

Tri-State Food Bank, Inc.

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016



Tri-State Food Bank, Inc.
June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Tri-State Food Bank, Inc.
Evansville, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Tri-State Food Bank, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-State Food Bank, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, 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 January 22, 2018, on our consideration of the Tri-State Food Bank, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tri-State Food Bank, Inc.'s internal control over financial reporting and compliance.

BKD, LLP_f

Evansville, Indiana
January 22, 2018

Tri-State Food Bank, Inc.
Statements of Financial Position
June 30, 2017 and 2016

Assets

	2017	2016
Cash and cash equivalents	\$ 1,121,889	\$ 1,250,299
Accounts receivable	50,336	52,759
Certificates of deposit	163,144	161,998
Grants receivable	34,845	80,842
Inventory	1,061,498	1,175,645
Prepaid expenses	22,693	17,948
Beneficial interest in trust	390,226	366,161
Property and equipment, net	835,951	474,700
Total assets	\$ 3,680,582	\$ 3,580,352

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 49,492	\$ 68,440
Accrued expenses	31,249	18,297
Grants and other liabilities	98,012	98,392
Total liabilities	178,753	185,129

Net Assets

Unrestricted	3,108,343	3,015,490
Temporarily restricted	393,486	379,733
Total net assets	3,501,829	3,395,223
Total liabilities and net assets	\$ 3,680,582	\$ 3,580,352

Tri-State Food Bank, Inc.
Statements of Activities
Years Ended June 30, 2017 and 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support			
Contributions	\$ 656,700	\$ -	\$ 656,700
Grants			
Government – cash	319,399	-	319,399
Government – USDA noncash			
Indiana	765,951	-	765,951
Kentucky	915,856	-	915,856
Illinois	519,875	-	519,875
Other	308,329	-	308,329
Food products donations – noncash	7,072,015	-	7,072,015
Program services			
Shared maintenance			
Donations	146,005	-	146,005
Purchased product	439,270	-	439,270
Backpack program	118,242	-	118,242
Delivery	20,110	-	20,110
Change in beneficial interest in trust	-	34,064	34,064
Interest and dividend income	2,455	-	2,455
Miscellaneous	11,054	-	11,054
Net assets released from restriction	20,311	(20,311)	-
	<u>11,315,572</u>	<u>13,753</u>	<u>11,329,325</u>
Expenses			
Program services	10,901,661	-	10,901,661
Management and general	160,217	-	160,217
Fundraising	160,841	-	160,841
	<u>11,222,719</u>	<u>-</u>	<u>11,222,719</u>
Total Change in Net Assets	92,853	13,753	106,606
Net Assets, Beginning of Year	<u>3,015,490</u>	<u>379,733</u>	<u>3,395,223</u>
Net Assets, End of Year	<u>\$ 3,108,343</u>	<u>\$ 393,486</u>	<u>\$ 3,501,829</u>

See Notes to Financial Statements

	2016		
	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support			
Contributions	\$ 665,693	\$ -	\$ 665,693
Grants			
Government – cash	341,800	-	341,800
Government – USDA noncash			
Indiana	973,727	-	973,727
Kentucky	1,032,983	-	1,032,983
Illinois	608,484	-	608,484
Other	56,628	13,572	70,200
Food products donations – noncash	7,375,691	-	7,375,691
Program services			
Shared maintenance			
Donations	172,711	-	172,711
Purchased product	369,963	-	369,963
Backpack program	150,578	-	150,578
Delivery	19,360	-	19,360
Change in beneficial interest in trust	-	12,961	12,961
Interest and dividend income	1,100	-	1,100
Miscellaneous	7,878	-	7,878
Net assets released from restriction	428,771	(428,771)	-
	<u>12,205,367</u>	<u>(402,238)</u>	<u>11,803,129</u>
Expenses			
Program services	11,259,612	-	11,259,612
Management and general	150,410	-	150,410
Fundraising	102,821	-	102,821
	<u>11,512,843</u>	<u>-</u>	<u>11,512,843</u>
Total Change in Net Assets	692,524	(402,238)	290,286
Net Assets, Beginning of Year	<u>2,322,966</u>	<u>781,971</u>	<u>3,104,937</u>
Net Assets, End of Year	<u>\$ 3,015,490</u>	<u>\$ 379,733</u>	<u>\$ 3,395,223</u>

