



**AUDITED
FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2019 AND 2018

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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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, 2019 and 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 October 22, 2019, 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 solely 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 the effectiveness of Second Harvest Food Bank of North Central Ohio's 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

Sheffield Village, Ohio
October 22, 2019

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Statements of Financial Position

	June 30,	
	2019	2018
ASSETS		
Cash and cash equivalents	\$ 440,031	\$ 397,272
Promises to give - capital campaign, net	6,000	24,333
Grants receivable	116,472	205,059
Accounts receivable	53,539	68,902
Prepaid expenses	35,649	30,374
Inventory	725,555	735,218
Investments	1,653,173	1,572,503
Board designated funds held by third party	97,114	93,771
Property and equipment, net	4,719,016	4,769,130
	\$ 7,846,549	\$ 7,896,562
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 2,888	\$ 11,623
Accrued payroll and payroll taxes	86,398	78,257
	89,286	89,880
 Net Assets		
Without donor restriction:		
General	2,094,391	2,083,870
Net investment in property and equipment	4,719,016	4,769,130
Board designated endowment	97,114	93,771
	6,910,521	6,946,771
With donor restriction	846,742	859,911
	7,757,263	7,806,682
	\$ 7,846,549	\$ 7,896,562

See Notes to Financial Statements

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2019		
	Without Donor Restriction	With Donor Restriction	Total
Support			
Government grants and contracts	\$ 261,025	\$ -0-	\$ 261,025
Contributed food	9,232,735	-0-	9,232,735
Contributions, grants, and bequests	790,062	1,336,922	2,126,984
United Way	42,958	-0-	42,958
	10,326,780	1,336,922	11,663,702
Revenue			
Shared maintenance fees	99,872	-0-	99,872
Sales of food products	180,579	-0-	180,579
Investment income, net	80,670	-0-	80,670
Change in beneficial interest in community foundations	3,343	-0-	3,343
Loss on sale of property and equipment	(3,107)	-0-	(3,107)
	361,357	-0-	361,357
Net assets released from restrictions	1,350,091	(1,350,091)	-0-
Total support and revenue	12,038,228	(13,169)	12,025,059
Expenses			
Program services			
Food distribution	11,569,135	-0-	11,569,135
Support services			
Management and general	202,393	-0-	202,393
Fundraising	302,950	-0-	302,950
	12,074,478	-0-	12,074,478
Changes in net assets	(36,250)	(13,169)	(49,419)
Net assets, beginning of year	6,946,771	859,911	7,806,682
NET ASSETS, end of year	\$ 6,910,521	\$ 846,742	\$ 7,757,263

See Notes to Financial Statements

	Year Ended June 30, 2018		
	Without Donor Restriction	With Donor Restriction	Total
Support			
Government grants and contracts	\$ 199,109	\$ -0-	\$ 199,109
Contributed food	9,196,982	-0-	9,196,982
Contributions, grants, and bequests United Way	876,515 48,435	1,173,898 -0-	2,050,413 48,435
	<u>10,321,041</u>	<u>1,173,898</u>	<u>11,494,939</u>
Revenue			
Shared maintenance fees	111,666	-0-	111,666
Sales of food products	229,933	-0-	229,933
Investment income, net	120,011	-0-	120,011
Change in beneficial interest in community foundations	4,167	-0-	4,167
	<u>465,777</u>	<u>-0-</u>	<u>465,777</u>
Net assets released from restrictions	860,609	(860,609)	-0-
Total support and revenue	<u>11,647,427</u>	<u>313,289</u>	<u>11,960,716</u>
Expenses			
Program services			
Food distribution	11,272,682	-0-	11,272,682
Support services			
Management and general	192,998	-0-	192,998
Fundraising	364,166	-0-	364,166
	<u>11,829,846</u>	<u>-0-</u>	<u>11,829,846</u>
Total expenses	<u>11,829,846</u>	<u>-0-</u>	<u>11,829,846</u>
Changes in net assets	(182,419)	313,289	130,870
Net assets, beginning of year	<u>7,129,190</u>	<u>546,622</u>	<u>7,675,812</u>
NET ASSETS, end of year	<u>\$ 6,946,771</u>	<u>\$ 859,911</u>	<u>\$ 7,806,682</u>

