

Financial Statements

***SECOND HARVEST FOOD BANK OF
CENTRAL FLORIDA, INC.***

June 30, 2012 and 2011

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Table of Contents

Independent Auditors' Report.....1

Financial Statements:

 Statements of Financial Position3

 Statements of Activities.....4

 Statements of Changes in Net Assets5

 Statements of Cash Flows6

 Statement of Functional Expenses
 Year Ended June 30, 2012.....7

 Statement of Functional Expenses
 Year Ended June 30, 2011.....8

 Notes to Financial Statements9

Supplementary information:

 Schedule of Expenditures of Federal, State and Local Awards22

 Notes to Schedule of Expenditures of Federal, State and Local Awards.....24

 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.....25

 Independent Auditors' Report on Compliance with Requirements that
 Could Have a Direct and Material Effect on Each Major Program
 and on Internal Control Over Compliance in Accordance with
 OMB Circular A-13327

 Schedule of Findings and Questioned Costs29

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Independent Auditors' Report

The Board of Directors
Second Harvest Food Bank of Central Florida, Inc.:

We have audited the accompanying statements of financial position of Second Harvest Food Bank of Central Florida, Inc. as of June 30, 2012 and 2011, and the related statements of activities, changes in net assets, 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 audit 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 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 Second Harvest Food Bank of Central Florida, Inc. as of June 30, 2012 and 2011, 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 August 31, 2012, on our consideration of Second Harvest Food Bank of Central Florida, Inc.'s internal control over financial reporting and on 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 the internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal, state and local 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 schedule of expenditures of federal, state and local awards is fairly stated in all material respects in relation to the financial statements as a whole.

Schater, Tschoff, Whitcomb, Mitchell & Shuikan, LLP

Altamonte Springs, Florida
August 31, 2012

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Statements of Financial Position

June 30, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Cash and equivalents	\$ 1,522,244	1,682,002
Restricted cash (note 1)	2,126,835	302,150
Investments (note 2)	1,269,757	1,115,132
Accounts receivable	579,536	211,683
Inventories (note 4)	2,135,320	2,928,403
Prepaid expenses and deposits	78,000	67,615
Contributions receivable (note 3)	2,354,816	789,323
Assets held by Community Foundation of Central Florida, Inc. (note 9)	195,323	199,205
Property and equipment, net (note 5)	<u>4,393,497</u>	<u>3,708,563</u>
Total assets	<u>\$ 14,655,328</u>	<u>11,004,076</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	<u>\$ 596,642</u>	<u>370,932</u>
Total liabilities	<u>596,642</u>	<u>370,932</u>
Commitments (note 10)		
Net assets		
Unrestricted:		
Designated by the board (note 6)	2,237,604	2,080,753
Undesignated, available for general activities	2,511,063	1,350,729
Donated inventories	2,045,446	2,802,223
Property and equipment	<u>4,393,497</u>	<u>3,708,563</u>
Total unrestricted net assets	11,187,610	9,942,268
Temporarily restricted (note 7)	<u>2,871,076</u>	<u>690,876</u>
Total net assets	<u>14,058,686</u>	<u>10,633,144</u>
Total liabilities and net assets	<u>\$ 14,655,328</u>	<u>11,004,076</u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Statements of Activities

Years Ended June 30, 2012 and 2011

	2012		2011	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Revenues, gain or losses, and other support:				
Contributions and grants	\$ 6,396,286	2,895,000	5,261,188	690,876
Value of contributed inventory, equipment, facilities and services	56,495,013	-	51,500,041	-
Fees from providing services paid by agencies	1,107,484	-	984,780	-
Purchased food sales	2,861,736	-	2,287,197	-
Net assets released from restrictions:				
Satisfaction of program and time restrictions	714,800	(714,800)	881,670	(881,670)
Special events and other revenue	122,485	-	205,715	-
Investment income	52,486	-	220,807	-
Total revenues, gain or losses, and other support	<u>67,750,290</u>	<u>2,180,200</u>	<u>61,341,398</u>	<u>(190,794)</u>
Expenses				
Program services (includes value of food distributed and spoilage of \$57,251,800 and \$51,679,823 in 2011)	64,845,683	-	58,511,007	-
Supporting activities:				
Management and general	637,552	-	642,520	-
Fund-raising and development	1,021,713	-	1,094,678	-
Total supporting activities	<u>1,659,265</u>	<u>-</u>	<u>1,737,198</u>	<u>-</u>
Total expenses	<u>66,504,948</u>	<u>-</u>	<u>60,248,205</u>	<u>-</u>
Change in net assets	\$ 1,245,342	2,180,200	1,093,193	(190,794)

