

FINANCIAL STATEMENTS
AND ACCOMPANYING INFORMATION

SECOND HARVEST FOOD BANK
OF THE MAHONING VALLEY
December 31, 2016 and 2015



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C O N T E N T S

	<u>P A G E</u>
Independent Auditor's Report	1-2
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to Financial Statements	9-14
Accompanying Information:	
Schedule of Expenditures of Federal Awards and Nonfederal Revenue and Support	15
Notes to Schedule of Expenditures of Federal Awards and Nonfederal Revenue and Support	16
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	17-18
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance required by the Uniform Guidance	19-21
Schedule of Findings and Questioned Costs	22-24
Schedule of Prior Audit Findings and Questioned Costs	25

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July 19, 2017

Board of Directors
Second Harvest Food Bank of the Mahoning Valley
Youngstown, Ohio

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of the Mahoning Valley (a non-profit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of the Mahoning Valley as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years 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 July 19, 2017, on our consideration of Second Harvest Food Bank of the Mahoning Valley'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 the 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 the Mahoning Valley's internal control over financial reporting and compliance.

Hill, Barth & King LLC

Certified Public Accountants

STATEMENTS OF FINANCIAL POSITION

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

December 31, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 1,484,446	\$ 1,771,912
Certificate of deposit	238,437	235,734
Accounts receivable	24,494	32,012
Grants receivable	65,023	104,755
Inventory	1,064,937	1,202,884
Prepaid expenses	2,078	6,481
TOTAL CURRENT ASSETS	<u>2,879,415</u>	<u>3,353,778</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land	72,000	72,000
Buildings	1,242,832	1,242,832
Equipment:		
Office	98,662	100,172
Warehouse	216,524	197,229
Automotive	90,268	167,529
Land improvements	138,606	38,781
Building improvements	1,077,694	1,068,854
	<u>2,936,586</u>	<u>2,887,397</u>
Less accumulated depreciation	1,027,915	900,091
NET PROPERTY AND EQUIPMENT	<u>1,908,671</u>	<u>1,987,306</u>
<u>INVESTMENTS - NOTE C</u>	255,011	512,397
TOTAL ASSETS	<u>\$ 5,043,097</u>	<u>\$ 5,853,481</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 29,349	\$ 16,308
Agency credits	3,051	4,337
Accrued expenses	23,414	21,369
Contract liability	0	590,000
TOTAL CURRENT LIABILITIES	<u>55,814</u>	<u>632,014</u>
<u>NET ASSETS</u>		
Unrestricted:		
Board designated - operating reserves	600,000	600,000
Undesignated	3,931,051	4,284,036
	<u>4,531,051</u>	<u>4,884,036</u>
Temporarily restricted	456,232	337,431
TOTAL NET ASSETS	<u>4,987,283</u>	<u>5,221,467</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,043,097</u>	<u>\$ 5,853,481</u>

See accompanying notes to financial statements

STATEMENTS OF ACTIVITIES

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Support:			
United Way	\$ 48,928	\$ 54,075	\$ 103,003
EFSP revenue	0	72,530	72,530
Contributions and grants	517,322	159,889	677,211
Donated food	16,058,493	0	16,058,493
Donated services	527,687	0	527,687
Fundraisers	254,073	0	254,073
Net assets released from restrictions	167,693	(167,693)	0
TOTAL SUPPORT	<u>17,574,196</u>	<u>118,801</u>	<u>17,692,997</u>
Revenue:			
Shared maintenance fees	599,830	0	599,830
USDA R.A. reimbursement	121,594	0	121,594
CSFP reimbursement	32,774	0	32,774
OFP reimbursement	96,101	0	96,101
Direct and holiday mailing income	331,309	0	331,309
Membership fees	6,150	0	6,150
Miscellaneous	9,020	0	9,020
Investment income	13,040	0	13,040
Net realized/unrealized gain on investments	25,776	0	25,776
Loss on disposal of assets	(12,427)	0	(12,427)
TOTAL REVENUE	<u>1,223,167</u>	<u>0</u>	<u>1,223,167</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>18,797,363</u>	<u>118,801</u>	<u>18,916,164</u>
<u>EXPENSES</u>			
Program services	18,634,271	0	18,634,271
General and administrative	187,248	0	187,248
Fundraising	328,829	0	328,829
TOTAL EXPENSES	<u>19,150,348</u>	<u>0</u>	<u>19,150,348</u>
CHANGES IN NET ASSETS	(352,985)	118,801	(234,184)
<u>NET ASSETS</u>			
Beginning of year	4,884,036	337,431	5,221,467
End of year	<u>\$ 4,531,051</u>	<u>\$ 456,232</u>	<u>\$ 4,987,283</u>

