

**OHIO ASSOCIATION OF
SECOND HARVEST FOODBANKS**

FINANCIAL STATEMENTS

For the Years Ended June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ohio Association of Second Harvest Foodbanks
Columbus, Ohio

We have audited the accompanying statements of financial position of Ohio Association of Second Harvest Foodbanks (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ohio Association of Second Harvest Foodbanks as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2012, on our consideration of Ohio Association of Second Harvest Foodbanks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



INDEPENDENT AUDITORS' REPORT
(Continued)

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Columbus, Ohio
January 6, 2012

A large, faint watermark of the Hemphill & Associates logo is visible in the background, centered on the page. It consists of the company name in a large, light blue cursive font, with the 'H' icon to the right.

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS

Statements of Financial Position

June 30, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash and Cash Equivalents (Note 1)	\$ 1,765,769	\$ 2,055,914
Accounts Receivable	258,120	534,520
Deposits	20,132	6,769
Employee Advances	1,569	4,475
Prepaid Expense	38,397	66,757
Total Current Assets	<u>2,083,987</u>	<u>2,668,435</u>
Equipment	318,803	253,488
Less: Accumulated Depreciation	<u>(129,643)</u>	<u>(121,440)</u>
TOTAL ASSETS	<u><u>\$ 2,273,147</u></u>	<u><u>\$ 2,800,483</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 480,696	\$ 786,422
Accrued Wages and Payroll Taxes	147,922	72,960
Deferred Revenue	254,033	367,714
Refundable Advances	11,528	-
Capital Lease Obligations - Current Portion (Note 2)	8,871	8,850
Total Current Liabilities	<u>903,050</u>	<u>1,235,946</u>
Long-Term Liabilities		
Capital Lease Obligations - Long-Term Portion (Note 2)	28,889	27,745
Notes Payable (Note 5)	285,000	435,000
Total Long-Term Liabilities	<u>313,889</u>	<u>462,745</u>
TOTAL LIABILITIES	<u><u>1,216,939</u></u>	<u><u>1,698,691</u></u>
NET ASSETS		
Total Unrestricted		
Designated by Board	492,000	325,000
Undesignated	564,208	776,792
Total Temporarily Restricted	-	-
TOTAL NET ASSETS	<u><u>1,056,208</u></u>	<u><u>1,101,792</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,273,147</u></u>	<u><u>\$ 2,800,483</u></u>

See Accompanying Notes to Financial Statements

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS

Statement of Activities

For the Year Ended June 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Membership Dues	\$ 145,720	\$ -	\$ 145,720
Interest Income	9,443	-	9,443
Governmental Revenue	-	16,536,825	16,536,825
Foundation Revenue	-	2,014,121	2,014,121
Donations	148,599	-	148,599
Other	49,603	-	49,603
Released from Restrictions	18,550,946	(18,550,946)	-
TOTAL REVENUE AND OTHER SUPPORT	<u>18,904,311</u>	<u>-</u>	<u>18,904,311</u>
 EXPENSES			
Program Expenses			
Ohio Food Program (Note 3)	11,454,458	-	11,454,458
Ohio Benefit Bank	3,801,246	-	3,801,246
National Service	1,671,755	-	1,671,755
Total Program Expenses	<u>16,927,459</u>	<u>-</u>	<u>16,927,459</u>
General and Management	2,022,436	-	2,022,436
TOTAL EXPENSES	<u>18,949,895</u>	<u>-</u>	<u>18,949,895</u>
 Change in Net Assets	(45,584)	-	(45,584)
 Net Assets at Beginning of Year	<u>1,101,792</u>	<u>-</u>	<u>1,101,792</u>
 Net Assets at End of Year	<u>\$ 1,056,208</u>	<u>\$ -</u>	<u>\$ 1,056,208</u>

See Accompanying Notes to Financial Statements

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS**Statement of Activities****For the Year Ended June 30, 2010**

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Membership Dues	\$ 145,720	\$ -	\$ 145,720
Interest Income	16,952	-	16,952
Governmental Revenue	-	16,289,487	16,289,487
Foundation Revenue	-	858,028	858,028
Donations	23,278	-	23,278
Other	10,607	-	10,607
Released from Restrictions	17,147,515	(17,147,515)	-
TOTAL REVENUE AND OTHER SUPPORT	17,344,072	-	17,344,072
EXPENSES			
Program Expenses			
Ohio Food Program (Note 3)	11,341,742	-	11,341,742
Ohio Benefit Bank	4,893,250	-	4,893,250
HEAP	2,189	-	2,189
Total Program Expenses	16,237,181	-	16,237,181
General and Management	945,721	-	945,721
TOTAL EXPENSES	17,182,902	-	17,182,902
Change in Net Assets	161,170	-	161,170
Net Assets at Beginning of Year	940,622	-	940,622
Net Assets at End of Year	\$ 1,101,792	\$ -	\$ 1,101,792