Tri-State Food Bank, Inc.
Statements of Functional Expenses
Years Ended June 30, 2017 and 2016

	2017			
	Program Services	Management and General	Fundraising	Total
IN USDA commodity disbursement – noncash	\$ 813,046	\$ -	\$ -	\$ 813,046
KY USDA commodity disbursement – noncash	904,823	-	-	904,823
IL USDA commodity disbursement – noncash	501,547	-	-	501,547
Food products disbursement – noncash	7,124,695	-	-	7,124,695
Purchased products	762,787	-	-	762,787
Professional dues and services	58,423	-	-	58,423
Fundraising	-	-	56,464	56,464
Advertising	2,160	1,081	1,081	4,322
Repairs and maintenance	90,427	9,043	1,004	100,474
Insurance	29,809	7,547	377	37,733
Miscellaneous	20,215	5,118	256	25,589
Network dues and fees	16,967	4,296	215	21,478
Depreciation	59,561	15,079	754	75,394
Interest expense	-	-	-	-
Postage	772	1,081	1,235	3,088
Property taxes	1,804	457	22	2,283
Wages and salaries	338,198	79,576	79,576	497,350
Employee benefits	55,349	13,023	13,023	81,395
Taxes	24,100	5,670	5,670	35,440
Supplies	41,167	4,117	457	45,741
Utilities	55,811	14,129	707	70,647
	<u>\$ 10,901,661</u>	<u>\$ 160,217</u>	<u>\$ 160,841</u>	<u>\$ 11,222,719</u>

	2016			
	Program Services	Management and General	Fundraising	Total
IN USDA commodity disbursement – noncash	\$ 884,772	\$ -	\$ -	\$ 884,772
KY USDA commodity disbursement – noncash	797,529	-	-	797,529
IL USDA commodity disbursement – noncash	663,960	-	-	663,960
Food products disbursement – noncash	7,424,357	-	-	7,424,357
Purchased products	726,330	-	-	726,330
Professional dues and services	52,238	-	-	52,238
Fundraiser	-	-	8,469	8,469
Advertising	4,136	2,069	2,069	8,274
Repairs and maintenance	120,220	12,022	1,336	133,578
Insurance	27,862	7,054	353	35,269
Miscellaneous	12,956	3,280	164	16,400
Network dues and fees	19,412	4,915	246	24,573
Depreciation	48,105	12,179	609	60,893
Interest expense	131	33	2	166
Postage	638	894	1,021	2,553
Property taxes	5,416	1,371	69	6,856
Wages and salaries	293,796	69,000	68,454	431,250
Employee benefits	56,947	13,399	13,399	83,745
Taxes	23,427	5,502	5,458	34,387
Supplies	38,920	3,892	432	43,244
Utilities	58,460	14,800	740	74,000
	<u>\$ 11,259,612</u>	<u>\$ 150,410</u>	<u>\$ 102,821</u>	<u>\$ 11,512,843</u>

