

TRI-STATE FOOD BANK, INC.

EVANSVILLE, INDIANA

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

June 30, 2018 and 2017



TRI-STATE FOOD BANK, INC.

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INDEPENDENT AUDITOR'S REPORT

To the 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. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expense, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Board of Directors
Tri-State Food Bank, Inc.

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

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, 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 18, 2019, 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 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.

To the Board of Directors
Tri-State Food Bank, Inc.

Prior Period Financial Statements

The financial statements of Tri-State Food Bank, Inc. as of June 30, 2017, were audited by other auditors whose report dated January 22, 2018, expressed an unmodified opinion on those statements.

Kramer CPA Group, LLP

January 18, 2019
Evansville, Indiana

Certified Public Accountants and Consultants

TRI-STATE FOOD BANK, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

ASSETS	2018	2017
Cash and cash equivalents	\$ 406,410	\$ 1,121,889
Certificates of deposit	0	163,144
Investments	761,275	0
Accounts receivable	33,215	50,336
Grants receivable	53,363	34,845
Pledges receivable	50,000	0
Inventory	1,432,428	1,061,498
Prepaid expenses	22,404	22,693
Beneficial interest in trust	408,000	390,226
Property and equipment, net	823,602	835,951
	<u>\$ 3,990,697</u>	<u>\$ 3,680,582</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 37,182	\$ 49,492
Accrued expenses	53,491	31,249
Grants and other liabilities	78,862	98,012
Total Liabilities	<u>169,535</u>	<u>178,753</u>
Net Assets		
Unrestricted	3,413,162	3,108,343
Temporarily restricted	408,000	393,486
Total Net Assets	<u>3,821,162</u>	<u>3,501,829</u>
	<u>\$ 3,990,697</u>	<u>\$ 3,680,582</u>

See accompanying notes.

TRI-STATE FOOD BANK, INC.

STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2018		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Losses			
Contributions	\$ 889,048	\$ 0	\$ 889,048
Grants			
Government - cash	409,485	0	409,485
Government - USDA noncash			
Indiana	1,806,294	0	1,806,294
Kentucky	810,861	0	810,861
Illinois	1,316,468	0	1,316,468
Other	15,546	0	15,546
Food products donations - noncash	7,736,696	0	7,736,696
Program services			
Shared maintenance			
Donations	103,819	0	103,819
Purchased product	438,350	0	438,350
Backpack program	94,113	0	94,113
Delivery	20,230	0	20,230
Special events	28,669	0	28,669
Change in beneficial interest in trust	0	32,774	32,774
Investment return	5,027	0	5,027
Miscellaneous	8,095	0	8,095
	13,682,701	32,774	13,715,475
Total revenues, gains, and losses			
Net assets released from restrictions	18,260	(18,260)	0
	13,700,961	14,514	13,715,475
Total Revenues, Gains, and Losses			
Expenses			
Program services	13,007,942	0	13,007,942
Management and general	212,385	0	212,385
Fundraising	175,815	0	175,815
	13,396,142	0	13,396,142
Total Expenses			
INCREASE IN NET ASSETS	304,819	14,514	319,333
Net Assets at Beginning of Year	3,108,343	393,486	3,501,829
NET ASSETS AT END OF YEAR	\$ 3,413,162	\$ 408,000	\$ 3,821,162

See accompanying notes.

TRI-STATE FOOD BANK, INC.

STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Total
Revenues, Gains, and Losses			
Contributions	\$ 656,700	\$ 0	\$ 656,700
Grants			
Government - cash	319,399	0	319,399
Government - USDA noncash			
Indiana	765,951	0	765,951
Kentucky	915,856	0	915,856
Illinois	519,875	0	519,875
Other	308,329	0	308,329
Food products donations - noncash	7,072,015	0	7,072,015
Program services			
Shared maintenance			
Donations	146,005	0	146,005
Purchased product	439,270	0	439,270
Backpack program	118,242	0	118,242
Delivery	20,110	0	20,110
Special events	0	0	0
Change in beneficial interest in trust	0	34,064	34,064
Investment return	2,455	0	2,455
Miscellaneous	11,054	0	11,054
Total revenues, gains, and losses	11,295,261	34,064	11,329,325
Net assets released from restrictions	20,311	(20,311)	0
Total Revenues, Gains, and Losses	11,315,572	13,753	11,329,325
Expenses			
Program services	10,901,661	0	10,901,661
Management and general	160,217	0	160,217
Fundraising	160,841	0	160,841
Total Expenses	11,222,719	0	11,222,719
INCREASE IN NET ASSETS	92,853	13,753	106,606
Net Assets at Beginning of Year	3,015,490	379,733	3,395,223
NET ASSETS AT END OF YEAR	\$ 3,108,343	\$ 393,486	\$ 3,501,829

See accompanying notes.