See accompanying notes to financial statements

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets at June 30, 2010	\$ 8,849,075	881,670	9,730,745
Change in net assets	<u>1,093,193</u>	<u>(190,794)</u>	<u>902,399</u>
Net assets at June 30, 2011	9,942,268	690,876	10,633,144
Change in net assets	<u>1,245,342</u>	<u>2,180,200</u>	<u>3,425,542</u>
Net assets at June 30, 2012	<u>\$ 11,187,610</u>	<u>2,871,076</u>	<u>14,058,686</u>

See accompanying notes to financial statements

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in net assets	\$ 3,425,542	902,399
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	303,373	280,151
In-kind contributions of food	(56,495,013)	(51,432,327)
In-kind contributions of equipment	-	(67,714)
Distribution and spoilage of in-kind contributions of food	57,251,800	51,679,823
Net realized and unrealized (gains) on investments	(11,178)	(155,439)
Donated investments	(19,770)	-
Net increase (decrease) in cash flow from changes in:		
Restricted cash	(1,824,685)	(302,150)
Accounts receivable	(367,853)	(44,326)
Purchased inventories	36,296	4,611
Prepaid expenses and deposits	(10,385)	68,306
Contributions receivable	(1,565,493)	567,609
Assets held by the Community Foundation of Central Florida, Inc.	3,882	(33,330)
Accounts payable and accrued expenses	225,710	(124,466)
Net cash provided by operating activities	<u>952,226</u>	<u>1,343,147</u>
Cash flows from investing activities:		
Proceeds from sale of investments	227,083	960,982
Purchase of investments	(350,760)	(426,219)
Purchase of property and equipment	(988,307)	(2,343,209)
Net cash used in investing activities	<u>(1,111,984)</u>	<u>(1,808,446)</u>
Net decrease in cash and cash equivalents	(159,758)	(465,299)
Cash and cash equivalents at beginning of year	<u>1,682,002</u>	<u>2,147,301</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,522,244</u></u>	<u><u>1,682,002</u></u>

See accompanying notes to financial statements.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Statement of Functional Expenses

Year Ended June 30, 2012

	<u>Programs</u>	<u>Management and General</u>	<u>Fund-raising and Development</u>	<u>Total</u>
Salaries and wages	\$ 2,096,419	407,083	279,590	2,783,092
Employee benefits and payroll taxes	604,682	66,264	47,052	717,998
Total salaries and benefits	<u>2,701,101</u>	<u>473,347</u>	<u>326,642</u>	<u>3,501,090</u>
Value of donated food distributed	57,251,800	-	-	57,251,800
Contract labor	21,242	-	3,003	24,245
Accounting fees	-	20,000	-	20,000
Building maintenance	11,352	216	265	11,833
Direct mail and special events	-	-	537,667	537,667
Purchased food distributed	3,105,401	-	-	3,105,401
Insurance	48,391	4,876	1,447	54,714
Licenses and fees	655	514	-	1,169
Maintenance and rental of equipment	246,150	8,961	2,318	257,429
Meetings, conferences, conventions, and local transportation	61,234	19,475	38,092	118,801
Miscellaneous	40,600	55,906	4,737	101,243
National dues	22,607	-	-	22,607
Occupancy	224,833	-	-	224,833
Office expenses and supplies	68,711	8,923	2,965	80,599
Postage and shipping	4,840	568	17,263	22,671
Printing and publications	12,376	1,129	14,300	27,805
Professional and contractual fees	87,696	27,477	54,142	169,315
Telephone	54,160	7,704	5,280	67,144
Trucking, freight, and fuel costs	475,496	-	-	475,496
Utility costs	103,665	8,456	13,592	125,713
Total expenses before depreciation	<u>64,542,310</u>	<u>637,552</u>	<u>1,021,713</u>	<u>66,201,575</u>
Depreciation of property and equipment	303,373	-	-	303,373
Total expenses	<u>\$ 64,845,683</u>	<u>637,552</u>	<u>1,021,713</u>	<u>66,504,948</u>