Tri-State Food Bank, Inc.
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 106,606	\$ 290,286
Items not requiring (providing) operating activities cash flows		
Depreciation	75,394	60,893
Contribution restricted for property and equipment	(332,000)	(30,000)
In-kind contribution of equipment	(12,800)	-
Change in beneficial interest in trust	(34,064)	(12,961)
Changes in		
Accounts and grants receivable	48,420	(16,233)
Contribution receivable	-	390,000
Prepaid expenses	(4,745)	(6,211)
Inventory	114,147	(92,157)
Beneficial interest in trust	10,000	38,771
Accounts payable, accrued expenses and grants and other liabilities	(6,377)	77,871
	<u>(35,419)</u>	<u>700,259</u>
Net cash provided by (used in) operating activities	<u>(35,419)</u>	<u>700,259</u>
Investing Activities		
Purchase of property and equipment from restricted contributions	(332,000)	-
Purchase of property and equipment	(91,845)	(33,616)
Proceeds from certificates of deposit	212,000	-
Purchases of certificates of deposit	(213,146)	(161,998)
	<u>(424,991)</u>	<u>(195,614)</u>
Net cash used in investing activities	<u>(424,991)</u>	<u>(195,614)</u>
Financing Activities		
Proceeds from contributions restricted for acquisition of property and equipment	332,000	30,000
Principal payments on long-term debt	-	(57,218)
	<u>332,000</u>	<u>(27,218)</u>
Net cash provided by (used in) financing activities	<u>332,000</u>	<u>(27,218)</u>
Increase (Decrease) in Cash and Cash Equivalents	(128,410)	477,427
Cash and Cash Equivalents, Beginning of Year	1,250,299	772,872
Cash and Cash Equivalents, End of Year	\$ 1,121,889	\$ 1,250,299
Supplemental Cash Flows Information		
Interest paid	\$ -	\$ 166

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Tri-State Food Bank, Inc. (Organization) is a not-for-profit corporation located in Evansville, Indiana, the mission and principal activities of which are to solicit, warehouse and distribute donated food products to other not-for-profit organizations in Indiana, Illinois and Kentucky. The Organization is supported primarily through donations of food and commodities, grants and individual donations. Depending on the food source and the organization, the Organization charges a shared maintenance fee to some of the organizations to which they distribute food. This fee is not for the food, but it is to help recover a portion of the transportation, storage and distribution costs incurred by the Organization.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts and certificates of deposit. Certificates of deposit are stated at cost plus accrued interest, which approximates market value.

At June 30, 2017, the Organization's cash and cash equivalents exceeded federally insured limits by approximately \$51,000.

Investments

Investments include certificates of deposit with maturities of greater than three months and are stated at cost plus accrued interest, which approximates market value.

Accounts Receivable

Accounts receivable are stated at the amount billed to agencies. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on the individual agencies' credit evaluation and specific circumstances. Currently, the Organization does not have a reserve for doubtful accounts because all accounts are considered to be fully collectible.

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using accelerated and straight-line methods over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and improvements	10–39 years
Machinery and equipment	5–10 years
Office furniture and fixtures	5–20 years

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2017 and 2016.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those which use by the Organization has been limited by donors to a specific time period or purpose.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations, which are satisfied in the period the gift is received, are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Contributed Services

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. For the years ended June 30, 2017 and 2016, in-kind contributions of \$12,800 and \$0, respectively, were received.

Inventory Pricing

Donated inventory is valued based on the average wholesale value of one pound of product as determined by an independent source. Commodities inventory received by state agencies are valued based on standard pricing as determined by the United States Department of Agriculture and each respective state agency. Purchased product is valued at the lower of cost or market.

Grants and Other Liabilities

Revenue from agencies and other organizations is deferred and recognized over the periods to which the fees relate.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on actual direct expenditures and other methods.

Advertising

The Organization uses advertising for promoting programs and soliciting employees. These costs are expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through January 22, 2018, which is the date the financial statements were available to be issued.

Note 2: Inventory

Inventory consists of food, commodities and various supplies for food and home service. Inventory at June 30, 2017 and 2016, consisted of:

	2017	2016
IN USDA and Commodity Supplemental Food Program	\$ 138,590	\$ 174,538
KY USDA commodities	298,265	287,232
IL USDA and Commodity Supplemental Food Program	108,507	90,179
Donated and purchased food and supplies	516,136	623,696
	\$ 1,061,498	\$ 1,175,645

Note 3: Beneficial Interest in Trust

The Organization is the beneficiary under an irrevocable trust administered by an outside party. Under the terms of the trust, the Organization has the right to receive income earned on the trust assets for 50 years following the first distribution at which time the Organization will receive the remaining assets held in trust. The estimated value of the expected future cash flows is \$390,226 and \$366,161, which represents the fair value of the trust assets at June 30, 2017 and 2016, respectively. Distributions received were \$10,000 and \$38,771 for the years ended June 30, 2017 and 2016, respectively.

