SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
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FELIX & GLOEKLER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

To the Board of Directors
Second Harvest Food Bank
of Northwest Pennsylvania, Inc.
Erie, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Second Harvest Food Bank of Northwest Pennsylvania, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Northwest Pennsylvania, Inc. as of June 30, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2017 on our consideration of Second Harvest Food Bank of Northwest Pennsylvania Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Second Harvest Food Bank of Northwest Pennsylvania Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Second Harvest Food Bank of Northwest Pennsylvania, Inc. June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 23, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

August 24, 2017
Erie, Pennsylvania

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Statement of Financial Position
June 30, 2017

Assets	
Cash and cash equivalents	$ 944,056
Investments	3,960,564
Food inventory	1,202,976
Prepaid expenses	3,692
Accounts receivable - trade	40,414
Grants receivable	102,537
Contributions receivable	8,075
Total Current Assets	6,262,314
Property and equipment, net	3,481,881
Other Assets	
Cash restricted for specific grants	163,929
Beneficial interest in Erie Community Foundation assets	197,240
Beneficial interest in Warren Community Foundation	78,563
Total Other Assets	439,732
Total Assets	$ 10,183,927
Liabilities and Net Assets	
Liabilities	
Accounts payable	$ 148,876
Accrued liabilities	155,434
Total Current Liabilities	304,310
Net Assets	
Unrestricted	
Investment in fixed assets	3,481,881
Unrestricted, undesignated	5,044,789
Board designated endowment	275,803
Total Unrestricted Net Assets	8,802,473
Temporarily restricted	
Contributed food	767,172
Other	309,972
Total Temporarily Restricted Net Assets	1,077,144
Total Net Assets	9,879,617
Total Liabilities and Net Assets	$ 10,183,927

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Statement of Activities
For the Year Ended June 30, 2017

		Temporarily Restricted		
	Unrestricted	Donated Food	Other	Total
Support and Revenue				
Operating Revenue				
Contribution	$ 1,148,924	$ -	$497,626	$ 1,646,550
Other operating	1,001,354	-	-	1,001,354
Grant revenue	3,651,036	-	-	3,651,036
Donated food and non-cash donations	5,000	11,888,641	-	11,893,641
Bequests	10,995	-	-	10,995
Investment income/(loss)	511,411	-	-	511,411
Total Support and Revenue	6,328,720	11,888,641	497,626	18,714,987
Net Assets Released From Restrictions	12,403,700	(11,999,131)	(404,569)	-
Total Public Support, Revenue and Reclassifications	18,732,420	(110,490)	93,057	18,714,987
Expenses				
Program services	18,121,911	-	-	18,121,911
Management and general	307,416	-	-	307,416
Fundraising	330,510	-	-	330,510
Total Expenses	18,759,837	-	-	18,759,837
Change in Net Assets	(27,417)	(110,490)	93,057	(44,850)
Beginning Net Assets	8,829,890	877,662	216,915	9,924,467
Ending Net Assets	$ 8,802,473	$ 767,172	$309,972	$ 9,879,617

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services	Supporting Services			
	Food Distribution	Management and General	Fundraising	2017 Total	*2016 Total
Operating Expenses					
Salaries	$ 779,454	$ 145,595	$ 141,675	$ 1,066,724	$ 1,030,779
Payroll taxes and employee benefits	286,828	65,264	63,601	415,693	458,348
Building costs	89,494	8,469	-	97,963	98,637
Depreciation expense	220,523	24,503	-	245,026	264,531
Overhead expense	35,259	-	-	35,259	35,698
Professional and investment fees	11,401	56,847	8,527	76,775	78,376
Agency relations	354	-	7,624	7,978	10,024
Transportation costs - freight	102,911	-	-	102,911	97,803
Transportation costs - other	161,953	-	-	161,953	149,555
Utilities	65,476	6,738	-	72,214	79,661
Fundraising expense - direct mail and other fundraising costs	-	-	109,083	109,083	109,582
Food purchases	989,986	-	-	989,986	792,146
Other	3,451	-	-	3,451	729
Total Operating Expenses	2,747,090	307,416	330,510	3,385,016	3,205,869
Grant Expenses - food expenses					
State grant	434,629	-	-	434,629	431,944
FEMA grant	48,152	-	-	48,152	65,685
N.A.P. in kind food	708,456	-	-	708,456	849,910
TEFAP	2,140,332	-	-	2,140,332	1,497,699
CSFP	752,616	-	-	752,616	793,167
Total Grant Expenses	4,084,185	-	-	4,084,185	3,638,405
Donated Food					
Donated food distributed	11,290,636	-	-	11,290,636	13,031,617
Total Expenses	$ 18,121,911	$ 307,416	$ 330,510	$ 18,759,837	$ 19,875,891