See Accompanying Notes to Financial Statements

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS

Statement of Functional Expenses

For the Year Ended June 30, 2011

	Ohio Food Program	Ohio Benefit Bank	National Service	Subtotal Programs	General & Management	Total
Salaries & Wages	\$ -	\$ 663,094	\$ 128,755	\$ 791,849	\$ 717,814	\$ 1,509,663
Fringe Benefits	-	230,061	78,291	308,352	149,819	458,171
Payroll Taxes	-	57,202	13,244	70,446	47,331	117,777
VISTA/AmeriCorps Living Allowance & Stipends	-	-	1,210,918	1,210,918	-	1,210,918
Professional Services	-	47,720	7,742	55,462	175,999	231,461
Meeting Expenses	-	68,977	5,068	74,045	39,915	113,960
Office Supplies	-	49,370	24,664	74,034	28,892	102,926
Printing	-	39,477	3,946	43,423	27,444	70,867
Publications	-	33	-	33	8,645	8,678
Postage	-	26,561	368	26,929	7,926	34,855
Rent / Utilities	-	104,146	8,971	113,117	39,565	152,682
Telephone	-	58,325	33,773	92,098	22,049	114,147
Insurance	-	4,320	-	4,320	5,795	10,115
Travel	-	87,914	125,266	213,180	76,647	289,827
Technology Purchases	-	22,314	27,213	49,527	51,519	101,046
Depreciation Expense	-	31,959	-	31,959	30,129	62,088
Interest Expense	-	656	-	656	3,750	4,406
Advertising	-	93,109	-	93,109	51,105	144,214
Miscellaneous Expense	-	1,221	3,036	4,257	1,172	5,429
Ohio Food Program (Note 3)	11,454,458	-	-	11,454,458	-	11,454,458
Support/Development	-	1,630,000	-	1,630,000	32,670	1,662,670
Grants to Foodbanks	-	193,206	-	193,206	504,250	697,456
Grants to Agencies	-	391,581	500	392,081	-	392,081
Total	\$ 11,454,458	\$ 3,801,246	\$ 1,671,755	\$ 16,927,459	\$ 2,022,436	\$ 18,949,895

See Accompanying Notes to Financial Statements

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
Statement of Functional Expenses
For the Year Ended June 30, 2010

	Ohio Food Program	Ohio Benefit Bank	HEAP	Subtotal Programs	General & Management	Total
Salaries & Wages	\$ -	\$ 728,603	\$ 1,807	\$ 730,410	\$ 495,556	\$ 1,225,966
Fringe Benefits	-	209,826	215	210,041	95,045	305,086
Payroll Taxes	-	69,264	95	69,359	42,964	112,323
VISTA/AmeriCorps Living Allowance/Stipend	-	534,657	-	534,657	-	534,657
Professional Services	-	168,041	-	168,041	85,006	253,047
Meeting Expenses	-	196,662	-	196,662	27,764	224,426
Office Supplies	-	69,673	-	69,673	47,361	117,034
Printing	-	75,260	-	75,260	16,370	91,630
Publications	-	4,955	-	4,955	1,844	6,799
Postage	-	24,129	-	24,129	3,418	27,547
Rent / Utilities	-	107,064	-	107,064	24,592	131,656
Telephone	-	92,872	72	92,944	17,611	110,555
Insurance	-	4,670	-	4,670	5,196	9,866
Travel	-	117,852	-	117,852	42,168	160,020
Technology Purchases	-	62,197	-	62,197	19,608	81,805
Depreciation Expense	-	30,455	-	30,455	15,923	46,378
Interest Expense	-	286	-	286	2,389	2,675
Advertising	-	70,702	-	70,702	35	70,737
Transportation	-	-	-	-	-	-
Miscellaneous Expense	-	1,763	-	1,763	2,871	4,634
Ohio Food Program (Note 3)	11,341,742	-	-	11,341,742	-	11,341,742
Ohio Benefit Bank Software Support/Development	-	1,349,999	-	1,349,999	-	1,349,999
Grants to Foodbanks	-	201,164	-	201,164	-	201,164
Grants to Agencies	-	773,156	-	773,156	-	773,156
Total	\$ 11,341,742	\$ 4,893,250	\$ 2,189	\$ 16,237,181	\$ 945,721	\$ 17,182,902