See accompanying notes to financial statements

STATEMENTS OF ACTIVITIES (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<u>REVENUE AND OTHER SUPPORT</u>			
Support:			
United Way	\$ 53,793	\$ 115,668	\$ 169,461
FEMA revenue	79,706	0	79,706
Contributions and grants	547,597	179,621	727,218
Donated food	15,150,346	0	15,150,346
Donated services	518,185	0	518,185
Fundraisers	249,946	0	249,946
Net assets released from restrictions	261,362	(261,362)	0
TOTAL SUPPORT	<u>16,860,935</u>	<u>33,927</u>	<u>16,894,862</u>
Revenue:			
Shared maintenance fees	739,556	0	739,556
USDA R.A. reimbursement	126,984	0	126,984
OFPP reimbursement	77,688	0	77,688
Direct and holiday mailing income	289,668	0	289,668
Membership fees	6,250	0	6,250
Miscellaneous	18,589	0	18,589
Investment income	13,651	0	13,651
Net realized/unrealized loss on investments	(3,667)	0	(3,667)
Loss on disposal of assets	(2,403)	0	(2,403)
TOTAL REVENUE	<u>1,266,316</u>	<u>0</u>	<u>1,266,316</u>
TOTAL REVENUE AND OTHER SUPPORT	<u>18,127,251</u>	<u>33,927</u>	<u>18,161,178</u>
<u>EXPENSES</u>			
Program services	17,543,598	0	17,543,598
General and administrative	173,168	0	173,168
Fundraising	317,355	0	317,355
TOTAL EXPENSES	<u>18,034,121</u>	<u>0</u>	<u>18,034,121</u>
CHANGES IN NET ASSETS	93,130	33,927	127,057
<u>NET ASSETS</u>			
Beginning of year	4,790,906	303,504	5,094,410
End of year	<u>\$ 4,884,036</u>	<u>\$ 337,431</u>	<u>\$ 5,221,467</u>

See accompanying notes to financial statements

STATEMENTS OF FUNCTIONAL EXPENSES

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

	Program Services	General and Administrative	Fundraising	Total
Donated food - distributed	\$ 15,768,646	\$ 0	\$ 0	\$ 15,768,646
Donated food - disposals	408,220	0	0	408,220
Donated services	527,687	0	0	527,687
Fundraising	0	0	184,492	184,492
Insurance	15,703	1,408	0	17,111
Leased employees	523,421	121,396	141,628	786,445
Legal and accounting fees	0	24,322	0	24,322
Miscellaneous	2,500	0	0	2,500
Office	167,474	15,398	0	182,872
Organization fees	17,623	0	0	17,623
Program expenses	178,539	0	0	178,539
Public relations	3,821	387	0	4,208
Second Harvest product	41,301	0	0	41,301
Transportation and freight	23,691	0	0	23,691
Trash removal	5,145	432	0	5,577
Travel and conferences	5,868	2,322	2,709	10,899
Truck	85,348	0	0	85,348
Utilities	44,779	4,249	0	49,028
Warehouse and maintenance	64,415	0	0	64,415
Wholesale product	579,875	0	0	579,875
Depreciation	170,215	17,334	0	187,549
TOTAL	<u>\$ 18,634,271</u>	<u>\$ 187,248</u>	<u>\$ 328,829</u>	<u>\$ 19,150,348</u>
PERCENTAGE	<u>97.3%</u>	<u>1.0%</u>	<u>1.7%</u>	<u>100.0%</u>