See accompanying notes to financial statements

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Statement of Functional Expenses

Year Ended June 30, 2011

	<u>Programs</u>	<u>Management and General</u>	<u>Fund-raising and Development</u>	<u>Total</u>
Salaries and wages	\$ 1,987,565	307,489	348,204	2,643,258
Employee benefits and payroll taxes	533,640	102,818	83,953	720,411
Total salaries and benefits	<u>2,521,205</u>	<u>410,307</u>	<u>432,157</u>	<u>3,363,669</u>
Value of donated food distributed	51,679,823	-	-	51,679,823
Contract labor	83,565	25,979	-	109,544
Accounting fees	-	7,424	-	7,424
Building maintenance	60,557	-	-	60,557
Direct mail and special events	-	5,461	552,353	557,814
Food purchases	2,617,827	-	-	2,617,827
Insurance	65,522	4,257	348	70,127
Licenses and fees	2,893	50	-	2,943
Maintenance and rental of equipment	217,866	11,791	3,886	233,543
Meetings, conferences, conventions, and local transportation	73,320	34,419	35,912	143,651
Miscellaneous	38,210	27,295	4,055	69,560
National dues	7,475	-	-	7,475
Occupancy	206,346	-	1,904	208,250
Office expenses and supplies	63,063	7,387	4,908	75,358
Postage and shipping	5,944	2,012	7,330	15,286
Printing and publications	6,550	83	16,546	23,179
Professional and contractual fees	74,315	58,669	23,590	156,574
Telephone	44,804	7,806	7,955	60,565
Trucking, freight, and fuel costs	386,076	-	-	386,076
Utility costs	111,915	3,160	3,734	118,809
Total expenses before depreciation	<u>58,267,276</u>	<u>606,100</u>	<u>1,094,678</u>	<u>59,968,054</u>
Depreciation of property and equipment	243,731	36,420	-	280,151
Total expenses	<u>\$ 58,511,007</u>	<u>642,520</u>	<u>1,094,678</u>	<u>60,248,205</u>

See accompanying notes to financial statements

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(1) **Summary of Significant Accounting Policies**

(a) **Organization**

Second Harvest Food Bank of Central Florida, Inc. (the “Food Bank” or “Organization”), a Florida not-for-profit corporation organized to serve as a clearing house to collect, store, and redistribute surplus food to charitable 501(c)(3) organizations that operate on-site or emergency food distribution services.

Donors, such as processors, wholesalers, distributors, restaurants and resorts, provide the Food Bank with usable food that is not saleable because the food has been overproduced, discontinued, or will soon be out-of-date.

The Food Bank is a member of Feeding America, a network of food banks and food rescue organizations nationwide that collect food from throughout the food industry for distribution to non-profit feeding programs.

(b) **Basis of Presentation**

The accompanying financial statements are presented on the accrual basis and represent the financial position and results of operations of the Food Bank.

The Food Bank has adopted the provisions of Financial Accounting Standards Board ASC 958, Accounting for Contributions Received and Contributions Made and Financial Statements for Not-for-Profit Organizations.

These financial statements are prepared on an entity wide basis, focusing on the organization as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by aggregating all funds into one set of financial statements and classifying fund balances and transactions into three classes of net assets – permanently restricted, temporarily restricted or unrestricted as follows:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Food Bank. There were no permanently restricted net assets as of or for the years ended June 30, 2012 and 2011.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Presentation (Continued)

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Food Bank and/or the passage of time (see note 7).

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. The Food Bank reports donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Under generally accepted accounting principles, contributions are generally recognized as revenue when the gift is made and are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the presence or absence and type of donor imposed restrictions or conditions.

The Food Bank's resources as presented on the statements of activities and changes in net assets include revenue, gains or loss, and other support. Revenue consists of fees earned for the performance of Organization services, public support such as contributions and grants, investment income which consists of dividends, interest, rents and similar payments on assets held as investments, and other revenue or support. Rents are presented separately from investment income on the statements of activities and changes in net assets. Public support such as contributions and grants are unconditional gifts to the Organization of cash or other assets in a voluntary nonreciprocal transfer by another entity. Gains or losses result from activities that are peripheral or incidental to the Organization and are reported net.