See Accompanying Notes to Financial Statements

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ (45,584)	\$ 161,170
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities		
Depreciation Expense	62,088	46,378
Loss on Disposal of Equipment	854	-
Change in Assets:		
Decrease (Increase) in Accounts Receivable	276,400	(294,193)
Increase in Deposits	(13,363)	(75)
Decrease (Increase) in Employee Advances	2,906	(4,441)
Decrease (Increase) in Prepaid Expense	28,360	(39,725)
Change in Liabilities:		
(Decrease) Increase in Accounts Payable	(305,726)	570,570
Increase in Accrued Wages and Payroll Taxes	74,962	22,409
(Decrease) Increase in Deferred Revenue	(113,681)	76,789
Increase (Decrease) in Refundable Advances	11,528	(10,789)
Net Cash (Used in) Provided by Operating Activities	<u>(21,256)</u>	<u>528,093</u>
Cash Flows from Investing Activities		
Proceeds from Sale of Equipment	1,130	-
Capital Expenditures	(109,740)	(6,226)
Net Cash Used in Investing Activities	<u>(108,610)</u>	<u>(6,226)</u>
Cash Flows from Financing Activities		
Payments on Capital Lease Obligations	(10,279)	(8,780)
Payments on Notes Payable	(150,000)	-
Proceeds from Notes Payable	-	435,000
Net Cash (Used in) Provided by Financing Activities	<u>(160,279)</u>	<u>426,220</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(290,145)	948,087
Cash and Cash Equivalents at Beginning of Year	<u>2,055,914</u>	<u>1,107,827</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,765,769</u>	<u>\$ 2,055,914</u>
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for Interest	<u>\$ 4,406</u>	<u>\$ 2,675</u>
Non-Cash Financing Activities:		
Liabilities Assumed in Acquisition of Capital Lease	<u>\$ 11,444</u>	<u>\$ 21,568</u>

See Accompanying Notes to Financial Statements

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies
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Organization

The mission of the Ohio Association of Second Harvest Foodbanks (“the Association”) is to assist Second Harvest Foodbanks in Ohio in providing food and other resources to people in need and to pursue areas of common interest for the benefit of people in need.

Basis of Accounting

The accompanying financial statements of the Association have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The accompanying financial statements have been presented in accordance with generally accepted accounting principles. Under these principles, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Association and changes therein are classified and reported as follows:

Unrestricted Net Assets – Unrestricted net assets are free of donor-imposed restrictions and are available for use in the Association’s ongoing operations.

Temporarily Restricted Net Assets – Temporarily restricted net assets are limited as to use by donor-imposed restrictions that either expire by passage of time or that can be fulfilled or removed by actions of the Association. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. There were no temporarily restricted net assets as of June 30, 2011 and 2010.

Permanently Restricted Net Assets – Permanently restricted net assets are subject to donor-imposed restrictions which do not expire. Generally, the providers of these funds restrict the Association to maintain the principal in perpetuity and invest for the purposes of producing present and future income that may be expended by the Association. There were no permanently restricted net assets as of June 30, 2011 and 2010.

Board Designated Net Assets

The Board of Directors of the Association have designated net assets to be used as a reserve for general operating expenses in the event of a major loss of funding. Total board designated net assets as of both June 30, 2011 and 2010 were \$492,000 and \$325,000 respectively.

Tax Exempt Status

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1954. It has been classified as an organization that is not a private foundation under Section 509(a)(3) of the Internal Revenue Code and qualifies as a tax-deductible charitable contribution for

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies (Continued)
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individual donors. The Association is also exempt from property tax and state income taxes.

Cash & Cash Equivalents

For purposes of the statements of cash flows, the Association considers bank accounts, petty cash and certificates of deposit purchased with a maturity of one year or less to be cash and cash equivalents. Interest income on the certificates of deposit is recorded as income when earned.

Accounts Receivable

Accounts receivable are stated at unpaid balances. It is the Association's policy to charge off uncollectible accounts when management determines the receivable will not be collected. As of June 30, 2011 and 2010, the accounts receivable balance primarily consisted of funds due from the state of Ohio.