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Note 4: Property and Equipment

Property and equipment at June 30, 2017 and 2016, consisted of:

	2017	2016
Land	\$ 17,790	\$ 17,790
Buildings and improvements	1,253,372	862,226
Machinery and equipment	352,671	403,399
Office furniture and fixtures	511,544	484,053
	2,135,377	1,767,468
Less accumulated depreciation	1,299,426	1,292,768
	\$ 835,951	\$ 474,700

Note 5: Grant Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Organization are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30 have been recorded as receivables. Following are the grant commitments that extend beyond June 30, 2017:

Grant	Term	Grant Amount	Earned as of June 30, 2017	Funding Available June 30, 2017
Emergency Food Assistance Program				
State of Indiana	10/01/16–09/30/17	\$ 73,645	\$ 54,111	\$ 19,534
Community Development Block Grant – Entitlement Program				
City of Evansville	01/01/16–9/30/2017	31,500	28,000	3,500
City of Evansville	01/01/16–9/30/2017	67,500	64,858	2,642
City of Evansville	01/01/16–9/30/2017	15,000	14,391	609
		\$ 187,645	\$ 161,360	\$ 26,285

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

Note 6: Pension Benefit Plan

The Organization provides an Individual Retirement Account (IRA) program for employees who meet certain length-of-service requirements. The Organization contributes toward an IRA for each eligible employee. The Organization's expense related to this plan was \$20,500 and \$20,000 in 2017 and 2016, respectively.

Note 7: Net Assets

Unrestricted Net Assets

Unrestricted net assets include \$600,000 subject to board designation for capital expansion as of June 30, 2017 and 2016.

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016, are available for the following purposes or periods:

	2017	2016
Trust agreement, time restricted	\$ 390,226	\$ 366,161
Purchase of property and equipment	3,260	13,572
	\$ 393,486	\$ 379,733

Net Assets Released From Restrictions

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. For the years ended June 30, 2017 and 2016, net assets released from restrictions were \$20,311 and \$428,771, respectively, for satisfaction of implied time restrictions.

Note 8: Disclosure About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

- Level 2** Observable inputs other than Level 1 prices, 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The fair value measurements of assets held in the beneficial interest in trust, recognized in the accompanying statements of financial position, are measured at fair value on a recurring basis and are included in Level 2 within the fair value hierarchy at June 30, 2017 and 2016.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. There have been no changes in the valuation techniques during the year ended June 30, 2017.

Beneficial Interest in Trust

Fair value is estimated at the present value of the future distributions expected to be received over the terms of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments in Beneficial Interest in Trust

The trust in which the Organization holds a beneficial interest invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Tri-State Food Bank, Inc.
Notes to Financial Statements
June 30, 2017 and 2016

General Litigation

The Organization is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Organization.

Supplementary Information

Tri-State Food Bank, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Food Distribution Cluster				
United States Department of Agriculture				
Emergency Food Assistance				
Program (Food Commodities)				
State of Indiana Department of Health	10.569	—	\$ 703,703	\$ 703,703
State of Indiana Department of Health	10.569	—	83,891	83,891
Indiana State Department of Agriculture Commonwealth of Kentucky,	10.569	A337-17-FB-310	2,900	2,900
Department of Agriculture, Division of Food Distribution, Dare to Care Food Bank of Louisville	10.569	—	904,823	904,823
State of Illinois Department of Human Services	10.569	—	365,553	365,553
State of Illinois Department of Human Services	10.569	—	135,994	135,994
Total CFDA Number 10.569			2,196,864	2,196,864
Emergency Food Assistance				
Program (Administrative Costs)				
State of Indiana Department of Health Commonwealth of Kentucky,	10.568	2IN810001, 17172IN001Y8105	-	50,860
Department of Agriculture, Division of Food Distribution, Dare to Care Food Bank of Louisville	10.568	—	-	47,197
State of Illinois Department of Human Services	10.568	FCSUH01404	-	45,082
Total CFDA Number 10.568			-	143,139
Commodity Supplemental Food Program				
State of Illinois Department of Human Services	10.565	FCSUQ00668 2IN810001,	-	35,385
State of Indiana Department of Health	10.565	17172IN001Y8005	-	20,975
Total CFDA Number 10.565			-	56,360
Total Food Distribution Cluster			2,196,864	2,396,363