Revenue, gains, and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses and losses are reported as decreases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Contributions, including unconditional promises to give, less an allowance for uncollectible accounts, are recognized as revenue in the period made or received. United Way and other pledges are recorded as unconditional promises to give and temporarily restricted net assets in the period that notification is received. Pledges are discounted, using a market discount

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Presentation (Continued)

rate, to present value for collections expected in future years. Accretion of the discount in subsequent years is also recorded as contribution revenue. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. The Organization also receives indications of intent to support, which are commitments that are open-ended and subject to unilateral change by the donor. The amounts are not measurable since the commitments do not express a term or period. Thus, they are not considered to be unconditional promises to give and are not recognized prior to the receipt of the contribution.

Contributions of assets, materials, and facilities are recorded at their estimated fair value at the date of gift. Such values are recorded in the financial statements as an asset or expense and revenue. For the years ended June 30, 2012 and 2011, in-kind contributions consisted of donated equipment valued at \$0 and \$67,714, and USDA food inventory and donated food inventory valued at \$56,495,013 and \$51,432,327, respectively. Contributed food inventory was redistributed to charitable organizations at a value of \$57,251,800 and \$51,679,823 for the years ended June 30, 2012 and 2011, respectively. In addition, the Organization receives contributed time related to various program services and construction projects. These contributed services are recorded at their estimated fair value at the date of service if they meet the following criteria: (a) the services would have otherwise been purchased by the Organization, and (b) the services required specialized skills. For the years ended June 30, 2012 and 2011, there were no contributed services. Donated use of facilities is recognized as expense and revenue. For the years ended June 30, 2012 and 2011, there were no donated use of facilities.

A substantial number of unpaid volunteers have made significant contributions of their time to provide assistance to the Food Bank in its program and support activities. The value of contributed time of part-time volunteers has not been recorded in the accompanying financial statements since specialized skills were not required. During fiscal 2012 and 2011, these part-time volunteers provided approximately 42,000 and 35,000 hours of service to the Food Bank which, based on industry standards, is valued at approximately \$900,000 and \$750,000, respectively.

(c) Liquidity

Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to their nearness of maturity and resulting use of cash.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (Continued)

(d) Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts and are recorded net of contractual adjustments and an allowance for doubtful accounts. The allowance for doubtful accounts is estimated by management based on the Organization's prior years' experience and a review of the current status of the existing receivables. Adjustments to the allowance for doubtful accounts are recorded to an expense account. When management determines that a receivable is uncollectible, it is removed from accounts receivable and is charged to the allowance for doubtful accounts. No allowance is established at June 30, 2012 and 2011 as management believes all amounts are collectible.

(e) Use of Estimates

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

(f) Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Food Bank considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(g) Restricted Cash

Cash which is externally restricted by agreements is classified as restricted cash. Such cash is excluded from the statements of cash flows, as it is not available for general operating purposes. Restricted cash consists of the following at June 30,:

	<u>2012</u>	<u>2011</u>
Restricted for:		
Program services	\$ 56,946	35,000
Food acquisition	47,530	168,834
Property and equipment construction/acquisition	2,022,359	98,316
	<u>\$ 2,126,835</u>	<u>302,150</u>

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(1) **Summary of Significant Accounting Policies (Continued)**

(h) **Inventories**

Purchased food inventory is stated at the lower of cost (determined on first-in, first-out basis) or market.

USDA food inventory and donated food inventory is valued at the approximate average wholesale value of one pound of donated product at the national level as outlined in the Product Valuation Survey Methodology prepared by Feeding America, December 31, 2011. This value was \$1.66 per pound in 2012 and 2011, respectively.

(i) **Property and Equipment**

Purchased property and equipment are stated at cost. Donated property and equipment are stated at estimated fair market value at the date of donation. Depreciation is computed on a straight-line method over the estimated useful lives of the related assets which range from 3 to 30 years.

(j) **Income Taxes**

The Food Bank is exempt from federal income tax under provision of Section 501(c)(3) of the Internal Revenue Code. In addition, the Food Bank has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code. Consequently, no provision for income taxes has been included in the accompanying financial statements.

In accordance with "Income Taxes" FASB Accounting Standards Codification Topic 740 (Topic 740), all entities are required to evaluate and disclose income tax risks. Topic 740 clarifies the accounting for uncertainty in tax positions and prescribes guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of June 30, 2012, the Food Bank had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(1) **Summary of Significant Accounting Policies (Continued)**

(j) **Income Taxes (Continued)**

The Food Bank's income tax returns are subject to review and examination by federal authorities. The Food Bank is not aware of any activities that would jeopardize its tax-exempt status. The Food Bank is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes. The tax returns for the fiscal years ended from 2009 to 2012 are open to examination by federal authorities.