Expense Allocation

The costs of providing various programs and other activities and services have been summarized on a functional basis in the Association's statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the projects and activities based upon benefits received.

Funding

The Association received state funding of \$16.5 million for the year ended June 30, 2011 and \$16.3 million for the year ended June 30, 2010.

Equipment

Equipment is recorded at cost, less accumulated depreciation. Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the assets. The Association follows the policy of capitalizing all expenditures for purchased assets of \$3,000 or greater. Expenditures of equipment, which increase the values or extend useful lives, are capitalized. Routine maintenance and repairs, which do not improve or extend the useful lives of the respective assets, are charged to expenses as incurred. The carrying amounts of assets sold, retired, or otherwise disposed of and the related accumulated depreciation is eliminated from the accounts in the year of disposal. Any resulting gains or losses from the disposals are included in the statements of activities. Depreciation expense for the years ended June 30, 2011 and 2010 was \$62,088 and \$46,378, respectively.

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies (Continued)
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Ohio Food Program and Agricultural Clearance Program

In 2011, the Association received a \$12 million grant from the Ohio Department of Job and Family Services. The grant was to be used for three purposes: 1) The Ohio Food Program (OFP), \$5,610,573 to purchase food products, storage and distribution for local food distribution agencies; 2) The Agricultural Clearance Program (ACP), \$5,789,427 to strengthen the emergency food distribution system; and 3) Administration, \$600,000.

The ACP could accomplish its goal by developing alliances with growers and processors to help defray direct costs of providing surplus agricultural commodities and creating shelf-stable products; providing capacity-building grants to emergency food providers; identifying and supporting innovative programs for emerging needs; and providing training and technical assistance to emergency food providers.

Revenue from the Department of Jobs and Family Services amounted to 64% of the Association's total revenue. Additional funding (\$104,500) for the purchase of food for distribution through the member Foodbanks was received from the Walmart Foundation, the majority of this grant, along with the balance of the 2010 grant (\$69,750) has been deferred (total of \$166,750) to fiscal year 2012. Additional funding (\$63,863) for production of additional food has also been received from a partnership with the Ohio Department of Rehabilitation and Corrections.

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 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. Accordingly, actual results may differ from those estimates.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Association in estimating the fair value of its financial instruments:

Cash and Cash Equivalents and Prepaid Expenses – The carrying amount reported in the statements of financial position approximates fair value due to their short-term nature.

Accounts Receivable – The carrying amount reported in the statements of financial position approximates fair value due to the short-term nature of the receivables.

Accounts Payable and Accrued Wages – The carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies (Continued)
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Notes Payable and Capital Lease Obligations – The carrying amount reported in the statements of financial position approximates fair value because the Association can obtain similar loans at the same terms.

Deferred Revenue

Deferred revenue of the Association represents amounts received on grant agreements in advance, which have not been earned at the end of the year. As of June 30, 2011 and 2010, deferred revenue for the Association was \$254,033 and \$367,714, respectively.

Subsequent Events

Generally accepted accounting principles define subsequent events as events or transactions that occur after the statement of financial position date, but before the financial statements are issued or are available to be issued. Management has evaluated subsequent events through January 6, 2012, the date on which the financial statements were available to be issued.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

Note 2 - Capital Leases

The Association leases three copiers with a combined capitalized cost of \$60,228. The first copier was leased in September of 2007 with a cost of \$27,000. In January of 2010, the Association entered into a second lease for a copier with a cost of \$20,993. These two leases were consolidated during fiscal year 2011. These leases cover a 60-month period with monthly payments of \$791 at an imputed interest rate of 10.07%.

In October of 2010, the Association entered into a third lease with a cost of \$11,444. This copier lease is for a 60-month period with monthly payments of \$248 at an imputed interest rate of 10.90%.

Accumulated depreciation in the statements of financial position included \$40,556 and \$32,109 relating to these leased copiers for the years ended June 30, 2011 and 2010, respectively. Depreciation expense reported in the statements of activities included \$11,557 and \$14,572 relating to these leased copiers for the years ended June 30, 2011 and 2010, respectively.