See accompanying notes to financial statements

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2015

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Donated food - distributed	\$ 14,631,565	\$ 0	\$ 0	\$ 14,631,565
Donated food - disposals	298,824	0	0	298,824
Donated services	518,185	0	0	518,185
Fundraising	0	0	162,709	162,709
Insurance	15,155	1,408	0	16,563
Leased employees	440,777	130,067	151,743	722,587
Legal and accounting fees	15,120	1,405	0	16,525
Miscellaneous	3,532	0	0	3,532
Office	165,754	15,398	0	181,152
Organization fees	12,352	0	0	12,352
Program expenses	219,705	0	0	219,705
Public relations	4,167	387	0	4,554
Second Harvest product	32,706	0	0	32,706
Transportation and freight	66,064	0	0	66,064
Trash removal	4,646	432	0	5,078
Travel and conferences	8,431	2,488	2,903	13,822
Truck	46,683	0	0	46,683
Utilities	45,740	4,249	0	49,989
Warehouse and maintenance	49,044	0	0	49,044
Wholesale product	778,554	0	0	778,554
Depreciation	186,594	17,334	0	203,928
TOTAL	<u>\$ 17,543,598</u>	<u>\$ 173,168</u>	<u>\$ 317,355</u>	<u>\$ 18,034,121</u>
PERCENTAGE	<u>97.2%</u>	<u>1.0%</u>	<u>1.8%</u>	<u>100.0%</u>

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Changes in net assets	\$ (234,184)	\$ 127,057
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	187,549	203,928
Net realized and unrealized (gains) losses on investments	(25,776)	3,667
Gain on certificate of deposit	(2,703)	0
Loss on disposal of equipment	12,427	2,403
(Increase) decrease in accounts receivable	7,518	(7,900)
(Increase) decrease in grants receivable	39,732	(30,505)
(Increase) decrease in inventory	137,947	(209,611)
(Increase) decrease in prepaid expenses	4,403	(794)
Increase (decrease) in accounts payable	13,041	(9,006)
Decrease in agency credits	(1,286)	(2,544)
Increase in accrued expenses	2,045	3,810
Increase (decrease) in contract liability	(590,000)	590,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(449,287)</u>	<u>670,505</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(130,958)	(117,855)
Proceeds from sale of property and equipment	9,617	48,081
Proceeds from sale of investments	286,584	0
Purchase of investments	(3,422)	(7,488)
Purchase of certificate of deposit	0	(235,734)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>161,821</u>	<u>(312,996)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(287,466)</u>	<u>357,509</u>
<u>CASH AND CASH EQUIVALENTS</u>		
Beginning of year	<u>1,771,912</u>	<u>1,414,403</u>
End of year	<u>\$ 1,484,446</u>	<u>\$ 1,771,912</u>

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

December 31, 2016 and 2015

NOTE A - NATURE OF OPERATIONS

The Second Harvest Food Bank of the Mahoning Valley (Food Bank) is a private non-profit organization incorporated in the State of Ohio. The primary mission of the Food Bank is to collect donated foods and to distribute the foods to needy individuals through member organizations, such as pantries, soup kitchens, day-care centers and senior programs in the three counties of Mahoning, Trumbull and Columbiana in Northeast Ohio.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents:

Cash and cash equivalents consist of temporary bank deposits and money market instruments with a maturity of three months or less as of the purchase date.

Investments:

The Food Bank carries investments in marketable securities and an investment held at the Community Foundation of the Mahoning Valley at their fair values. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met, either by passage of time or by use, in the reporting period in which the income and gains are recognized. Unrealized gains and losses are included in the changes in net assets.

Accounts Receivable:

Accounts receivable consist of amounts due from member organizations and are recorded net of an allowance for doubtful accounts. The potential risk is limited to the amounts recorded in the financial statements. The Food Bank considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required at December 31, 2016 and 2015. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventory:

Purchased wholesale inventory items are determined on a first-in, first-out basis and are valued at cost. The Food Bank receives inventory from the Feeding America network, the U.S. Department of Agriculture, and various other donors at no cost. These inventory values are based on weight. The donated inventory is valued using the approximate average wholesale value of one pound of donated product at the national level. This value of \$1.67 per pound for 2016 and \$1.70 per pound in 2015 was subject to certain agreed-upon procedures by a major international CPA firm. The weights are recorded on a perpetual inventory that accurately reflects the movement of the goods from donors and to regulatory agencies.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment:

The Food Bank follows the practice of capitalizing all expenditures for land, buildings, and equipment at cost. Donated equipment is recorded at the estimated fair market value at the date of the donation. Maintenance and repairs are charged to operations as incurred. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets.