Tri-State Food Bank, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017
(Continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Child Nutrition Cluster				
United States Department of Agriculture				
Summer Food Service Program for Children (SFSPC)				
State of Indiana Department of Education	10.559	-	\$ 9,392	\$ 9,392
United States Department of Agriculture				
Child and Adult Care Food Program				
State of Indiana Department of Education	10.558	-	28,463	28,463
SNAP Cluster				
United States Department of Agriculture				
State of Illinois Department of Human Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				
	10.561	FCSVQ01412	-	1,538
Total United States Department of Agriculture			2,234,719	2,435,756
TANF Cluster				
United States Department of Health and Human Services				
State of Illinois Department of Human Services				
Temporary Assistance for Needy Families (TANF)				
	93.558	FCSUH01404	11,917	11,917
CDBG – Entitlement Grants Cluster				
United States Department of Housing and Urban Development				
City of Evansville, Indiana, Department of Metropolitan Development				
Community Development Block Grants/Entitlement Grants				
	14.218	B-14-MC-18-0002	-	66,106
Community Development Block Grants/Entitlement Grants				
	14.218	B-14-MC-18-0002	-	300,000
Total CFDA Number 14.218			-	366,106
			\$ 2,246,636	\$ 2,813,779

Tri-State Food Bank, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Organization 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 Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.
2. 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. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. There are no federal loan programs administered directly by the Organization.
4. Of the federal expenditures presented in the Schedule, the Organization provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
Indiana		
10.569	Emergency Food Assistance Program (Food Commodities)	\$ 790,494
10.559	Summer Food Service Program for Children (SFSPC)	9,392
10.558	Child and Adult Care Food Program	<u>28,463</u>
	(Noncash Assistance to 22 Soup Kitchens and 69 Food Pantries)	<u>828,349</u>
Illinois		
10.569	Emergency Food Assistance Program (Food Commodities)	501,547
93.558	Temporary Assistance for Needy Families	<u>11,917</u>
	(Noncash Assistance to 5 Soup Kitchens and 36 Food Pantries)	<u>513,464</u>
Kentucky		
10.569	Emergency Food Assistance Program (Food Commodities) (Noncash Assistance to 6 Soup Kitchens and 28 Food Pantries)	<u>904,823</u>
	Total noncash subrecipients' food assistance	<u><u>\$ 2,246,636</u></u>

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

Board of Directors
Tri-State Food Bank, Inc.
Evansville, Indiana

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 the Tri-State Food Bank, Inc. (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 January 22, 2018.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 Organization's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 identified a deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 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*.

The Organization's Response to Findings

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization'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.

We noted certain matters that we reported to the Organization's management in a separate letter dated January 22, 2018.

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 entity'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.

BKD, LLP

Evansville, Indiana
January 22, 2018

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Tri-State Food Bank, Inc.
Evansville, Indiana

Report on Compliance for Each Major Federal Program

We have audited the Tri-State Food Bank Inc.'s (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2017. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-002. Our opinion on the major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization'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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002 that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The Organization'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.

BKD, LLP

Evansville, Indiana
January 22, 2018

Tri-State Food Bank, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017
(Continued)

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee?