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Statements of Functional Expenses

	Year Ended June 30, 2019			
	Program	Management	Fundraising	Total
Salaries and wages	\$ 686,226	\$ 132,693	\$ 160,834	\$ 979,753
Payroll taxes and benefits	271,417	50,461	63,577	385,455
Food distributed	9,811,551	-0-	-0-	9,811,551
Food purchases, processing, and fees	9,457	-0-	-0-	9,457
Professional fees and contracts	31,183	6,126	559	37,868
Repairs and maintenance	80,487	2,159	359	83,005
Supplies	46,550	2,232	40	48,822
Telephone	10,448	181	171	10,800
Dues and fees	13,801	110	578	14,489
Utilities	66,032	975	975	67,982
Insurance	9,550	1,865	82	11,497
Mileage	8,725	194	1,276	10,195
Freight	130,203	-0-	-0-	130,203
Printing and postage	99,660	40	44,903	144,603
Promotions	18,419	521	22,553	41,493
Conferences, meetings, and education	12,762	2,147	109	15,018
Depreciation and amortization	241,892	2,468	2,468	246,828
Miscellaneous	20,772	221	4,466	25,459
	<u>\$ 11,569,135</u>	<u>\$ 202,393</u>	<u>\$ 302,950</u>	<u>\$ 12,074,478</u>
	<u>95.9%</u>	<u>1.7%</u>	<u>2.5%</u>	<u>100.0%</u>

See Notes to Financial Statements



	Year Ended June 30, 2018			
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 684,100	\$ 127,317	\$ 146,572	\$ 957,989
Payroll taxes and benefits	245,623	45,713	52,626	343,962
Food distributed	9,671,003	-0-	-0-	9,671,003
Food purchases, processing, and fees	9,012	-0-	-0-	9,012
Professional fees and contracts	38,976	4,024	5,953	48,953
Repairs and maintenance	72,313	958	952	74,223
Supplies	30,131	150	149	30,430
Telephone	10,356	161	160	10,677
Dues and fees	15,061	1,016	2,032	18,109
Utilities	67,343	1,048	1,042	69,433
Insurance	8,461	1,800	-0-	10,261
Mileage	4,683	2,639	1,661	8,983
Freight	137,944	-0-	-0-	137,944
Printing and postage	12,023	664	104,430	117,117
Promotions	21,484	260	34,406	56,150
Conferences, meetings, and education	9,884	3,501	3,983	17,368
Depreciation and amortization	223,660	3,530	3,530	230,720
Miscellaneous	10,625	217	6,670	17,512
	<u>\$ 11,272,682</u>	<u>\$ 192,998</u>	<u>\$ 364,166</u>	<u>\$ 11,829,846</u>
	<u>95.3%</u>	<u>1.6%</u>	<u>3.1%</u>	<u>100.0%</u>

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Statements of Cash Flows

	Years Ended June 30,	
	2019	2018
Cash Flows From Operating Activities		
Changes in net assets	(\$ 49,419)	\$ 130,870
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	246,828	230,720
Loss on sale of property and equipment	3,107	-0-
Realized and unrealized gain on investments	(20,525)	(95,119)
Gain from board designated funds held by third party	(3,343)	(4,167)
(Increase) decrease in assets		
Promises to give - capital campaign	18,333	42,938
Grants receivable	88,587	(193,450)
Accounts receivable	15,363	(27,507)
Prepaid expenses	(5,275)	(7,343)
Inventory	9,663	(58,302)
Increase (decrease) in liabilities		
Accounts payable	(8,735)	(5,812)
Accrued payroll and payroll taxes	8,141	21,752
	302,725	34,580
Net cash and cash equivalents provided by operating activities		
	302,725	34,580
Cash Flows From Investing Activities		
Purchases of property and equipment	(204,546)	(67,237)
Proceeds from sale of property and equipment	4,725	-0-
Purchases of investments	(222,909)	271,029
Proceeds from the sale of investments	162,764	(296,926)
	(259,966)	(93,134)
Net cash and cash equivalents used in investing activities		
	(259,966)	(93,134)
Net increase (decrease) in cash and cash equivalents	42,759	(58,554)
Cash and cash equivalents at beginning of year	397,272	455,826
Cash and cash equivalents at end of year	\$ 440,031	\$ 397,272

See Notes to Financial Statements

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

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, grows hope in north central Ohio by creating pathways to nutritious food.