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010

Note 2 - Capital Leases (Continued)
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The future minimum lease payments due under these capital leases are as follows:

For the year ended June 30,	Amount
2012	\$ 8,871
2013	9,862
2014	10,962
2015	7,334
2016	731
Total	37,760
Less: Current Portion	(8,871)
Long-Term Portion	\$ 28,889

Note 3 - Ohio Food and Agricultural Surplus Program
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The Ohio Food Program is included as an expenditure line item on the statements of functional expenses and consisted of the following types of expenses for the year ended June 30:

Shelf Stable and Protein	2011	2010
Food Purchases for Foodbanks	\$ 5,021,402	\$ 4,992,785
Storage and Distribution of Food Purchases	532,380	532,380
Transportation and Delivery Charge	56,791	58,485
Warehousing Fees	-	-
Total	5,610,573	5,583,650
Agricultural Surplus	2011	2010
Purchase of Commodities for Consumption	5,228,852	5,092,943
Storage and Distribution of Commodities	532,380	532,380
Transportation Costs	29,387	40,028
Joint Farm Project	42,171	57,090
Processing Fees	11,095	35,651
Total	5,843,885	5,758,092
Total Food Program	\$11,454,458	\$11,341,742

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010

Note 4 - Operating Leases

The Association leases office space. Rent expense for the year ended June 30, 2011 and 2010 totaled \$152,682 and \$131,656, respectively.

The future minimum rental payments due under this rental agreement are as follows:

<u>For the Year Ended June 30,</u>	<u>Amount</u>
2012	\$ 136,394
2013	88,526
2014	88,653
2015	91,455
2016	7,642
Total	<u>\$ 412,670</u>

Note 5 - Notes Payable

The notes payable balance represents a \$500,000, 0% interest loan received from the Kresge Foundation in October of 2009. The maturity date on this note is December 31, 2012. The purpose of this loan was to provide support for the operating costs of the Association. Periodic payments are required by this note and payments issued during fiscal year 2011 amounted to \$150,000, resulting in a balance due of \$285,000 as of June 30, 2011.

Note 6 - Concentration of Credit Risk

The Association's funds contained in its cash and cash equivalents balance are held in a total of four different financial institutions. These institutions provide insurance coverage up to \$250,000 through the Federal Deposit Insurance Corporation (FDIC) for accounts earning interest. Additionally, accounts that are non-interest bearing are also insured by the FDIC, with unlimited coverage that is in effect through December 31, 2012. Based upon the FDIC insurance coverage as of June 30, 2011, the Association had \$872,970 of cash and cash equivalents above the coverage limits at PNC Bank.

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2011 and 2010

Note 7 - Contingency

The grant programs of the Association are subject to potential audits by agents of each individual granting authority. The purpose of such an audit is to ensure compliance with conditions precedent to the granting of funds. Revenues generated by the grant programs may be disallowed in subsequent periods as a result of these audits. However, management believes that the Association has materially complied with all grant agreements as of the years ended June 30, 2011 and 2010.

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Pass-Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Disbursements</u>
Department of Health and Human Services			
Passed through Ohio Department of Job & Family Service			
Title XX	G-1011-17-0408	93.667	\$ 2,125,000
Temporary Assistance For Needy Families (TANF)	G-1011-17-0408	93.558	6,375,000
Passed through Corporation for National & Community Service			
CNCS IST & Support Grant	06VSNOH001	94.013	24,568
CNCS VISTA Program Grant	10VSNOH003	94.013	652,875
CNCS VISTA Program Grant	10VSNOH003	94.013	136,268
Passed through Ohio Community Service Council			
AmeriCorps State and National	09ACH-2550-11-OC097	94.006	330,848
Passed through Ohio Department of Development			
Home Energy Assistance Program Funds (HEAP)	10-HA-155	93.568	11,428
Home Energy Assistance Program Funds (HEAP)	11-HA-157	93.568	63,472
Passed through Governor's Office of Faith-Based & Community Initiatives			
Temporary Assistance For Needy Families (TANF)	G-1011-21-0212	93.558	1,578,488
Temporary Assistance For Needy Families (TANF) (Summer VISTA)	G-1011-21-5127	93.558	29,267
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	G-1011-21-0228	10.561	825,845
U.S. Department of Treasury			
Internal Revenue Service, VITA Office (VITA)	V11270	21.009	<u>46,153</u>
TOTAL			<u><u>\$ 12,199,212</u></u>

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Ohio Association of Second Harvest Foodbanks and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose financial statements.



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

To the Board of Directors
Ohio Association of Second Harvest Foodbanks
Columbus, Ohio

We have audited the financial statements of Ohio Association of Second Harvest Foodbanks (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ohio Association of Second Harvest Foodbanks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ohio Association of Second Harvest Foodbanks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



**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*
(Continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ohio Association of Second Harvest Foodbanks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Columbus, Ohio
January 6, 2012

A handwritten signature in blue ink that reads "Hemphill & Associates". The signature is written over a large, faint, circular watermark that contains the letters "HCOA".