Agency Credits:

Agency credits consist of amounts due to member agencies. The credits are generated from overpayments, grants awarded and restricted donations. The credits are used to pay the shared maintenance fee (handling cost).

Donated Services and Securities:

Donated services recognized in the financial statements consist of advertising and other professional services. The Food Bank also receives volunteer services for fundraising, clerical, office, warehouse services and repairs. The value of these donated services is not included in the accompanying financial statements, as such services do not create or enhance nonfinancial assets or require specialized skills. Donated securities are recorded at fair market value at the date of donation.

Retirement Plans:

The Food Bank maintains a defined contribution profit sharing plan for its eligible leased employees. To be eligible, a leased employee must be 21 years of age and have completed one year of service. Contributions to the plan are made at the discretion of management, based on the results of operations from year to year. Food Bank contributions to the plan for the years ended December 31, 2016 and 2015 were \$34,395 and \$35,154, respectively.

The Food Bank also maintains an employee retirement plan under which leased employees may defer a portion of their annual compensation, pursuant to Section 403(b) of the Internal Revenue Code. The Food Bank can elect to match a percentage of the employees' contributions. No contributions to the plan have been made for the years ended December 31, 2016 and 2015. Substantially, all employees who have completed at least one year of service are eligible to participate in the plan.

Income Taxes:

The Food Bank is a not-for-profit organization which is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

December 31, 2016 and 2015

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets:

The Food Bank 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. Temporarily restricted net assets are those whose use has been limited by donor-imposed time restrictions or purpose restrictions. Permanently restricted net assets are net assets required by donor restriction or by law to be maintained by the Food Bank in perpetuity. Unrestricted net assets are all other net assets. The Food Bank currently has no permanently restricted net assets.

The temporarily restricted net assets at December 31, 2016 and 2015 consist of funds for capital improvements, agency food orders, a mobile pantry and a program at area schools.

Board Designated Net Assets:

The Food Bank is a member of Feeding America, which is a nationwide network of food banks in the United States. As a member of the network, the Food Bank purchases food product from Feeding America. Feeding America requires the Food Bank to maintain approximately three months of expenses as a reserve in the event that it lacks sufficient funding to pay its bills. Board designated net assets for the years ended December 31, 2016 and 2015 was \$600,000.

Functional Allocation of Expenses:

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

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events:

Management evaluated all activity of the Food Bank through July 19, 2017, the date the financial statements were available to be issued, and concluded that no subsequent events have occurred that would require recognition or disclosure in the financial statements or notes, except as described in Note E.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

December 31, 2016 and 2015

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS

FASB ASC 820 requires the Food Bank to classify its investments based on valuation methods using three levels. Level 1 inputs are based on quoted prices in active markets for identical investments. Level 2 inputs are based on significant observable market inputs, such as quoted prices for similar investments and quoted prices in inactive markets. Level 3 inputs are based on significant unobservable inputs that reflect the Food Bank's determination of assumptions that market participants might reasonably use in valuing the investments. The valuation inputs are not necessarily an indication of risk or liquidity associated with the underlying investments.

Investments are summarized as follows:

	<u>Investments at Fair Value at December 31, 2016</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Investments:				
Funds held at Community Foundation of Mahoning Valley	<u>\$ 0</u>	<u>\$ 255,011</u>	<u>\$ 0</u>	<u>\$ 255,011</u>
	<u>Investments at Fair Value at December 31, 2015</u>			
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	<u>Total</u>
Investments:				
Mutual funds:				
Large blend	\$ 267,958	\$ 0	\$ 0	\$ 267,958
Funds held at Community Foundation of Mahoning Valley	<u>0</u>	<u>244,439</u>	<u>0</u>	<u>244,439</u>
Total investments	<u>\$ 267,958</u>	<u>\$ 244,439</u>	<u>\$ 0</u>	<u>\$ 512,397</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

December 31, 2016 and 2015

NOTE D - CONCENTRATION OF CREDIT RISK

The Food Bank maintains its cash deposits in financial institutions which, at times, may exceed federally insured limits. No amounts exceeded federally insured limits at December 31, 2016 and 2015. The Food Bank has not experienced any losses from such accounts, and management believes the Food Bank is not exposed to significant credit risk related to bank deposit accounts.