* The 2016 total column is presented for comparative purposes, see footnote 1.
See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows From Operating Activities	
Change in net assets	$ (44,850)
Adjustments to reconcile change in net assets	
to net cash provided by operating activities:	
Depreciation	245,026
Realized and unrealized (gain)/loss on investments	(375,280)
(Increase) decrease in:	
Receivables	(26,435)
Prepaid expenses	(2,514)
Food inventory	302,021
Increase (decrease) in:	
Accounts payable	(132,436)
Accrued liabilities	84,647
Other liabilities	(2,956)
Net Cash Provided By Operating Activities	47,223
Cash Flows From Investing Activities	
Proceeds from sale of investments	2,369,562
Purchases of investments	(1,795,762)
Purchases of property and equipment	(145,081)
Change in cash restricted for specific grants	(143,798)
Net Cash Used In Investing Activities	284,921
Increase (Decrease) in Cash and Cash Equivalents	332,144
Beginning Cash and Cash Equivalents	611,912
Ending Cash and Cash Equivalents	$ 944,056

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Food Bank are described below to enhance the usefulness of the financial statements to the reader.

A. Organization

A food bank is an organization that collects product from the food industry and food drives, inventories and stores it, and distributes it to agencies - such as food pantries, soup kitchens, kid's cafes, backpack programs and shelters - that provide food directly to individuals in need. A food bank has the capacity to distribute millions of pounds of grocery products every year.

The Second Harvest Food Bank of NW PA, Inc. (Food Bank) is the largest non-profit food distribution organization in northwestern Pennsylvania. The mission is to provide food to those in need within eleven counties of northwest Pennsylvania while creating awareness and educating the community on the realities of hunger. The Organization solicits and distributes food to partner organizations, which according to the Organization's latest hunger study, Hunger in Northwest PA 2014, the food bank serves 167,700 individuals residing in: Erie, Crawford, Warren, Venango, Forest, Clarion, Jefferson, McKean, Elk, Clearfield and Cameron counties. During 2016-2017, the Organization distributed more than 12.6 million pounds of food to 308-member agencies and 145 distribution sites for the Commodity Supplemental Food Program for low income seniors.

B. Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting, which generally recognizes revenue when earned and expenses when incurred.

The Food Bank reports 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.

C. Cash Balances, Cash Equivalents, Concentration of Risk and Restricted Cash

The Food Bank considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Cash balances are maintained at institutions in northwestern Pennsylvania. Bank accounts were insured by the Federal Deposit Insurance Corporation up to $250,000 per account at June 30, 2017. Cash equivalents held in brokerage accounts are not federally insured. Uninsured liquid funds at June 30, 2017 are $148,745.

The Food Bank has entered into grant agreements that require the funds received and used for the grant to be deposited into a separate cash account. This account is reported as cash restricted for specific grants on the statement of financial position.

D. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. 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.

E. Food Inventory

Food inventory consists of purchased and donated food. Purchased food is valued at cost on a lower of cost or market basis on the first-in, first-out method. Donated food has been donated by the public. Food received through the Emergency Food Assistance Program is valued at estimated cost provided by the program. All other food donations are valued at $1.67 per gross pound for the year ended June 30, 2017. Feeding America, the national food bank network, determined this value. KPMG, LLP performed certain agreed-upon procedures in accordance with standards established by the American Institute of Certified Public Accountants solely to assist food banks with respect to determining the approximate average wholesale value of one pound of donated product at the national level.

F. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. The Organization expects to receive all contribution receivables in the following year.