(k) **Functional Allocation of Expenses**

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

(l) **Concentration of Credit Risk**

The Food Bank solicits food on behalf of participating local social service agencies, all of which are 501(c)(3) organizations. These agencies contribute to the costs of food collection and storage by paying the Food Bank a "handling fee" for food received. The Food Bank grants credit to these agencies, all of which are located in Central Florida.

The Food Bank maintains its cash and cash equivalents in deposit and money market accounts which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk related to cash and cash equivalents.

(m) **Fair Value of Financial Instruments**

The Food Bank's financial instruments are cash and cash equivalents, investments, prepaid expenses and deposits, short-term receivables, long-term receivables, accounts payable and accrued expenses.

The recorded values of cash and cash equivalents, prepaid expenses and deposits, short-term receivables, accounts payable and accrued expenses approximate their fair value based on their short-term nature.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(1) **Summary of Significant Accounting Policies (Continued)**

(m) **Fair Value of Financial Instruments (Continued)**

The recorded net present value of long-term receivables approximates fair value, as the discount rate approximates market rates.

The recorded value of investments approximates fair value based on quoted market prices (Level 1 inputs) in active market for identical assets or liabilities (see note 2).

(n) **Long-Lived Assets**

The Food Bank follows the policy of lifting restrictions on contributions of cash and other assets received for the acquisition of long-lived assets when the long-lived assets are acquired.

In accordance with generally accepted accounting principles, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Food Bank first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market value and third-party independent appraisals, as considered necessary. No impairment charges have been recorded in the accompanying consolidated financial statements related to long-lived assets.

(o) **Reclassifications**

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

(p) **Subsequent Events**

In preparing these financial statements, the Food Bank has evaluated subsequent events and transactions for potential recognition and disclosure through August 31, 2012, which is the date the financial statements were available to be issued.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(2) Investments

The Food Bank has adopted accounting standards for fair value measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements of assets and liabilities to include disclosure about inputs used in the determination of fair value using the three categories listed below.

These accounting standards apply under other accounting pronouncements previously issued by the Financial Accounting Standards Board, or FASB, which require or permit fair measurements. The adoption of the new accounting standards did not impact the Organization's financial position or results of operations.

Fair value is defined under "Fair Value Measurements and Disclosures," FASB Accounting Standards Codification Topic 820 (Topic 820) as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Topic 820 also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels of inputs to the valuation methodology are:

- Level 1 quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3 unobservable and significant to the fair value measurement of the asset or liability.

At June 30, 2012 and 2011, the Food Bank's investment portfolio consisted of marketable equity and debt securities carried at fair value.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(2) **Investments (Continued)**

The following table summarizes the valuation of the Food Bank's financial assets measured at fair value on a recurring basis as of June 30, 2012 and 2011, based on level 1 inputs utilized to measure fair value:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	\$ 1,004,619	1,156,233	912,290	1,035,108
Fixed income investments	108,368	113,524	78,201	80,024
	<u>\$ 1,112,987</u>	<u>1,269,757</u>	<u>990,491</u>	<u>1,115,132</u>

Investment income as reported in the accompanying statements of activities include net realized and unrealized gains of approximately \$11,000 in 2012 and net realized and unrealized gains of approximately \$155,000 in 2011 associated with the investments reflected herein.

(3) **Contributions Receivable**

As of June 30, 2012 and 2011, contributors to the Organization have unconditionally promised to give the following amounts:

	2012	2011
Receivable in less than one year	\$ 1,306,321	864,810
Receivable in one to four years	1,219,449	95,467
Total	2,525,770	960,277
Less: allowance for uncollectible accounts	(136,211)	(136,211)
Discounts to net present value	(34,743)	(34,743)
Net contributions receivable	<u>\$ 2,354,816</u>	<u>789,323</u>

Unconditional promises to give, receivable in more than one year, are discounted to net present value using an interest rate of 6.5%.

