash and cash equivalents at beginning of period  |   | <u>896,927</u> |                          |
| <b>Cash and cash equivalents at end of period</b> |   |                | <b><u>\$ 455,826</u></b> |

#### Supplemental Information:

|                        |  |  |                         |
|------------------------|--|--|-------------------------|
| Cash paid for interest |  |  | <b><u>\$ 45,982</u></b> |
|------------------------|--|--|-------------------------|

See Notes to Financial Statements



# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements

Fifteen Month Period Ended June 30, 2017

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Activities**

Second Harvest Food Bank of North Central Ohio (the Organization), a non-governmental, non-profit organization established under the laws of the State of Ohio, was established to gather and provide resources to hunger relief agencies serving individuals and families in Crawford, Erie, Huron, and Lorain counties.

During 2017, the Organization changed its year end from March 31<sup>st</sup> to June 30<sup>th</sup>. Accordingly, the current period includes fifteen months of activities and cash flows.

#### **Basis of Accounting**

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Furthermore, the accounting policies adhered to by the Organization are generally consistent with the *Audit and Accounting Guide for Not-For-Profit Entities* issued by the American Institute of Certified Public Accountants.

#### **Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### **Unrestricted Net Assets**

Net assets not restricted by donors. This category includes net assets designated by the Board for specific purposes totaling \$89,604 as of June 30, 2017.

#### **Temporarily Restricted Net Assets**

Net assets where use by the Organization is limited by donor-imposed restrictions either expiring by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to the stipulations.

#### **Permanently Restricted Net Assets**

Net assets subject to donor imposed stipulations neither expiring with the passage of time nor can be fulfilled or otherwise be removed by actions of the Organization. The Organization did not have any permanently restricted net assets as of June 30, 2017.

#### **Contributions**

The Organization recognizes contributions and grants as revenue in the period in which the pledge (promise to give or grant) is received and donated food is recognized as revenue in the period the food is received.

#### **Shared Maintenance Fees**

To cover distribution costs, the Organization assesses partner charities a per pound charge on certain food and grocery products distributed to these agencies. The per pound charge is recognized as revenue in the accompanying financial statement as shared maintenance fees.

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements

Fifteen Month Period Ended June 30, 2017

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Donated Services

Donated services are recognized when they require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services valued at \$332,067 for the fifteen month period ended June 30, 2017, were received from individuals to perform program services and fundraising campaigns, but are not included in the accompanying financial statements because the skills necessary were not specialized. The Organization tracks these costs to measure and report the significance of volunteers to the Organization's mission.

#### Cash and Cash Equivalents

The Organization considers all unrestricted, highly liquid investments with an initial maturity date of three months or less to be cash equivalents. Cash and cash equivalents excludes any cash or cash equivalents position maintained in a professional managed investment account.

#### Accounts Receivable

Accounts receivable consist of shared maintenance fees due from partner charities of \$41,395 at June 30, 2017. Shared maintenance and delivery fees are due on the 30th day of the month following billing and bear no interest on the unpaid balance.

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with partner charities having outstanding balances and current relationships with them, it has concluded that no allowance for doubtful accounts is required at June 30, 2017.

Management individually reviews all outstanding accounts receivable balances. Accounts are written off when deemed uncollectible. Bad debt expense for the fifteen month period ended June 30, 2017 was \$-0-.

#### Inventory

Inventory consists of food contributed to the Organization or purchased by the Organization to supplement donations. Inventory is valued at the purchase price or the value provided by the grantor at the time of donation. If the value is not provided, inventory is recorded at \$1.73 per pound at June 30, 2017. The \$1.73 per pound value used in the accompanying financial statements was determined by an independent agreed-upon procedures audit performed as of December 31, 2016 by KPMG Peat Marwick L.L.P., the independent auditor of Feeding America. Their report dated June 23, 2017 outlined the procedures used in determining the per pound values. KPMG Peat Marwick L.L.P. is an auditing firm independent from Feeding America and from Second Harvest Food Bank of North Central Ohio. At June 30, 2017, the Organization had 607,800 pounds of food and non-food items in its warehouse.