G. Concentration of Credit Risk

The Food Bank grants credit to its customers for service fees in the course of business, conducts periodic evaluations and generally requires no collateral. Cash receipts come generally from service fees, government grants, and contributions.

The maximum amount of loss due to credit risk that, based on the gross fair value of the accounts receivable balance the Food Bank would incur if parties failed to perform according to the terms of the contracts, is limited to the balance in the accounts receivable account.

The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific receivables. The Organization anticipates on receiving all receivables as of June 30, 2017.

H. Property and Equipment

The Food Bank generally capitalizes property and equipment at cost. Expenditures for renewals and betterments generally greater than $1,000 are capitalized; repairs and maintenance are expensed. Donated equipment is capitalized at its estimated fair value upon receipt. Depreciation and depreciable fixed assets is computed using the straight-line method over estimated useful lives beginning when the assets are placed in service.

I. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

Donated food is restricted to feeding the needy. The Food Bank recognizes the value of contributed food as temporarily restricted support when received and records the restriction as released when distributed.

J. Contributed Services

Services provided which create or enhance nonfinancial assets or require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. These services are recognized in the financial statements at the fair value of services provided.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Food Bank in its food distribution facilities. These services are not recognized in the financial statements.

K. Shipping and Handling Costs

Costs of shipping and handling inventory are expensed as incurred. Inventory on the statement of net assets is largely determined on a dollar per pound basis and no additional costs are added to it.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

M. Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold.

N. Sequencing on the Statement of Financial Position

Assets are sequenced according to the nearness of conversion to cash, and liabilities are sequenced according to the nearness of their maturity and resulting use of cash.

O. Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by functional expense class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

NOTE 2 – BENEFICIAL INTEREST IN FOUNDATION ASSETS

In June 2009, the Organization transferred $187,500 to the Erie Community Foundation. This irrevocable gift was used to establish a fund to benefit the Food Bank. The net income from the fund will be used exclusively to support the Food Bank as long as they operate as a non-profit organization and continue to fill local needs. Should the Organization's mission become for-profit, inconsistent with local needs or impossible to accomplish, the Foundation may vary the agreement to insure it is consistent with the Organization's original intent. That is, the Organization explicitly grants variance power to the Foundation. Net income (loss) is defined as a percentage of the fund market value. Net income (loss) from the fund recognized in the year ended June 30, 2017 was $13,827. The fair market value at June 30, 2017 was $197,240.

NOTE 2 – BENEFICIAL INTEREST IN FOUNDATION ASSETS (CONTINUED)

In August 2014, the Organization transferred $25,000 to the Warren Community Foundation. The irrevocable gift was used to establish a fund to benefit the Food Bank. The net income from the fund will be used exclusively to support the Food Bank's programs in Warren County. Should the Food Bank's mission become impossible to accomplish or should the Food Bank cease to exist, the Foundation shall ensure the funds are utilized in a manner which is consistent with the original intent of the fund. That is, the Food Bank explicitly grants variance power to the Foundation. The Food Bank retains the option to withdraw principal from the funds with the stipulation that the fund shall not go below $5,000. Net income (loss) from the fund for the year ended June 30, 2017 was $20,728. The fair market value at June 30, 2017 was $78,563.

NOTE 3 – FAIR VALUE OF ASSETS

The Organization's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value is measured based on a fair value hierarchy based on three levels of inputs of which the first two are considered observable and the last is considered unobservable.

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

NOTE 3 – FAIR VALUE OF ASSETS (CONTINUED)

Assets measured at fair value on a recurring basis include the following at June 30, 2017:

		Level 1	Level 3
Investments:			
Fixed income-exchange traded funds	$ 561,278	$ 561,278	$ -
Equity- exchange traded funds	945,482	945,482	-
Equity - mutual funds	1,834,188	1,834,188	-
Fixed income - mutual funds	698,179	698,179	-
	$ 4,039,127	$ 4,039,127	$ -
Beneficial interest in Erie Community Foundation assets	$ 197,240	$ -	$ 197,240

Investments reported above consist of the following reported on the statement of financial position as of June 30, 2017:

Investments	$ 3,960,564
Beneficial interest in – Warren Community Foundation	78,563
	$ 4,039,127

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

Mutual funds and exchange traded funds: Valued at the daily closing price as reported by the fund. The funds held by the Organization are open-end funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.