The Food Bank received approximately 24.1% and 19.5% in 2016 and 2015, respectively, of its funding from the United States Department of Agriculture (USDA) in the form of grants and donated food. During the years ended December 31, 2016 and 2015, the Food Bank received \$121,594 and \$126,984 in grants and \$4,413,428 and \$3,531,655 of donated food from the USDA, respectively.

NOTE E - COMMITMENTS

During 2015, the Food Bank entered into an agreement to construct a soup kitchen totaling approximately \$605,000. The contract was voided through a settlement agreement signed on June 14, 2016. As per the agreement, the Food Bank refunded \$590,000 in donations restricted for the purpose of constructing the soup kitchen. This amount was classified as a contract liability as of December 31, 2015. The remaining \$15,000 was retained by the Food Bank and released from donor restrictions under the agreement.

During 2017, the Food Bank entered into an agreement to expand its warehouse totaling approximately \$289,000. Construction is scheduled to begin July 2017.

NOTE F - RELATED PARTY TRANSACTIONS

As a member of the food bank network, the Food Bank purchases food product from Feeding America. Total purchases for the years ended December 31, 2016 and 2015 totaled \$74,096 and \$175,534, respectively. Accounts payable to Feeding America for the years ended December 31, 2016 and 2015 totaled \$-0- and \$1,133, respectively.

The Food Bank uses Cerni Motor Sales Inc. for auto maintenance relating to its delivery trucks. Cerni Motor Sales Inc. is owned by a board member of the Food Bank. Auto maintenance expenses paid to Cerni Motor Sales Inc. for the years ended December 31, 2016 and 2015 totaled \$5,701 and \$17,850, respectively. In addition to maintenance costs, the Food Bank leases three trucks from Cerni Motor Sales Inc. Lease expense for the years ended December 31, 2016 and 2015 totaled \$59,132 and \$4,347, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

December 31, 2016 and 2015

NOTE G - OPERATING LEASES

The Food Bank leases three trucks under operating leases expiring November 2021 from Cerni Motor Sales Inc. Minimum future lease payments under these leases are as follows:

<u>YEAR ENDING</u>	<u>AMOUNT</u>
2017	\$ 51,681
2018	51,681
2019	51,681
2020	51,681
2021	47,375
TOTAL	<u>\$ 254,099</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NONFEDERAL REVENUE AND SUPPORT

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM</u>	<u>PROGRAM OR AWARD AMOUNT</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>AMOUNT PASSED TO SUBRECIPIENTS</u>
<u>MAJOR PROGRAMS</u>				
U.S. Department of Agriculture passed through the Ohio Department of Job and Family Services:				
Commodity Supplemental Food Program				
CFDA Program No. 10.565	\$ 477,114	\$ 422,711	\$ 422,711	\$ 0
Emergency Food Assistance Program (Administrative Costs)				
CFDA Program No. 10.568	120,985	120,985	120,985	0
Emergency Food Assistance Program (Food Commodities)				
CFDA Program No. 10.569	3,971,455	4,090,229	4,090,229	0
U.S. Department of Health and Human Services passed through the Ohio Association of Second Harvest Food Banks:				
Social Services Block Grant				
CFDA Program No. 93.667	5,840,849	5,816,021	5,816,021	0
<u>NONMAJOR PROGRAMS</u>				
U.S. Department of Homeland Security Department of Health and Human Services passed through Trumbull and Mahoning Counties:				
Emergency Food and Shelter National Board Program				
CFDA Program No. 97.024	72,530	72,530	59,642	59,642
TOTAL FEDERAL AWARDS	\$ 10,482,933	10,522,476	\$ 10,509,588	\$ 59,642
<u>NONFEDERAL REVENUE</u>		8,393,688		
TOTAL REVENUE AND SUPPORT PER FINANCIAL STATEMENTS		\$ 18,916,164		

See accompanying notes to schedule of expenditures of federal awards and nonfederal revenue and support

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NONFEDERAL REVENUE AND SUPPORT

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

NOTE A - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards and nonfederal revenue and support (Schedule) includes the federal award activity of the Second Harvest Food Bank of the Mahoning Valley (Food Bank) under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Food Bank.