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements Fifteen Month Period Ended June 30, 2017

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Property and Equipment

The Organization capitalizes all long-lived assets costing or having a donated value greater than \$1,000 and a useful life in excess of one year. Property and equipment are recorded at historical cost or fair market value for donated items. Property and equipment are accounted for as follows:

| <u>Category</u>           | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|---------------------------|----------------------------|------------------------------|
| Land                      | N/A                        | N/A                          |
| Building and improvements | Straight-Line              | 15 - 40 Years                |
| Computer software         | Straight-Line              | 3 Years                      |
| Furniture and fixtures    | Straight-Line              | 5 - 7 Years                  |
| Warehouse equipment       | Straight-Line              | 5 - 15 Years                 |
| Vehicles                  | Straight-Line              | 7 - 10 Years                 |

All expenses for repairs and maintenance not adding to the useful life of property and equipment are expensed in the period incurred.

#### Investments

Investment income includes realized and unrealized gains and losses, interest, and dividends, which are reported net of investment fees reported within the changes in net assets of the accompanying statement of activities and changes in net assets.

Investment income for the fifteen month period ended June 30, 2017 consisted of the following:

|                                  |    |                       |
|----------------------------------|----|-----------------------|
| Interest and dividends           | \$ | 47,039                |
| Net realized and unrealized gain |    | 118,708               |
| Investment fees                  | (  | <u>8,564</u> )        |
| Total investment income          | \$ | <u><u>157,183</u></u> |

#### Fair Value Measurements

Accounting standards establish fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price) and establishes a fair value hierarchy based upon the inputs used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets accessible at the measurement date for identical unrestricted assets or liabilities (for example, exchange quoted prices).

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

## Notes to Financial Statements Fifteen Month Period Ended June 30, 2017

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fair Value Measurements (Continued)

Level 2 – Inputs to the valuation methodology are observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets not sufficiently active to qualify as Level 1, other observable inputs, or inputs corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs to the valuation methodology are significant to the fair value measurement and unobservable (for example, supported by little or no market activity).

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The Organization’s investments accounted at fair value as of June 30, 2017 are summarized below:

|  | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u>   | <u>Total</u>        |
|--|---------------------|----------------|------------------|---------------------|
| <b>Assets</b>  |                     |                |                  |                     |
| Investments:   |                     |                |                  |                     |
| Money market funds   | \$ 26,093           | \$ -0-         | \$ -0-           | \$ 26,093           |
| Fixed income mutual funds                                    | 446,609             | -0-            | -0-              | 446,609             |
| Equity mutual funds  | <u>978,785</u>      | <u>-0-</u>     | <u>-0-</u>       | <u>978,785</u>      |
|  | 1,451,487           | -0-            | -0-              | 1,451,487           |
| Other assets measured at<br>fair value on a recurring basis: |                     |                |                  |                     |
| Beneficial interest in the<br>Community Foundation           | <u>-0-</u>          | <u>-0-</u>     | <u>89,604</u>    | <u>89,604</u>       |
| Total assets   | <u>\$ 1,451,487</u> | <u>\$ -0-</u>  | <u>\$ 89,604</u> | <u>\$ 1,541,091</u> |

The following is a description of the valuation methodologies used for assets measured at fair value as of June 30, 2017. There have been no changes in the methodologies used as of June 30, 2017.

Money market funds, fixed income mutual funds, and equity mutual funds are valued at the per share value of shares held by the Organization at year end.

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements Fifteen Month Period Ended June 30, 2017

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fair Value Measurements (Continued)

The beneficial interest in the Community Foundation (CF) is valued at the Organization's proportionate interest in the fair value of the CF's underlying pooled investments.

Changes in level 3 assets measured at fair value on a recurring basis for the fifteen month period ended June 30, 2017 are as follows:

|   | Beneficial<br>Interest in<br>Community<br>Foundation |
|---|--|
| Balance at March 31, 2016                                 | \$ 84,809  |
| Change in beneficial interest in<br>community foundations | <u>4,795</u>   |
| Balance at June 30, 2017                                  | <u>\$ 89,604</u>                                     |

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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 certain financial instruments could result in a different fair value measurement as of the reporting date.

#### Functional Allocation of Expenses

The cost of providing various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

#### Use of Estimates

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

#### Subsequent Events

Subsequent events have been evaluated through November 28, 2017, which is the date these financial statements were available to be issued.