Beneficial interest in Erie Community Foundation assets: The Organization's valuation methodology used to measure the fair value of funds held at the Erie Community Foundation (ECF) relies upon information provided by ECF personnel. The Organization's share of the investment pool at ECF is based on the underlying fair values of the investments consisting of all three hierarchy levels; this is classified within Level 3 of the valuation hierarchy.

The assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) consist of the beneficial interest with the Erie Community Foundation and had the following changes during the year ended June 30, 2017:

NOTE 3 – FAIR VALUE OF ASSETS (CONTINUED)

Beginning balance	$ 183,413
Interest and dividends	2,704
Unrealized gain/(losses)	18,320
Realized gain/(losses)	2,392
Withdrawal	(7,575)
Investment/management fees	(2,014)
	$ 197,240

Investment income consists of the following:

	Unrestricted			
	Investments	Beneficial interest in Warren Community Foundation	Beneficial interest in Erie Community Foundation	Total
Realized gain (loss)	$ 12,795	$ (2,042)	$ 2,392	$ 13,145
Unrealized gain (loss)	333,506	10,309	18,320	362,135
	346,301	8,267	20,712	375,280
Interest and dividends	131,485	1,942	2,704	136,131
	$ 477,786	$ 10,209	$ 23,416	$ 511,411

NOTE 4 – AFFILIATE RELATIONSHIP

The Food Bank is an affiliate of the non-profit food banking network of Feeding America, formerly named America's Second Harvest. As such, the Food Bank is restricted to a service area, required to pay an affiliate fee, receives access to an affiliate-only food bank exchange, and receives an annual valuation per pound of donated food.

NOTE 5 – FOOD INVENTORY

Food inventory consists of donated food, purchased food, and grant commodities. Inventory at June 30, 2017 is as follows:

Donated food	$ 767,172
Purchased food	70,290
Grant Commodities	365,514
	$ 1,202,976

NOTE 6 – AGENCY SERVICE FEES AND FOOD GRANTS

The Food Bank generally charges service fees of $.13 per pound for donated items to emergency agencies and $.15 per pound for donated items to non-emergency agencies. The Food Bank also receives $.12 per pound for "Entitlement Commodities" which qualify under the United States Department of Agriculture, The Emergency Food Assistance Program (TEFAP). The Food Bank does not receive a service fee reimbursement for food received through the federal TEFAP "Bonus Commodities" program. Member agencies take grocery items and redistribute these items to the poor, needy and hungry. The fee charged to member agencies offsets a portion of the handling and redistribution costs incurred by the Food Bank. Per pound costs to the Food Bank are calculated annually. For the year ended June 30, 2016, it cost the Food Bank $.18 to provide one pound of food to member agencies. However, because grocery items are distributed at no cost or because grants and contributions are solicited to directly pay agency service fees, member agencies paid on average $.05 per pound for food received by the Food Bank last fiscal year. Trade receivables include unpaid service fees as of June 30, 2017.

The Food Bank also purchases commodities from brokers and makes these items available to member agencies. To obtain these items, agencies reimburse the Food Bank the case cost and also pays their respective service fees of either $.13 or $.15 per pound. The pounds and costs associated with these items are not included in the average cost paid by agencies mentioned above.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2017 consists of:

Land	$ 173,139
Land improvements	24,410
Building	3,791,819
Warehouse equipment	543,661
Office furniture and equipment	145,072
Vehicles	992,365
	5,670,466
Less: Accumulated depreciation	(2,188,585)
	$ 3,481,881

Estimated useful lives are as follows:

Land improvements	15 years
Building	40 years
Warehouse equipment	5-10 years
Office furniture and equipment	3-8 years
Vehicles	3-5 years
Leasehold improvements	5-31 years

NOTE 7 – PROPERTY AND EQUIPMENT (CONTINUED)

Grants received by the Food Bank have been used to purchase refrigerators and freezers for their agencies. The equipment is owned and depreciated by the Food Bank, although it is not currently used in their operations. If the donee agency ceases to exist while the equipment is operational, the agencies have agreed to return this equipment. The carrying amount for these assets is $13,537 for the year ended June 30, 2017. The Food Bank implies a time restriction that expires over the useful life of these donated assets.