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.

NOTE C - INDIRECT COST RATE

The Food Bank has elected not to use the ten percent de minimis cost rate allowable under the Uniform Guidance.

NOTE D - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the Schedule at the approximate average wholesale value of one pound of donated product at the national level for the commodities received and disbursed.

Board of Directors
Second Harvest Food Bank of the Mahoning Valley
Youngstown, Ohio

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

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 the Mahoning Valley (Food Bank), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, 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 July 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Food Bank'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 the Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank'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 Food Bank'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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-001.

Second Harvest Food Bank of the Mahoning Valley's Response to Finding

The Food Bank's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Food Bank's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Certified Public Accountants

Board of Directors
Second Harvest Food Bank of the Mahoning Valley
Youngstown, Ohio

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

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of the Mahoning Valley's (Food Bank) 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 Food Bank's major federal programs for the year ended December 31, 2016. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Food Bank'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 Food Bank'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 Food Bank's compliance.

Opinion on Each Major Federal Program

In our opinion, the Food Bank 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 December 31, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter. The Food Bank's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Food Bank's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Food Bank 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 Food Bank'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 Food Bank'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.

Report on Internal Control over Compliance (Continued)

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.

Hill, Barth & King LLC

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Type of Financial Statement Opinion	Unmodified
Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
Were there any material weaknesses in internal control reported for major federal programs?	No
Were there any other significant deficiencies in internal control reported for major federal programs?	No
Type of Major Programs' Compliance Opinion	Unmodified
Are there reportable findings under Uniform Guidance?	Yes
Major Programs (list):	Commodity Supplemental Food Program/Emergency Food Assistance Program Administrative Costs/Food Commodities, CFDA Program No. 10.565/10.568/10.569 Social Services Block Grant, CFDA Program No. 93.667
Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: all others
Low Risk Auditee?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

SECTION 2 - FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR MAJOR
FEDERAL AWARD PROGRAMS

Finding Number: 2016-001

Federal Program: U.S. Department of Agriculture, Food, and Nutrition Services (USDA/FNS)
Ohio Department of Job and Family Services (ODJFS)
Commodity Supplemental Food Program (CSFP)
CFDA No. 10.565
Federal Award No. 2016IY800542 (March 2016 - September 2016)
Federal Award No. 16162OH700Y8005 (October 2016 - September 2017)

Statement of Criteria: The client is required to review the CSFP Certification form for age and income eligibility requirements.

Statement of Condition: Several applicants receiving benefits from the program did not meet the income requirement for eligibility.

Statement of Cause: Applicants who did not meet the income requirement for eligibility were approved to receive benefits.

Statement of Effect: Applicants who did not meet the income requirement to receive benefits received food distribution boxes.

Context: A sample of 40 recipients was selected for testing. The test found three recipients who were not in compliance with eligibility requirements.

Questioned Costs: \$501 (8 boxes distributed at 37.5 pounds per box at \$1.67 per pound)

Recommendation: We consider this to be a systematic problem requiring procedural changes and recommend that the client enhance procedures for reviewing and approving the CSFP Certification form to ensure only those who are eligible for the CSFP program are approved to receive benefits.

Auditee Response: Michael Iberis, Executive Director on July 19, 2017

The process of reviewing the applications will involve two separate staff members. Visual observation of the information regarding the "income stated" and "income eligibility" will be made and compared. This portion of the application will then be reviewed by a different staff member to ensure income conditions are met. Implementation of the plan is effective immediately.

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

SECOND HARVEST FOOD BANK OF THE MAHONING VALLEY

Year ended December 31, 2016

Finding Number: 2015-001

Statement of Condition: The client could not provide timecards for requested employees for 2015.

Recommendation: We recommended that the client use greater caution when disposing of old timecards.

Current Status: The 2015 timecards were thrown away in error. No similar findings were noted in the 2016 audit.