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 two classes of net assets:

Net Assets without Donor Restrictions

Net assets not subject to donor-imposed restrictions.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates resources to be maintained in perpetuity.

Change in Accounting Principles

In 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 on a retrospective basis except for the disclosures related to liquidity and availability of resources. The retrospective applications has the effect of presenting net assets previously reported as unrestricted net assets as net assets without donor restriction and temporarily restricted and permanently restricted net assets as net assets with donor restriction.

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. 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.

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist of shared maintenance fees due from partner charities of \$53,539 and \$68,902 as of June 30, 2019 and 2018, respectively. 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 as of June 30, 2019 and 2018.

Management individually reviews all outstanding accounts receivable balances. Accounts are written off when deemed uncollectible. Bad debt expense was \$-0- for the years ended June 30, 2019 and 2018.

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 \$1.62 and \$1.68 per pound as of June 30, 2019 and 2018, respectively. The \$1.62 and \$1.68 per pound value used in the accompanying financial statements were determined by independent agreed-upon procedures engagements performed as of December 31, 2018 and 2017 by firms engaged by Feeding America and independent from Second Harvest Food Bank of North Central Ohio. Their reports dated June 25, 2019 and June 20, 2018, respectively, outlined the procedures used in determining the per pound values. As of June 30, 2019 and 2018, the Organization had 808,886 and 662,254 pounds of food and non-food items in its warehouse, respectively.

Property and Equipment

The Organization capitalizes all long-lived assets costing or having a donated value greater than \$2,500 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 is being depreciated using the straight-line method over the assets' estimated useful lives. Property and equipment are accounted for as follows:

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

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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, 2019 are summarized below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments:				
Money market funds	\$ 89,910	\$ -0-	\$ -0-	\$ 89,910
Fixed income mutual funds	445,972	-0-	-0-	445,972
Equity mutual funds	<u>1,117,291</u>	<u>-0-</u>	<u>-0-</u>	<u>1,117,291</u>
	<u>\$ 1,653,173</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,653,173</u>
Other assets measured at fair value on a recurring basis:				
Beneficial interest in the Community Foundation	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 97,114</u>	<u>\$ 97,114</u>

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The Organization's investments accounted at fair value as of June 30, 2018 are summarized below:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments:				
Money market funds	\$ 115,552	\$ -0-	\$ -0-	\$ 115,552
Fixed income mutual funds	369,928	-0-	-0-	369,928
Equity mutual funds	<u>1,087,023</u>	<u>-0-</u>	<u>-0-</u>	<u>1,087,023</u>
	<u>\$ 1,572,503</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,572,503</u>
Other assets measured at fair value on a recurring basis:				
Beneficial interest in the Community Foundation	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 93,771</u>	<u>\$ 93,771</u>

The following is a description of the valuation methodologies used for assets measured at fair value as of June 30, 2019 and 2018. There have been no changes in the methodologies used as of June 30, 2019 and 2018.

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.

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 years ended June 30, 2019 and 2018 are as follows:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Balance of beneficial interest in community foundation, beginning of year	\$ 93,771	\$ 89,604
Change in beneficial interest in community foundations	<u>3,343</u>	<u>4,167</u>
Balance of beneficial interest in community foundation, end of year	<u>\$ 97,114</u>	<u>\$ 93,771</u>

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

The methods described above may produce a fair value calculation not 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.

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 shared maintenance fee on certain food and grocery products distributed to these programs. The per pound charge is recognized as revenue in the accompanying financial statements as shared maintenance fees.

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 \$390,270 and \$331,806 for the years ended June 30, 2019 and 2018, respectively, 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.

Investment Income

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 statements of activities and changes in net assets.