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements Fifteen Month Period Ended June 30, 2017

### NOTE B - PROMISES TO GIVE

The Organization has received promises to give restricted by the donors for certain purposes. Promises to give consist of the following:

|  |    |                      |
|--|----|----------------------|
| Promises to give - less than one year      | \$ | 30,627               |
| Promises to give - one to five years       |    | 37,250               |
| Total unconditional promises to give       |    | <u>67,877</u>        |
| Less: allowance for present value discount |    | 606                  |
| Promises to give, net                      | \$ | <u><u>67,271</u></u> |

The Organization evaluates promises to give annually for uncollectible pledges by reviewing receipts, ongoing communication with donors, and through evaluation of the Organization's relationship with the donor. There was no bad debt expense for the fifteen month period ended June 30, 2017. At June 30, 2017, the Organization has determined no allowance for doubtful promises to give was necessary. Promises to give are recorded at net present value using a discount rate of 1.6% at June 30, 2017.

### NOTE C - GRANTS RECEIVABLE

Grants receivable at June 30, 2017 consist of funds awarded from the United Way, USDA, and various private foundations of \$11,609. All grants receivable are due within one year.

### NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

|                                   |    |                         |
|-----------------------------------|----|-------------------------|
| Land                              | \$ | 582,019                 |
| Buildings and improvements        |    | 3,465,307               |
| Computer software                 |    | 152,774                 |
| Furniture and fixtures            |    | 264,802                 |
| Warehouse equipment               |    | 985,259                 |
| Vehicles                          |    | 397,260                 |
| Total property and equipment cost |    | <u>5,847,421</u>        |
| Less: accumulated depreciation    |    | <u>( 914,808)</u>       |
| Property and equipment, net       | \$ | <u><u>4,932,613</u></u> |

Depreciation and amortization expense for the fifteen month period ended June 30, 2017 was \$289,362.

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements Fifteen Month Period Ended June 30, 2017

### NOTE E - TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted for the following at June 30, 2017:

|                         |    |                |
|-------------------------|----|----------------|
| Food purchases          | \$ | 10,405         |
| Partner charity support |    | 119,257        |
| Senior food box         |    | 320,446        |
| Nutrition education     |    | 3,636          |
| Time                    |    | 20,278         |
| Backpack program        |    | 66,412         |
| Virtual food drive      |    | 5,000          |
| Other                   |    | 1,188          |
|                         | \$ | <u>546,622</u> |

### NOTE F - ENDOWMENT

The Organization's endowment is comprised of board designated funds held by a third party. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

#### Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the Ohio enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. Unless stated otherwise in the gift instrument, assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The Organization classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. To date, the Organization has not received any permanently restricted endowment gifts. The Organization's endowed net assets are comprised of unrestricted board designated funds held by two local community foundations.

# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements Fifteen Month Period Ended June 30, 2017

### NOTE F - ENDOWMENT (CONTINUED)

#### Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets attempting to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets the Organization's board of directors has transferred to local community foundations as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner intended to preserve and build corpus to a sufficient level allowing for a diversified investment strategy.

#### Strategies Employed for Achieving Objectives

To satisfy its investment objective, the Organization has invested its board designated funds with two local community foundations. The Organization's Board of Directors has determined this to be a reasonable investment option allowing the assets to be managed by the community foundations in a pooled investment with other assets held by the community foundations.

#### Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of retaining the total return of its endowment until the endowment grows to an undetermined amount at which time a spending policy will be developed. The spending policy will allow its endowment to grow at an established percent annually that would exceed the funds appropriated for distribution. This is consistent with the Organization's objective to build the endowed corpus held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of June 30, 2017:

|                                     |                     |
|-------------------------------------|---------------------|
|                                     | <u>Unrestricted</u> |
| Board designated<br>endowment funds | <u>\$ 89,604</u>    |

Changes in endowment net assets for the fifteen month period ended June 30, 2017:

|   |                  |
|---|------------------|
| Endowment net assets,<br>beginning of year                | \$ 84,809        |
| Change in beneficial interest in<br>community foundations | <u>4,795</u>     |
| Endowment net assets,<br>end of year                      | <u>\$ 89,604</u> |



# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Notes to Financial Statements Fifteen Month Period Ended June 30, 2017

### NOTE G - DONATED FOOD AND NON-FOOD ITEMS

Second Harvest Food Bank of North Central Ohio receives donations of food and non-food items from individuals, various corporations, and other organizations. It is the policy of the Organization to record the value of these donated food items in accordance with accounting principles generally accepted in the United States of America. Although the Organization only serves as a clearing house that collects, stores, and distributes the food to organizations feeding the needy, it recognizes the food and non-food items are a substantial source of support for the Organization.