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(4) **Inventories**

Inventories at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Donated food	\$ 1,422,586	776,344
USDA food	622,860	2,025,889
Purchased food	89,874	126,170
	<u>\$ 2,135,320</u>	<u>2,928,403</u>

(5) **Property and Equipment**

The following is a summary of the components of property and equipment at June 30, 2012 and 2011 and their estimated useful lives:

	<u>Estimated Useful Lives</u>	<u>2012</u>	<u>2011</u>
Land	-	\$ 162,798	162,798
Building and improvements	30 years	1,601,251	1,599,832
Office furniture and equipment	5 - 7 years	398,693	273,093
Warehouse equipment	5 - 7 years	394,643	394,643
Trucks	5 years	1,325,959	1,100,683
Construction in progress	-	2,686,123	2,050,111
		<u>6,569,467</u>	<u>5,581,160</u>
Less accumulated depreciation		<u>(2,175,970)</u>	<u>(1,872,597)</u>
		<u>\$ 4,393,497</u>	<u>3,708,563</u>

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(6) Designated Fund Balances

At June 30, 2012 and 2011, the Board of Directors had designated funds for the following purposes:

	<u>2012</u>	<u>2011</u>
Capital replacements	\$ 355,973	192,311
Program services	1,676,040	1,678,969
Disaster relief	10,268	10,268
Assets held by Community Foundation of Central Florida, Inc.	<u>195,323</u>	<u>199,205</u>
	<u>\$ 2,237,604</u>	<u>2,080,753</u>

The amount of these reserves was determined based on management's estimates of the remaining useful lives of capital equipment and estimated replacement cost for capital replacement reserves, and management's and the Board's efforts to achieve reserves equal to three months of operations available for program service reserves. The program service reserves at June 30, 2012 and 2011 represent approximately three months of operations. Assets held by Community Foundation of Central Florida, Inc. are discussed in Note 9.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 are restricted for the following purposes:

	<u>2012</u>	<u>2011</u>
Citizens Review Panel	\$ 55,000	-
Kitchen and leasehold improvements for Brevard County facility	225,000	-
Share Our Strength	44,779	-
Attorney General – vitamin settlement for food acquisition and equipment purchases	-	237,150
Project Hunger	-	15,000
Hi-Five Kids Packs	30,000	30,000
United Way – for future periods	483,198	388,726
Capital campaign	2,000,000	-
Other	<u>33,099</u>	<u>20,000</u>
	<u>\$ 2,871,076</u>	<u>690,876</u>

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to Financial Statements

(8) **Retirement Benefit Plans**

The Food Bank has a 403(b) Plan in which employees who normally work at least twenty hours per week and are at least 21 years of age are eligible to participate. Eligible employees may elect to contribute up to twenty percent of their compensation to the Plan. The Food Bank, at its discretion, may match participant contributions in an amount to be determined from year to year. The Food Bank may also make discretionary employer contributions based on qualifying participant compensation in an amount to be determined from year to year. Total contributions made by the Food Bank during fiscal years 2012 and 2011 were approximately \$58,000 and \$50,000, respectively.

(9) **Community Foundation of Central Florida, Inc. Endowment**

The Food Bank has established an endowment with the Community Foundation of Central Florida, Inc. This endowment will provide a source of income for the Food Bank. Future income may be withdrawn or added to the principal balance of the endowment at the Food Bank's discretion. The Food Bank's endowment is carried as an asset and included in unrestricted net assets on its balance sheet as required by current financial accounting standards.

The Board of Directors of the Community Foundation of Central Florida, Inc. shall have the power to modify or eliminate any restriction, limitation, or condition on the distribution of funds, including their use for any specified purposes or their distribution to specific organizations, if the Board of Directors determines that such restriction, limitation or condition becomes by material and significant change of circumstances in effect unnecessary, incapable of fulfillment, or inconsistent with the proper charitable, religious, scientific, literary, cultural or educational uses and purposes of the Central Florida area.