NOTE 8 – BOARD DESIGNATED ENDOWMENT

The Organization's endowment includes funds designated by the Board of Directors as an endowment. The purpose of this endowment is to develop and stimulate an alternative source of funds to supplement the Organization's other funding sources. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has an agency endowment agreement with ECF. ECF pools these funds with the funds received from various other organizations. The pooled funds are then utilized to create an investment portfolio that is managed and administered by ECF. ECF is responsible for allocating to the Organization their respective share of the investment portfolio's performance. ECF annually determines the investment income allocated to the Food Bank which can be distributed to the Food Bank.

The Organization has an agency endowment agreement with the Warren Community Foundation. The Foundation has setup a separate investment account to track the Organization's endowment. The Foundation annually determines the investment income which can be distributed to the Organization.

Interpretation of Relevant Law

The current relevant law for the investment and distribution of restricted endowment and trust funds in the Commonwealth of Pennsylvania is PA Act 141 (Act 141). Since the Organization has no permanently restricted endowment, Act 141 does not apply.

NOTE 8 – BOARD DESIGNATED ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2017:

	Erie Community Foundation	Warren Community Foundation
Beginning balance	$ 183,413	$ 57,835
Contributions and deposits	-	18,051
Interest and dividends	2,704	1,942
Unrealized/realized gains/(losses)	20,712	8,267
Withdrawal	(7,575)	(4,569)
Investment/management fees	(2,014)	(2,963)
Ending balance	$ 197,240	$ 78,563

Return Objectives and Risk Parameters

The Board of Directors has adopted an investment policy for financial assets that attempts to support the long-term objectives of the Organization. The objectives include funding operational cash flow shortfalls, providing relative stability of principal, and maximizing total investment return.

Strategies Employed for Achieving Objectives

In accordance with the objectives, the total portfolio should be constructed and maintained to minimize the risk of large losses to principal. To satisfy these objectives, the Organization has developed an allocation strategy to maximize total return while minimizing exposure of principal assets in the long run. The Organization targets a diversified asset allocation in equity based investments and in high quality fixed income investments.

Spending Policy and How the Investment Objectives Related to Spending Policy

The endowment trustees distribute funds as stipulated by the Organization and within the purpose of the trust as outlined in the endowment governing documents for the named funds.

NOTE 9 – NEIGHBORHOOD ASSISTANCE GRANT

The Neighborhood Assistance Act Program is funded by contributions from businesses within Pennsylvania. Contributors receive Pennsylvania income tax credits of 55% of the valued contributed amount. The grant consists of both cash and in-kind contributions of food. Cash contributions were used to fund freight charges on food donations. Donated food eligible for this credit is included in total contributed food. Tax credits under the contract were $465,000 for the year ended June 30, 2017.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2017, temporarily restricted net assets consist of:

Food inventory	$ 767,182
Produce express donations	30,131
Backpack program donations	190,159
Thanksgiving program donations	39,357
Other restricted donations	50,325
	$ 1,077,154

NOTE 11 – CONTRIBUTED SERVICES

Contributed services, which met the definition for recognition during the year ended June 30, 2017, are largely comprised of professional fees. Recognized contributed services total $5,000 for the year ended June 30, 2017. Contributed services were used in administration of the Food Bank. The fair value of unrecognized services has not been determined.

NOTE 12 – JOINT FUNDRAISING COSTS

Joint costs have been incurred in activities that include management and general and fundraising. Salaries have been allocated based on estimated percentage of time spent in fundraising activities. Salaries with joint costs allocated to management and general and fundraising were as follows:

Management and general	$ 88,997
Fundraising	70,239
	$ 159,236

NOTE 13 – RETIREMENT PLAN

The Food Bank maintains a profit-sharing plan which covers substantially all full-time employees who meet certain eligibility requirements and choose to participate. The Organization matched up to 5% of the employee contributions. In addition, the Board of Directors will annually determine if they will make a discretionary contribution up to 5% of eligible employee compensation. Employees are fully vested within six years. The accrual is based on past practice of the Board, which has not yet determined a contribution percentage. During the year ended June 30, 2017, profit sharing expense was $73,897.