Changes in donated food and non-food items for the fifteen month period ended June 30, 2017:

|   |                |
|---|----------------|
| Beginning inventory in pounds               | 633,500        |
| Donations in pounds                         | 11,040,400     |
| Distributions to agencies in pounds         | ( 10,037,300)  |
| Distributions to other food banks in pounds | ( 618,400)     |
| Spoilage in pounds                          | ( 410,400)     |
| Decrease within inventory                   | ( 25,700)      |
| Ending inventory in pounds                  | <u>607,800</u> |

### NOTE H - RETIREMENT PLAN

The Organization maintains a defined contribution retirement plan for eligible employees. Contributions on behalf of eligible employees to the retirement fund during the fifteen month period ended June 30, 2017 were \$49,997. The plan requires 5% of eligible wages be contributed into the plan on a bi-weekly basis.

### NOTE I - CONCENTRATIONS

The Organization maintains cash balances in a local bank. Cash balances are insured by the Federal Deposit Insurance Corporation. The Organization's cash balances may exceed the insured limits from time to time.

During the fifteen month period ended June 30, 2017, total food donated from one corporate donor was approximately 1,265,625 pounds. These donations represent approximately 66% of the Organization's non-cash retail food donations, and approximately 12% of total non-cash food donations.

# **SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO**

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## **Notes to Financial Statements Fifteen Month Period Ended June 30, 2017**

### **NOTE J - INCOME TAXES**

The Organization is exempt from Federal income taxes under Section 501(c)(3) and is classified as an organization that is not a "Private Foundation" as defined in Section 509(a) of the Internal Revenue Code.

The Organization is no longer subject to tax examinations for years beginning before April 1, 2014 by taxing authorities in jurisdictions where the Organizations have filed returns. The Organization has adopted the accounting provisions pertaining to uncertain tax positions. The Organization did not identify any material unrecognized tax benefits upon evaluation of tax positions taken.

The Organization evaluates at each balance sheet date uncertain tax positions taken, if any, to determine the need to record liabilities for taxes, penalties, and interest. The Organization's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of June 30, 2017, the Organization had no accrued taxes, interest, or penalties related to uncertain tax positions. The Organization estimates the unrecognized tax benefit will not change significantly within the next twelve months.

## SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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### Schedule of Expenditures of Federal Awards Fifteen Month Period Ended June 30, 2017

| Federal Grantor/Pass-Through Grantor/<br>Program Title  | CFDA<br>Number | Current Year<br>Expenditures | Passed<br>Through to<br>Subrecipients |
|---|----------------|------------------------------|---------------------------------------|
| <b>Major Programs:</b>  |                |                              |                                       |
| <b>U.S. Department of Health and Human Services</b>   |                |                              |                                       |
| Passed through Ohio Department of Job and Family Services<br>and the Ohio Association of Second Harvest Foodbanks |                |                              |                                       |
| Temporary Assistance for Needy Families (TANF) - (Food<br>Commodities)  | 93.558         | \$ 716,513                   | \$ 716,513                            |
| Temporary Assistance for Needy Families (TANF) -<br>(Distribution and Storage Allocation)                         | 93.558         | 80,515                       | -0-                                   |
| <i>Total U.S. Department of Health and Human Services</i>   |                | 797,028                      | 716,513                               |
| Total Major Programs:   |                | \$ 797,028                   | \$ 716,513                            |
| <b>Nonmajor Programs:</b>   |                |                              |                                       |
| <b>Emergency Food Assistance Program Cluster:</b>   |                |                              |                                       |
| <b>U.S. Department of Agriculture</b>   |                |                              |                                       |
| Passed through Ohio Department of Job and Family Services<br>and the Cleveland Foodbank                           |                |                              |                                       |
| Emergency Food Assistance Program (Food Commodities)  | 10.569         | \$ 1,088,879                 | \$ 1,088,879                          |
| Emergency Food Assistance Program (Administrative Costs)  | 10.568         | 103,741                      | -0-                                   |
| Commodity Supplemental Food Program (Food Commodities)  | 10.565         | 188,440                      | 188,440                               |
| Commodity Supplemental Food Program (Administrative<br>Costs)   | 10.565         | 47,820                       | -0-                                   |
| <i>Total U.S. Department of Agriculture - Emergency Food<br/>Assistance Program Cluster:</i>                      |                | 1,428,880                    | 1,277,319                             |
| <b>U.S. Department of Health and Human Services</b>   |                |                              |                                       |
| Passed through Ohio Department of Job and Family Services<br>and the Ohio Association of Second Harvest Foodbanks |                |                              |                                       |
| Social Services Block Grant -Title XX (Food Commodities)  | 93.667         | 65,009                       | 65,009                                |
| Social Services Block Grant -Title XX (Distribution and Storage<br>Allocation)                                    | 93.667         | 7,020                        | -0-                                   |
| <i>Total U.S. Department of Health and Human Services</i>   |                | 72,029                       | 65,009                                |
| <b>U.S. Department of Homeland Security</b>   |                |                              |                                       |
| Emergency Food and Shelter National Board Program   | 97.024         | 45,363                       | 45,363                                |
| <i>Total U.S. Department of Homeland Security</i>   |                | 45,363                       | 45,363                                |
| Total Non-Major Programs:   |                | 1,546,272                    | 1,387,691                             |
| Total Federal Expenditures:   |                | \$ 2,343,300                 | \$ 2,104,204                          |