Functional Allocation of Expenses

The financial statements report certain categories of expenses attributed to more than one program or supporting function. Expenses identified with a specific program or supporting function are recorded directly according to their natural and functional expense classification. Certain expenses relate to more than one function and require allocation on a reasonable basis consistently applied. The expenses allocated include salaries and wages and payroll taxes and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and amortization, which is allocated on the basis of square footage.

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 reporting presentation. Natural and functional expense categories were reclassified as part of the adoption of ASU 2016-14. The reclassification did not have any effect on previously reported assets, liabilities, net assets, or changes in net assets.

Subsequent Events

Subsequent events have been evaluated through October 22, 2019, which is the date these financial statements were available to be issued.

NOTE B - LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs while striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a twelve month period, the Organization considers all expenditures related to its ongoing programs and support services to be general expenditures during the year ended June 30, 2019.

In addition to the financial assets available to meet general expenditures over the next twelve months, the Organization generally operates with a balanced budget and anticipates collecting sufficient revenue to cover the portion of general expenditures not covered by the financial assets listed below.

The table below presents financial assets available for general expenditures within one year of June 30, 2019:

Cash and cash equivalents	\$ 440,031
Promises to give - capital campaign, net	6,000
Grants receivable	116,472
Accounts receivable	53,539
Investments	<u>1,653,173</u>
Financial assets available to meet the cash needs for general expenditures within one year	<u><u>\$ 2,269,215</u></u>

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE C - PROMISES TO GIVE

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

	June 30,	
	2019	2018
Promises to give - less than one year	\$ 6,000	\$ 18,427
Promises to give - one to five years	-0-	6,000
Total unconditional promises to give	6,000	24,427
Less: allowance for present value discount	-0-	94
Promises to give, net	<u>\$ 6,000</u>	<u>\$ 24,333</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 years ended June 30, 2019 and 2018. As of June 30, 2019 and 2018, 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% as of June 30, 2019 and 2018.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	2019	2018
Land	\$ 582,020	\$ 582,020
Building and improvements	3,465,307	3,465,307
Computer software	220,750	214,117
Furniture and fixtures	266,202	266,202
Warehouse equipment	989,752	989,752
Vehicles	564,198	397,260
Total property and equipment cost	6,088,229	5,914,658
Less: accumulated depreciation	1,369,213	1,145,528
Property and equipment, net	<u>\$ 4,719,016</u>	<u>\$ 4,769,130</u>

Depreciation and amortization expense for the year ended June 30, 2019 and 2018 was \$246,828 and \$230,720, respectively.

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE E - GRANTS RECEIVABLE

Grants receivable as of June 30, 2019 and 2018 consist of funds awarded from the United Way, USDA, and various private foundations of \$116,472 and \$205,059, respectively. All grants receivable are due within one year.

NOTE F - NET ASSETS WITH PURPOSE RESTRICTIONS

Net assets with donor-imposed purpose restrictions were comprised of the following:

	June 30,	
	2019	2018
Food grants	\$ 425,308	\$ 375,606
Senior food box	281,696	386,008
Child hunger initiatives	79,971	19,975
Other	44,711	28,575
Mobile food pantry	12,500	-0-
Backpack program	2,556	19,747
Refrigerated food semi truck	-0-	30,000
	<u>\$ 846,742</u>	<u>\$ 859,911</u>

NOTE G - 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.

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.

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE G - ENDOWMENT (CONTINUED)

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 pooled investment accounts 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, 2019 and 2018:

	June 30,	
	2019	2018
Board designated endowment funds	\$ 97,114	\$ 93,771

Changes in endowment net assets for the years ended June 30, 2019 and 2018:

	June 30,	
	2019	2018
Endowment net assets, beginning of year	\$ 93,771	\$ 89,604
Change in beneficial interest in community foundations	3,343	4,167
Endowment net assets, end of year	\$ 97,114	\$ 93,771

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 years ended June 30, 2019 and 2018 were \$46,216 and \$42,584, respectively. The plan requires 5% of eligible wages be contributed into the plan on a bi-weekly basis.

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Financial Statements Years Ended June 30, 2019 and 2018

NOTE I - 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 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, 2019 and 2018, 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.

TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200
AUDIT REQUIREMENTS

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/ Program Title	CFDA Number	Current Year Expenditures	Passed Through to Subrecipients
Major Programs:			
Emergency Food Assistance Program Cluster:			
U.S. Department of Agriculture			
Passed through Ohio Department of Job and Family Services and the Cleveland Foodbank			
Emergency Food Assistance Program (Food Commodities)	10.569	\$ 1,483,280	\$ 1,483,280
Emergency Food Assistance Program (Administrative Costs)	10.568	169,057	-0-
Commodity Supplemental Food Program (Food Commodities)	10.565	361,346	361,346
Commodity Supplemental Food Program (Administrative Costs)	10.565	91,953	-0-
<i>Total U.S. Department of Agriculture - Food Distribution Cluster:</i>		<u>2,105,636</u>	<u>1,844,626</u>
Total Major Programs:		<u>\$ 2,105,636</u>	<u>\$ 1,844,626</u>
Nonmajor Programs:			
U.S. Department of Health and Human Services			
Passed through Ohio Department of Job and Family Services and the Ohio Association of Second Harvest Foodbanks			
Temporary Assistance for Needy Families (TANF) - (Food Commodities)	93.558	\$ 591,819	\$ 591,819
Temporary Assistance for Needy Families (TANF) - (Distribution and Storage Allocation)	93.558	55,637	-0-
<i>Total Temporary Assistance for Needy Families (TANF) - 477 Cluster:</i>		647,456	591,819
Passed through Ohio Department of Job and Family Services and the Ohio Association of Second Harvest Foodbanks			
Social Services Block Grant -Title XX (Food Commodities)	93.667	69,422	69,422
Social Services Block Grant -Title XX (Distribution and Storage Allocation)	93.667	6,526	-0-
<i>Total Social Services Block Grant - Title XX:</i>		<u>75,948</u>	<u>69,422</u>
<i>Total U.S. Department of Health and Human Services</i>		723,404	661,241
U.S. Department of Housing and Urban Development			
Community Development Block Grant	14.218	18,608	18,608
<i>Total U.S. Department of Housing and Urban Development - CDBG - Entitlement Grants Cluster:</i>		18,608	18,608
U.S. Department of Homeland Security			
Emergency Food and Shelter National Board Program	97.024	47,318	47,318
<i>Total U.S. Department of Homeland Security</i>		<u>47,318</u>	<u>47,318</u>
Total Non-Major Programs:		<u>789,330</u>	<u>727,167</u>
Total Federal Expenditures:		<u>\$ 2,894,966</u>	<u>\$ 2,571,793</u>

See Notes to Schedule of Expenditures of Federal Awards

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2019

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. As of June 30, 2019, the Organization had federally funded food commodities totaling \$201,394 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, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2019.

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 internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank of North Central Ohio's internal control. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Food Bank of North Central Ohio's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of North Central Ohio'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

Sheffield Village, Ohio
October 22, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND 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 compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank of North Central Ohio's major federal programs for the year ended June 30, 2019. Second Harvest Food Bank of North Central Ohio'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 Second Harvest Food Bank of North Central Ohio's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Second Harvest Food Bank of North Central Ohio's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Second Harvest Food Bank of North Central Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Second Harvest Food Bank of North Central Ohio is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Second Harvest Food Bank of North Central Ohio'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 Second Harvest Food Bank of North Central Ohio'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 a 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

Sheffield Village, Ohio
October 22, 2019

SECOND HARVEST FOOD BANK OF NORTH CENTRAL OHIO

Schedule of Findings and Questioned Costs

Section I – Summary of Auditors' 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>
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Any audit findings disclosed that are required to be reported in accordance with Federal Register 2 CFR Part 200, Subpart F?	___yes	__x__no
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CFDA Numbers

10.569, 10.568, and 10.565

Name of Federal Program or Cluster

Food Distribution Cluster

Dollar threshold used to distinguish Type A and Type B programs:	\$ 750,000
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Auditee qualified as a low risk auditee?	___yes	__x__no
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Section II – Financial Statement Findings

No findings were noted.

Section III – Federal Award Findings and Questioned Costs

No findings were noted.