(10) **Lease Commitments**

The Organization leases equipment under month-to-month and long-term non-cancelable operating leases. Rental expense for all month-to-month and long-term operating leases was approximately \$225,000 and \$306,000 for the years ended June 30, 2012 and 2011, respectively. Future minimum payments applicable to long-term non-cancelable operating leases for the four years subsequent to June 30, 2012 are approximately as follows:

<u>Year ended June 30,</u>	
2013	\$ 172,000
2014	85,000
2015	12,000

SUPPLEMENTARY INFORMATION

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Schedule of Expenditures of Federal, State and Local Awards

Year ended June 30, 2012

Grantor/Pass-Through Agency/Program Title	Period of Award	Contract Number	Federal CFDA No.	Amount of Award	Federal Expenditures
United States Department of Agriculture					
Passed through from the Florida Department of Agriculture and Consumer Services					
The Emergency Food Assistance Program (TEFAP) - Food Commodities	7/1/11 - 6/30/12	-	10.569	11,384,008	\$ 11,384,008 *
					<u>11,384,008 *</u>
Passed through from the Florida Department of Health					
The Child and Adult Care Food Program	10/1/10 - 9/30/11	A-1548	10.558	104,965	7,180
The Child and Adult Care Food Program	10/1/11 - 9/30/12	A-1548	10.558	119,575	119,575
					<u>126,755</u>
Passed through from the Florida Department of Agriculture and Consumer Services					
The Emergency Food Assistance Program (TEFAP) - Administrative Costs	10/1/10 - 9/30/11	O12843	10.568	679,579	182,326
The Emergency Food Assistance Program (TEFAP) - Administrative Costs	10/1/11 - 9/30/12	O16962	10.568	638,265	518,020
					<u>700,346</u>
Passed through from the Florida Department of Education					
The Summer Food Service Program for Children	7/1/11 - 8/31/11	04-0276	10.559	140,408	94,833
The Summer Food Service Program for Children	6/1/12 - 6/30/12	04-0276	10.559	41,861	41,861
					<u>136,694</u>
Passed through from the Florida Department of Children and Families					
Supplemental Nutrition Assistance Program	10/1/10 - 9/30/11	LF-903	10.561	210,997	55,579
Supplemental Nutrition Assistance Program	10/1/11 - 9/30/12	LF-903	10.561	225,795	151,715
					<u>207,294</u>
Subtotal - United States Department of Agriculture					<u>\$ 12,555,097</u>
United States Department of Homeland Security, Federal Emergency Management Agency					
Passed through from the Seminole County Emergency Food and Shelter Program Local Board - Heart of Florida United Way					
The Emergency Food and Shelter National Board Program - Phase 29	7/1/11 - 6/30/12	171800-010	97.024	22,667	\$ 22,667
Passed through from the Brevard County Emergency Food and Shelter Program Local Board - The United Way of Brevard County					
The Emergency Food and Shelter National Board Program - Phase 29	7/1/11 - 6/30/12	156600-034	97.024	18,938	18,281

* In-kind value of donated food distributed

(Continued)

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Schedule of Expenditures of Federal, State and Local Awards (Continued)

Year ended June 30, 2012

Grantor/Pass-Through Agency/Program Title	Period of Award	Contract Number	Federal CFDA No.	Amount of Award	Federal/State/Local Expenditures
Passed through from the Orange County Emergency Food and Shelter Program Board - Heart of Florida United Way The Emergency Food and Shelter National Board Program - Phase 29	7/1/11 - 6/30/12	168000-022	97.024	44,586	44,586
Passed through from the Volusia County Emergency Food and Shelter Program Board - The United Way of Volusia-Flagler Counties, Inc. The Emergency Food and Shelter National Board Program - Phase 29	7/1/11 - 6/30/12	172800-027	97.024	8,259	7,875
Subtotal - U. S. Department of Homeland Security, Federal Emergency Management Agency					\$ 93,409
Total Federal Assistance					\$ 12,648,506
Florida Department of Children and Families Access Florida Community Network - Food Assistance Program	7/1/11 - 6/30/12	A4594A	-	22,440	\$ 22,440
Total State Awards					\$ 22,440
Orange County, Florida Health and Family Services Department Health and Family Services Department	10/1/10 - 9/30/11 10/1/11 - 9/30/12	Y11-2021 Y12-2022	- -	42,814 42,814	\$ 14,271 22,008
Subtotal - Orange County					\$ 56,279
Volusia County, Florida Community Assistance Community Assistance Benefits Connection Direct Client Services/Administration	10/1/10 - 9/30/11 10/1/11 - 9/30/12 10/1/11 - 9/30/12 12/1/11 - 9/30/12	CS-9048 CS-2041 CS-1254 CS-1282	- - - -	6,600 6,600 4,283 17,057	\$ 1,650 4,950 3,212 11,939
Subtotal - Volusia County					\$ 21,751
Total Local Awards					\$ 58,030

SECOND HARVEST FOOD BANK OF CENTRAL FLORIDA, INC.