NOTE 14 – RELATED PARTY TRANSACTIONS

The following related party transactions were for services performed within the nature of the Organization and were consummated on terms similar to those in arms-length transactions.

Legal expenses are provided by a firm in which a partner is a board member. Amounts paid for legal services totaled $967 for the year ended June 30, 2017.

Computer programming and equipment are provided by a company which is owned by a Board member. Amounts paid for computer programming and equipment totaled $4,484 for the year ended June 30, 2017.

Donated food is received from a company whose general manager is a Board member. These donations qualified for Neighborhood Assistance Act Program credits. Donations received were $83,689 for the year ended June 30, 2017.

NOTE 15 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through the date of the Independent Auditor's report, which the financial statements were available to be issued.

F&G

FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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

Board of Directors
Second Harvest Food Bank of
Northwest Pennsylvania, Inc.
Erie, Pennsylvania

We have audited, 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, the financial statements of Second Harvest Food Bank of Northwest Pennsylvania, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2017, 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 August 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Continued)

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See 2017-1 in the schedule of findings and questioned costs.

Compliance and Other Matters

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

Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s Response to Findings

Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Second Harvest Food Bank of Northwest Pennsylvania, Inc.'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.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

August 24 , 2017
Erie, Pennsylvania

F&G

FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

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

Board of Directors
Second Harvest Food Bank of
Northwest Pennsylvania, Inc.
Erie, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s major federal programs for the year ended June 30, 2017. Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Second Harvest Food Bank of Northwest Pennsylvania, Inc.'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 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 requires that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance (Continued)

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

Opinion on Each Major Federal Program

In our opinion, Second Harvest Food Bank of Northwest Pennsylvania, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Second Harvest Food Bank of Northwest Pennsylvania, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Second Harvest Food Bank of Northwest Pennsylvania, Inc.'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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-1 to be a significant deficiency.

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance (Continued)

Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

August 24, 2017
Erie, Pennsylvania

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Program	Federal CFDA Number	Pass-through Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture				
Passed through Pennsylvania Department of Agriculture				
Commodity Supplemental Food Program - Commodities	10.565	N/A	$ -	$ 180,356
Commodity Supplemental Food Program - Program Funds	10.565	N/A	-	752,616
			-	932,972
The Emergency Food Assistance Program - Commodities	10.569	446508, 446510, 446610		
Passed through:				
Pennsylvania Department of Agriculture			1,697,945	1,697,945
Erie County			326,693	326,693
Forest County			6,260	6,260
Clarion County			64,124	64,124
Jefferson County			45,310	45,310
			2,140,332	2,140,332
The Emergency Food Assistance Program - Program Funds	10.568	446508, 446510, 446610		
Passed through:				
Erie County			-	34,491
Forest County			-	679
Clarion County			-	7,120
Jefferson County			-	5,045
			-	47,335
Total Food Distribution Cluster			2,140,332	3,120,639
Passed through Pennsylvania Department of Education				
Child and Adult Care Food Program	10.558	353-25-285-8	-	36,266
Summer Food Program	10.559	353-25-285-8	-	23,544
Total U.S. Department of Agriculture			2,140,332	3,180,449
Department of Homeland Security				
Emergency Food and Shelter National Board Program	97.024	724200-001	-	48,152
Total Expenditures of Federal Awards			$ 2,140,332	$ 3,228,601

See accompanying notes to the schedule.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Second Harvest Food Bank of Northwest Pennsylvania, Inc. under programs of the federal government for the year ended June 30, 2017. 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 Second Harvest Food Bank of Northwest Pennsylvania, Inc.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) 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.

(2) Pass-through entity identifying numbers are presented where available.

NOTE 3 – INDIRECT COST RATE

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – FOOD DONATIONS

Food received through The Food Distribution Cluster is valued at estimated cost provided by the program. At June 30, 2017, the Organization had food commodities from the program totaling $365,514 in inventory.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

1. Summary of auditors' results

(i) Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified opinion.

(ii) Internal control over financial reporting:
- Material weakness(es) identified – No
- Significant deficiency(ies) identified – None reported

(iii) The audit disclosed no noncompliance which is material to the financial statements.