See Notes to Schedule of Expenditures of Federal Awards

# **SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO**

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## **Notes to Schedule of Expenditures of Federal Awards Fifteen Month Period Ended June 30, 2017**

### **NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Second Harvest Food Bank of North Central Ohio (the Organization) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title U.S. Code of Federal Regulations (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of 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 B - 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 reimbursement. Pass-through entity identifying numbers are presented where available. The Agency has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

### **NOTE C - FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the fair market value at the time of donation of the commodities disbursed. The value per pound used to determine the fair market value is the value provided by the pass-through agency or, if a value is not provided, an estimate of \$1.73 per pound based on an independent agreed-upon procedures engagement provided for America's Second Harvest, which determines the average inventory value per pound for the period. At June 30, 2017, the Organization had federally funded food commodities totaling \$90,957 in inventory.

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

The Board of Directors  
Second Harvest Food Bank of North Central Ohio  
Lorain, Ohio

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 North Central Ohio (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the fifteen month period then ended, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2017.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank of North Central Ohio's (Organization) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Barnes Wendling CPAs Inc.*

Sheffield Village, Ohio  
November 28, 2017

INDEPENDENT AUDITORS REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors  
Second Harvest Food Bank of North Central Ohio  
Lorain, Ohio

**Report on Compliance for Each Major Federal Program**

We have audited Second Harvest Food Bank of North Central Ohio's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the fifteen month period ended June 30, 2017. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Organization'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 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 each 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 Organization 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 fifteen month period ended June 30, 2017.



## 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 each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

*Barnes Wendling CPAs Inc.*

Sheffield Village, Ohio  
November 28, 2017



# SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

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## Schedule of Findings and Questioned Costs

### Section I – Summary of Auditor’s Results

#### Financial Statements

|  |                   |                    |
|--|-------------------|--------------------|
| Type of auditors’ report issued:   | <u>Unmodified</u> |                    |
| Internal control over financial reporting:                                       |                   |                    |
| Material weakness(es) identified?  | ___yes            | __x__no            |
| Significant deficiency(ies) identified not considered to be material weaknesses? | ___yes            | __x__none reported |
| Noncompliance material to financial statements noted?                            | ___yes            | __x__no            |

#### Federal Awards

|  |                   |                    |
|--|-------------------|--------------------|
| Internal control over major programs:  |                   |                    |
| Material weakness(es) identified?  | ___yes            | __x__no            |
| Significant deficiency(ies) identified not considered to be material weaknesses?   | ___yes            | __x__none reported |
| Type of auditors’ report issued on compliance for major programs:  | <u>Unmodified</u> |                    |
| Any audit findings disclosed that are required to be reported in accordance with Federal Register 2 CFR Part 200, Subpart F? | ___yes            | __x__no            |

#### CFDA Numbers

#### Name of Federal Program or Cluster

|  |   |
|--|---|
| 93.558   | Temporary Assistance for Needy Families |
| Dollar threshold used to distinguish Type A and Type B programs: | \$ 750,000                              |
| Auditee qualified as a low risk auditee?                         | __x__yes      ___no                     |

### Section II – Financial Statement Findings

No findings were noted.

### Section III – Federal Award Findings and Questioned Costs

No findings were noted.