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
Ohio Association of Second Harvest Foodbanks
Columbus, Ohio

Compliance

We have audited the compliance of the Ohio Association of Second Harvest Foodbanks with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ohio Association of Second Harvest Foodbanks' major federal programs for the year ended June 30, 2011. Ohio Association of Second Harvest Foodbanks' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ohio Association of Second Harvest Foodbanks' management. Our responsibility is to express an opinion on Ohio Association of Second Harvest Foodbanks' compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Ohio Association of Second Harvest Foodbanks' 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. Our audit does not provide a legal determination of Ohio Association of Second Harvest Foodbanks' compliance with those requirements.

As described in item 2011-1 in the accompanying schedule of findings and questioned costs, Ohio Association of Second Harvest Foodbanks did not comply with requirements regarding eligibility that are applicable to its TANF grant. Compliance with such requirements is necessary, in our opinion, for Ohio Association of Second Harvest Foodbanks to comply with requirements applicable to that program.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)**

In our opinion, except for the noncompliance described in the preceding paragraph, Ohio Association of Second Harvest Foodbanks complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of Ohio Association of Second Harvest Foodbanks is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Ohio Association of Second Harvest Foodbanks' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Ohio Association of Second Harvest Foodbanks' 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Ohio Association of Second Harvest Foodbanks' responses to the findings identified in our audit are described in the accompanying schedule of prior audit findings and questioned costs. We did not audit Ohio Association of Second Harvest Foodbanks' response and, accordingly, we express no opinion on it.



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)**

This report is intended solely for the information and use of the management, the Board of Directors, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Columbus, Ohio
January 6, 2012

Hemphill & Associates



**OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Auditors' Results

Type of financial statement opinion	Unqualified
Material control weaknesses reported at the financial statement level	None
Significant deficiencies reported at the financial statement level	None
Reported noncompliance at the financial statement level	None
Material internal control weakness conditions reported for major Federal programs	None
Significant deficiencies reported for major Federal programs	Yes
Type of major programs' compliance opinion	Qualified
Reportable findings	Yes
Major programs	Title XX (CFDA No. 93.667) Temporary Assistance for Needy Families (CFDA No. 93.558) Corporation for National & Community Service-VISTA (CFDA No. 94.013) AmeriCorps State & National (CFDA No. 94.006) State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (CFDA No. 10.561)
Dollar threshold for Type A/B programs	Type A: Over \$300,000 Type B: All others
Low risk auditee	No

**OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Finding Related to the Financial Statements

None

Findings and Questioned Costs for Federal Awards

Finding 2011-1: Eligibility

Condition: Per the Ohio Association of Second Harvest Foodbanks regional agent contract for SFY 2011 regarding the Ohio Food Purchase and Agricultural Clearance Program, it states at the “Eligibility” Section:

“In general, individuals are qualified to participate in the Food Purchase and Agricultural Clearance Programs if their household income is below 200% of the current federal poverty level. Qualifying annual, monthly and weekly income amounts calculated by number of persons in a household are updated annually by ODJFS upon publication of the federal poverty guidelines....

In addition, program standards require that certain information be provided or verified by individuals each time he or she obtains food at local distributors (LD) and regional agent (RA) Foodbanks. The information must be initially obtained by having the individual sign the **ODJFS Federal and State Food Programs Eligibility to Take Food Home Food (Eligibility Form)....”**

H&A tested all twelve Foodbanks. From there we tested a total of sixty nine pantries (from August 2010 and November 2010). We then randomly selected 455 individuals who received food commodities under the Ohio Food Purchase and Agricultural Clearance Program to review the eligibility forms. Based upon this review we noted the following:

- Instances where the forms were destroyed
Mid-Ohio Foodbank
United faith International Baptist Church Pantry
- Instances where the incorrect form was being used for FY 2011
Akron-Canton Regional Foodbank
Faith Family Fellowship COG
Mid-Ohio Foodbank
Higher Ground Food Pantry
Toledo Northwestern Ohio Food Bank
Warren A.M.E. Church

Criteria: Eligibility records per the regional agent contract of the Ohio Food Purchase and Agricultural Clearance Program are required to be completed and the correct form utilized.

**OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Cause: Lack of compliance with contract.

Effect: Due to the fact that the current eligibility to take home food forms are not always being utilized supporting the clients eligibility, there is a possibility that individuals receiving food under the Food Purchase and Agricultural Clearance Program were ineligible.

Recommendation: This condition has continued to be a problem under this program since F/Y 2006. For some time the Association assigned three internal staff to perform compliance reviews of the twelve Foodbanks. During our testing we noted that although the magnitude of this problem continues to decrease, the same issues continued to exist.

We recommend that the foodbanks more closely monitor (periodic reviews, site visits, and agency audits) the agencies providing food under the Ohio Food Purchase and Agricultural Clearance Program to make sure they are adhering to the requirements of their contract with Ohio Association of Second Harvest Foodbanks.

Management Response:

Per the Ohio Association of Second Harvest Foodbanks, Regional Agent contract for FY 2010-2011, Foodbanks are required to meet all the terms and conditions of this contract and ensure compliance with the Ohio Department of Job and Family Services Ohio Food Programs Manual by their member food pantries. In addition, food pantries and member charities are required to attend mandatory trainings at least once per year that are held by their corresponding Foodbank. If an agency representative fails to attend the scheduled mandatory training, the Foodbank reserves the right to place the agency on product hold, meaning the agency is prohibited from receiving food or donated product from the Foodbanks until training has been completed.

In addition, food pantries are required annually to read and sign an affidavit which states they have read and agree to comply with the terms and conditions on the Ohio Department of Job and Family Services Ohio Food Programs Manual.

OASHF will work with member Foodbanks to increase reviews, monitoring and oversight of the agencies that failed to properly complete the **ODJFS Federal and State Food Programs Eligibility to Take Food Home Groceries form**.

Despite these compliance efforts, there are real world limitations for the largely elderly volunteers responsible for operating the more than 1,500 food pantries in the state, which last year manually processed 2,851,930 **ODJFS Federal and State Food Programs Eligibility to Take Food Home Groceries forms**.

Four Foodbanks are testing a web based system that would move the eligibility process from a manual paper based system to a fully paperless eligibility, tracking and reporting system. Moving the entire eligibility process to a web-based system would help to significantly reduce these errors.

OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)

The following review procedures have been in place since November 1, 2006, to verify compliance under A-133 and with the terms of our grant with ODJFS and the contract in place with the Foodbanks, specifically section 7. This review is to verify the accuracy of documentation supporting the eligibility determination compliance data reported to OASHF and subsequently to ODJFS.

OASHF will implement the following procedures to ensure compliance with section 7 of the contract.

The procedures are as follows:

- 1) Determine Overall Sample Size based on a statistical model utilizing the number of households (Duplicated Count) served in the prior Fiscal Year.
- 2) Divide number of agencies reported in prior year by one fifth sample size.
- 3) Multiply number of member agencies reported in the prior year by each Foodbank by resulting fraction.
- 4) Select required number of member agencies determined per territory from a list provided to OASHF of all agencies served in the prior year by each Foodbank.
- 5) Two random months will be chosen for each selected member agency and the agency will be requested to provide a list of clients served in the selected month.
- 6) Five clients will be selected for compliance review.
- 7) The agency will be requested to provide the **ODJFS Federal and State Food Programs Eligibility to Take Food Home Groceries forms** for each selected client.
- 8) If the review of the provided documentation is in order no further action is necessary.
- 9) Should a discrepancy (improper form or incomplete form) be discovered during the review, twice the number of forms found to be in error will be selected from that agency, if no further discrepancies are noted, no further action will be required.
- 10) If additional discrepancies are noted this procedure will be repeated until the cause of the discrepancy is determined.
- 11) If two or more discrepancies are noted within one agency, another agency will be selected and the entire procedure will be repeated.
- 12) A report of the results of the review of the selected member agencies will be prepared within 15 days of the completion of the review. This review will be presented to the Executive Director of the appropriate Foodbank.
- 13) If discrepancies are noted during review of the Member agencies documentation a report detailing the discrepancies noted will be provided to the appropriate Executive Director. The Executive Director is required to provide a plan of corrective action to address the deficiencies identified within 15 working days.

**OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Finding 2010-1: Eligibility

Condition: Per the Ohio Association of Second Harvest Foodbanks regional agent contract for SFY 2010 regarding the Ohio Food Purchase and Agricultural Clearance Program, it states at the “Eligibility” Section:

“In general, individuals are qualified to participate in the Food Purchase and Agricultural Clearance Programs if their household income is below 200% of the current federal poverty level. Qualifying annual, monthly and weekly income amounts calculated by number of persons in a household are updated annually by ODJFS upon publication of the federal poverty guidelines....”