Notes to the Schedule of Expenditures of Federal, State and Local Awards

Year ended June 30, 2012

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal, State and Local Awards presents the activity of all federal, state and local financial assistance and federal, state and local cost reimbursement contracts of Second Harvest Food Bank of Central Florida, Inc. Second Harvest Food Bank of Central Florida, Inc. receives federal and state awards indirectly through pass-through entities. State and local awards are received directly from entities.

Federal program and state and local project expenditures included in the accompanying schedule are 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*.

(2) Major Programs

Major programs are identified in the Summary of Audit Results section of the Schedule of Findings and Questioned Costs.

(3) Food Distribution

Included in the Schedule of Expenditures of Federal, State and Local Awards is in-kind food items received through The Emergency Food Assistance Program. For the year ended June 30, 2012, Second Harvest Food Bank of Central Florida, Inc. distributed approximately 6,000,000 pounds of food valued at \$1.66 per pound.

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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

To the Board of Directors
Second Harvest Food Bank of Central Florida, Inc.

We have audited the financial statements of Second Harvest Food Bank of Central Florida, Inc. (the "Food Bank") as of and for the years ended June 30, 2012 and 2011, and have issued our reports thereon dated August 31, 2012. 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.

Internal Control over Financial Reporting

Management of Second Harvest Food Bank of Central Florida, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Second Harvest Food Bank of Central Florida, Inc.'s 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 the Food Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Food Bank'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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the organization'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Central Florida, Inc.'s 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 audits, 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, Board of Directors, management, others within the organization, federal, state and local awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Schacter, Tschoff, Whitcomb, Mitchell & Shuiler, LLP

Altamonte Springs, Florida
August 31, 2012

SCHAFFER, TSCHOPP, WHITCOMB, MITCHELL & SHERIDAN, LLP

Certified Public Accountants

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Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
Second Harvest Food Bank of Central Florida, Inc.

Compliance

We have audited Second Harvest Food Bank of Central Florida, Inc.'s (the "Food Bank") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Second Harvest Food Bank of Central Florida, Inc.'s major federal programs for the years ended June 30, 2012 and 2011. Second Harvest Food Bank of Central Florida, Inc.'s 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 its major federal programs is the responsibility of Second Harvest Food Bank of Central Florida, Inc.'s management. Our responsibility is to express an opinion on 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; 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 Second Harvest Food Bank of Central Florida, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Second Harvest Food Bank of Central Florida, Inc.'s compliance with those requirements.

In our opinion, Second Harvest Food Bank of Central Florida, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

Internal Control Over Compliance

Management of Second Harvest Food Bank of Central Florida, Inc. 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 Second Harvest Food Bank of Central Florida, Inc.'s internal control over compliance with the 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 Second Harvest Food Bank of Central Florida, Inc.'s internal control over compliance.

A deficiency in an 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 the 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 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 a material weakness, as defined above.

This report is intended solely for the information and use of the audit committee, Board of Directors, management, others within the organization, 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.

Schacter, Tschoff, Whitcomb, Mitchell & Shulman, LLP

Altamonte Springs, Florida
August 31, 2012

Second Harvest Food Bank of Central Florida, Inc.
Schedule of Findings and Questioned Costs
Year ended June 30, 2012

A. Summary of the Audit Results

1. The Auditors' report expresses an unqualified opinion on the financial statements of Second Harvest Food Bank of Central Florida, Inc.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements and as reported in the 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*.
3. No instances of noncompliance material to the financial statements of Second Harvest Food Bank of Central Florida, Inc. were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over the major federal award program were disclosed during the audit in the Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Federal Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Second Harvest Food Bank of Central Florida, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs for Second Harvest Food Bank of Central Florida, Inc. that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was the program cluster U.S. Department of Agriculture's CFDA Number 10.569 - Emergency Food Assistance Program (Food Commodities) and CFDA Number 10.568 - Emergency Food Assistance Program (Administrative Costs).
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Second Harvest Food Bank of Central Florida, Inc. was determined to be a low-risk auditee.

Second Harvest Food Bank of Central Florida, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2012

B. Financial Statement Findings Section

None

C. Federal Award Finding and Questioned Costs Section

None

D. Summary Schedule of Prior Audit Findings

No summary schedule of prior audit findings is required because there are no prior audit findings related to federal programs