(iv) Internal control over major federal programs:
- Material weakness(es) identified –No
- Significant deficiency(ies) identified – None reported

(v) Type of auditor's report issued on compliance for major federal programs: Unmodified opinion.

(vi) The audit disclosed no audit findings which are required to be reported, in accordance with 2 CFR 200.51 6(a).

(vii) Major programs:

Food Distribution Cluster Commodity Supplemental Food Program		CFDA # 10.565
The Emergency Food Assistance Program -	Program Funds	CFDA # 10.568
The Emergency Food Assistance Program -	Commodities	CFDA # 10.569

(viii) Dollar threshold used to distinguish between Type A and Type B programs: $750,000.

(ix) Second Harvest Food Bank of Northwest Pennsylvania, Inc. did qualify as a low-risk auditee.

2. Material findings required to be reported in accordance with generally accepted government auditing standards

Finding 2017 – 1 – CFDA # 10.565/10.568/10.569 – 2016/2017 grant year – U.S. Department of Agriculture, Passed through the Pennsylvania Department of Agriculture, Erie, Forest, Clarion and Jefferson counties.

Federal Regulation Criteria: In accordance with Section 200.430 of the Uniform Guidance, charges for personnel expenses using federal awards must be supported by a system of internal control that provides reasonable assurance that charges are accurate, allowable, and properly allocated. Budget estimates alone do not qualify as support for charges to federal awards.

Condition Found: During review of internal control over personnel expenses, we noted that there was an internal control structure set up to properly allocate employee's time over federal awards; however, this process was not being followed throughout the year as proper documentation of time spent by each employee on individual timesheets was not present.

Recommendation: In order to comply with the Uniform Guidance federal regulations, we recommend that the time sheets are properly completed noting the amount of time spent by each employee on each federal program and that these timesheets are reviewed, approved, and used to allocate personnel expenses to the federal program. If budget estimates are used throughout the year, a schedule will need to be completed to ensure that all total personnel costs that were charged based on the budgeted figures are justified.

3. Findings and questioned costs for Federal awards

Finding 2017 – 1 – CFDA # 10.565/10.568/10.569 – 2016/2017 grant year – U.S. Department of Agriculture, Passed through the Pennsylvania Department of Agriculture, Erie, Forest, Clarion and Jefferson counties.

Federal Regulation Criteria: In accordance with Section 200.430 of the Uniform Guidance, charges for personnel expenses using federal awards must be supported by a system of internal control that provides reasonable assurance that charges are accurate, allowable, and properly allocated. Budget estimates alone do not qualify as support for charges to federal awards.

Condition Found: During review of internal control over personnel expenses, we noted that there was an internal control structure set up to properly allocate employee's time over federal awards; however, this process was not being followed throughout the year as proper documentation of time spent by each employee on individual timesheets was not present.

Recommendation: In order to comply with the Uniform Guidance federal regulations, we recommend that the time sheets are properly completed noting the amount of time spent by each employee on each federal program and that these timesheets are reviewed, approved, and used to allocate personnel expenses to the federal program. If budget estimates are used throughout the year, a schedule will need to be completed to ensure that all total personnel costs that were charged based on the budgeted figures are justified.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2017

1. Prior significant deficiencies: None.

2. Prior material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program: None.

3. Known questioned costs greater than $25,000: None.

4. There were no findings in the prior year.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
Corrective Action Plan
For the Year Ended June 30, 2017

Second Harvest Food Bank of Northwest Pennsylvania, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2017.

The findings from the June 30, 2017 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS – FEDERAL AWARD PROGRAMS AUDITS

2017 – 1 Payroll

Recommendation: Procedures should be implemented requiring proper completion of time sheets throughout the year, noting the amount of time spent by each employee on each federal program. These timesheets should be reviewed, approved, and used to allocate personnel expenses to the appropriate federal program.

Action Taken: We concur with the recommendation and it was implemented immediately.

SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.
List of Report Distribution
For the Year Ended June 30, 2017

The following is a list of all agencies to which the audit reports are distributed:

1. United States Bureau of the Census

2. Pennsylvania Bureau of Audits