In addition, program standards require that certain information be provided or verified by individuals each time he or she obtains food at local distributors (LD) and regional agent (RA) Foodbanks. The information must be initially obtained by having the individual sign the **ODJFS Federal and State Food Programs Eligibility to Take Food Home Food (Eligibility Form)**....”

H&A randomly selected three Foodbanks. From there we tested a total of sixteen pantries (from December 2009 and April 2010). We then randomly selected 158 individuals who received food commodities under the Ohio Food Purchase and Agricultural Clearance Program to review the eligibility forms. Based upon this review we noted the following:

- Instances where the form was not signed initially
Akron Canton Foodbank
Prince of Peace Baptist Church
- Instances where the August 2005 form was being used for FY 2010
Southeast Ohio Foodbank
Southeast Perry Food Pantry
- Instances where the July 2008 form was being used for FY 2010
Southeast Ohio Foodbank
Bethel Ridge Food Pantry
Southeast Perry Food Pantry
- Instances where the form was signed initially but not again if additional food was received in a later month
Akron Canton Foodbank
Christ the King Church

**OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

Criteria: Eligibility records per the regional agent contract of the Ohio Food Purchase and Agricultural Clearance Program are required to be completed and the correct form utilized.

Cause: Lack of compliance with contract.

Effect: Due to the fact that the current eligibility to take home food forms are not always being utilized supporting the clients eligibility, there is a possibility that individuals receiving food under the Food Purchase and Agricultural Clearance Program were ineligible.

Recommendation: This condition has continued to be a problem under this program since F/Y 2006. The Association assigned three internal staff to perform compliance reviews of the twelve Foodbanks. During our testing we noted that although the magnitude of this problem continues to decrease, the same issues continued to exist.

We recommend that the foodbanks more closely monitor (periodic reviews, site visits, and agency audits) the agencies providing food under the Ohio Food Purchase and Agricultural Clearance Program to make sure they are adhering to the requirements of their contract with Ohio Association of Second Harvest Foodbanks.

Management Response: The following procedures have been implemented as of November 1, 2006 to verify compliance under A-133 and with the terms of our grant with ODJFS and the contract in place with the Foodbanks, specifically section 7. This review is to verify the accuracy of documentation supporting the eligibility determination compliance data reported to OASHF and subsequently to ODJFS.

The required sample size will be based on a statistical model based on the number of Households (Duplicated Count) served in the prior Fiscal Year. This represents approximately the total annual “signatures on eligibility to take home groceries applications” were completed or individual instances where product is given to a client household.

OASHF will implement the following procedures to ensure compliance with section 7 of the contract. The procedures are as follows:

- 1) Determine Overall Sample Size based on prior year number of households.
- 2) Divide number of agencies reported in prior year by one fifth sample size
- 3) Multiply number of member agencies reported in the prior year by each Foodbank by resulting fraction
- 4) Select required number of member agencies determined per territory from a list provided to OASHF of all agencies served in the prior year by each Foodbank.

**OHIO ASSOCIATION OF SECOND HARVEST FOODBANKS
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011
(Continued)**

- 1) Two random months will be chosen for each selected member agency and the agency will be requested to provide a list of clients served in the selected month.
- 2) Five clients will be selected for compliance review.
- 3) The agency will be requested to provide the ELIGIBILITY TO TAKE FOOD HOME for each selected client.
- 4) If the review of the provided documentation is in order no further action is necessary.
- 5) Should a discrepancy (improper form or incomplete form) be discovered during the review, twice the number of forms found to be in error will be selected from that agency, if no further discrepancies are noted, no further action will be required.
- 6) If additional discrepancies are noted this procedure will be repeated until the cause of the discrepancy is determined.
- 7) If two or more discrepancies are noted within one agency, another agency will be selected and the entire procedure will be repeated.
- 8) A report of the results of the review of the selected member agencies will be prepared within 15 days of the completion of the review. This review will be presented to the Executive Director of the appropriate Foodbank.
- 9) If discrepancies are noted during review of the Member agencies documentation a report detailing the discrepancies noted will be provided to the appropriate Executive Director. The Executive Director is required to provide a plan of corrective action to address the deficiencies identified within 15 working days.

Status: See Finding 2011-1 above