Yes

No

Tri-State Food Bank, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017
(Continued)

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2017-001	<p><i>Criteria or Specific Requirement</i> – Management is responsible for establishing and maintaining effective internal control over financial reporting. Certain individuals within the Organization have incompatible duties in certain financial statement reporting transaction cycles.</p> <p><i>Condition</i> – Duties in the cash inflows, cash outflows and payroll transaction cycles are not adequately segregated to safeguard the Organization’s assets. Additionally, certain management personnel have unlimited access within the accounting software.</p> <p><i>Context</i> – Management is responsible for the fair presentation of the financial statements and maintaining effective internal controls over financial reporting.</p> <p><i>Effect</i> – Potential misstatements in the financial statements or misappropriation of assets.</p> <p><i>Cause</i> – Duties in the significant transaction cycle are not adequately segregated to safeguard the Organization’s assets and compensating controls are more detective than preventative in nature.</p> <p><i>Recommendation</i> – We recommend management consider further segregation of these duties or implement increased complementary controls to minimize the associated risks.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> – Due primarily to staffing constraints and turnover in personnel, management and board of directors agree and will review areas of potential increased segregation of duties and additional compensating controls.</p>

Tri-State Food Bank, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017
(Continued)

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
2017-002	<p><i>Federal Program</i> – United States Department of Agriculture, Food Distribution Cluster, CFDA 10.569 Emergency Food Assistance Program (Food Commodities), 10.568 Emergency Food Assistance Program (Administrative Costs), 10.565 Commodity Supplemental Food Program; Program Year July 1, 2016–June 30, 2017</p> <p><i>Criteria or Specific Requirement</i> – Eligibility – Management is responsible for determining eligibility of recipient agencies and entering into written agreements to define the duties of the recipient agencies (7 CFR sections 247.4, 247.7(a), 251.3(d) and 251.5(a)).</p> <p><i>Condition</i> – Agency agreements did not contain all required elements.</p> <p><i>Questioned Costs</i> – None.</p> <p><i>Context</i> – Out of a sample of 22 agency agreements from a population of 146 agencies, the Organization’s agreements with recipient agencies did not contain required language regarding retention periods and minimum days’ notification for termination of services for 20 agreements. Additionally, 7 agreements had not been updated on a timely basis. Our sampling method was not, and was not intended to be, statistically valid.</p> <p><i>Effect</i> – The Organization did not maintain agreements with all required elements.</p> <p><i>Cause</i> – The Organization was tracking agency agreements and monitoring forms; however, due to turnover in personnel, it was not current with its monitoring and review of elements.</p> <p><i>Identification as a Repeat Finding</i> – 2016-001</p> <p><i>Recommendation</i> – We recommend management consider additional monitoring controls designed to verify accuracy and completeness of its agency agreements.</p> <p><i>Views of Responsible Officials and Planned Corrective Actions</i> – Due primarily to staffing constraints and turnover in personnel, agencies were not monitored in a timely manner during the year ended June 30, 2017. Additional staff have been added, current positions have been restructured and tracking processes are in place to properly monitor agencies in a timely manner.</p>

Tri-State Food Bank, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

Reference Number	Summary of Finding	Status
2016-001	<p><i>Federal Program</i> – United States Department of Agriculture, Food Distribution Cluster, CFDA 10.569 Emergency Food Assistance Program (Food Commodities), 10.568 Emergency Food Assistance Program (Administrative Costs), 10.565 Commodity Supplemental Food Program; Program Year July 1, 2015–June 30, 2016</p> <p><i>Criteria or Specific Requirement</i> – Eligibility – Management is responsible for obtaining a signed agreement and monitoring once every two years for each agency (7 CFR sections 247.4, 247.7(a), 251.3(d) and 251.5(a)).</p> <p><i>Condition</i> – Current and/or authorized agency agreements were not maintained for all required subrecipient arrangements.</p> <p>Due primarily to staffing constraints and turnover in personnel, agencies were not monitored in a timely manner during the years ended June 30, 2016 and 2017. Additional staff were added, current positions were restructured and tracking processes are in place to properly monitor agencies in a timely manner going forward. The Organization is continuing to address this matter.</p>	Not Corrected – 2017-002