TRI-STATE FOOD BANK, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2018

	Program Services	Management and General	Fundraising	Total
IN USDA commodity disbursement - noncash	\$ 1,614,964	\$ 0	\$ 0	\$ 1,614,964
KY USDA commodity disbursement - noncash	976,508	0	0	976,508
IL USDA commodity disbursement - noncash	1,209,830	0	0	1,209,830
Food products disbursement - noncash	7,573,740	0	0	7,573,740
Purchased products	763,116	0	0	763,116
Professional dues and services	67,411	0	0	67,411
Fundraising	0	0	81,946	81,946
Advertising	3,054	1,527	1,527	6,108
Repairs and maintenance	101,579	10,158	1,129	112,866
Insurance	31,315	7,928	396	39,639
Miscellaneous	14,849	3,758	189	18,796
Network dues and fees	14,389	3,643	182	18,214
Depreciation	96,959	24,547	1,227	122,733
Postage	540	756	864	2,160
Property taxes	3,814	966	48	4,828
Wages and salaries	356,752	113,512	70,269	540,534
Employee benefits	59,688	18,992	11,757	90,437
Taxes	26,166	8,326	5,154	39,646
Supplies	34,859	3,486	387	38,732
Utilities	58,408	14,787	739	73,934
	<u>\$ 13,007,942</u>	<u>\$ 212,385</u>	<u>\$ 175,815</u>	<u>\$ 13,396,142</u>

See accompanying notes.

TRI-STATE FOOD BANK, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	For the Year Ended June 30, 2017			
	Program Services	Management and General	Fundraising	Total
IN USDA commodity disbursement - noncash	\$ 813,046	\$ 0	\$ 0	\$ 813,046
KY USDA commodity disbursement - noncash	904,823	0	0	904,823
IL USDA commodity disbursement - noncash	501,547	0	0	501,547
Food products disbursement - noncash	7,124,695	0	0	7,124,695
Purchased products	762,787	0	0	762,787
Professional dues and services	58,423	0	0	58,423
Fundraising	0	0	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
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>

See accompanying notes.

TRI-STATE FOOD BANK, INC.
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 319,333	\$ 106,606
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	124,483	75,394
Contribution restricted for property and equipment	0	(332,000)
In-kind contribution of equipment	0	(12,800)
Change in beneficial interest in trust	0	(34,064)
(Increase) decrease in:		
Accounts and other receivables	(51,397)	48,420
Inventory	(370,930)	114,147
Prepaid expenses	289	(4,745)
Beneficial interest in trust	(17,774)	10,000
Increase (decrease) in:		
Accounts payable	(12,310)	(18,948)
Accrued expenses	22,242	12,951
Annuities and trusts payable	(19,150)	0
Deferred revenues	0	(380)
NET CASH USED IN OPERATING ACTIVITIES	(5,214)	(35,419)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from certificates of deposit	163,144	212,000
Purchase of certificates of deposit	0	(213,146)
Proceeds from sales of property and equipment	6,648	0
Purchase of investments	(761,275)	0
Purchase of property and equipment from restricted contributions	(3,260)	(332,000)
Purchase of property and equipment	(115,522)	(91,845)
NET CASH USED IN INVESTING ACTIVITIES	(710,265)	(424,991)

See accompanying notes.

TRI-STATE FOOD BANK, INC.
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2018 and 2017

	Years Ended June 30, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for acquisition of property and equipment	0	332,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	0	332,000
DECREASE IN CASH AND CASH EQUIVALENTS	(715,479)	(128,410)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,121,889	1,250,299
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 406,410	\$1,121,889

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies

Nature of Operations

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.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting which follows generally accepted accounting principles.

Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets – Net assets are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets are subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Use of Estimates

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

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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, 2018 and 2017, cash and cash equivalents consisted primarily of money market funds and certificates of deposit. Certificates of deposit are stated at cost plus accrued interest, which approximates market value.

The Federal Deposit Insurance Corporation (FDIC) insures the amounts in the bank up to \$250,000 per bank. At June 30, 2018 and 2017, the Organization's cash and certificate of deposit accounts exceeded FDIC insured limits by approximately \$0 and \$51,000, respectively.

Investments

Investments consist of equity securities having a readily determinable fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

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.

Inventory

Inventory consists of food products. Donated and commodities inventory are valued based on the average wholesale value of one pound of product as determined by an independent source. Purchased products are valued at the lower of cost or market.

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$500. Property and equipment are stated at cost less accumulated depreciation. Maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed. Donated property and equipment are carried at fair value at the date of donation. 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 the 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, 2018 and 2017.

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 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.

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

Contributions (Concluded)

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 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.

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 of property 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. In-kind contributions received by the Organization during the years ended June 30, 2018 and 2017 were \$0 and \$12,800, respectively.

Grants and Other Liabilities

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

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.

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies (Continued)

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 the federal income tax on any unrelated business taxable income. The Organization files tax returns in the U.S. federal jurisdiction.

Advertising

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

Date of Management’s Review

Subsequent events have been evaluated through January 18, 2019, the date which 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, 2018 and 2017, consisted of:

	<u>2018</u>	<u>2017</u>
IN USDA and Commodity Supplemental Food Program	\$ 425,199	\$ 138,590
KY USDA Commodities	132,619	298,265
IL USDA and Commodity Supplemental Food Program	215,146	108,507
Donated and purchased food and supplies	659,464	516,136
	<u>\$ 1,432,428</u>	<u>\$ 1,061,498</u>

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 \$408,000 and \$390,226, which represents the fair value of the trust assets at June 30, 2018 and 2017, respectively. Distributions received were \$45,000 and \$10,000 for the years ended June 30, 2018 and 2017, respectively.

Note 4 – Property and Equipment

Property and equipment at June 30, 2018 and 2017 was summarized as follows:

	2018		
	Cost	Accumulated Depreciation	Net
Land	\$ 41,167	\$ 0	\$ 41,167
Automobiles	328,011	276,124	51,887
Buildings and improvements	1,284,365	745,367	538,998
Machinery and equipment	501,195	309,645	191,550
	<u>\$ 2,154,738</u>	<u>\$ 1,331,136</u>	<u>\$ 823,602</u>
	2017		
	Cost	Accumulated Depreciation	Net
Land	\$ 17,790	\$ 0	\$ 17,790
Automobiles	352,671	277,753	74,918
Buildings and improvements	1,253,372	671,619	581,753
Machinery and equipment	511,544	350,054	161,490
	<u>\$ 2,135,377</u>	<u>\$ 1,299,426</u>	<u>\$ 835,951</u>

Note 5 – Net Assets

Unrestricted Net Assets

Unrestricted net assets include \$600,000 subject to board designation for capital expansion as of June 30, 2018 and 2017.

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 5 – Net Assets (Continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 and 2017, are available for the following purposes:

	2018	2017
Trust agreement, time restricted	\$ 408,000	\$ 390,226
Purchase of property and equipment	0	3,260
	\$ 408,000	\$ 393,486

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, 2018 and 2017, net assets released from restrictions by incurring expenses or by satisfaction of implied time restrictions.

	2018	2017
Satisfaction of time restriction	\$ 15,000	\$ 10,000
Purchase of property and equipment	3,260	10,311
	\$ 18,260	\$ 20,311

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 for 2018 and 2017 was \$16,500 and \$20,500, respectively.

Note 7 – Investment Return

Investment return as of June 30, 2018 and 2017 consisted of the following:

	2018	2017
Investment Return		
Interest and Dividends	\$ 3,678	\$ 2,455
Unrealized gain/(loss)	1,349	0
	\$ 5,027	\$ 2,455

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 8 – 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 services, management and general and fundraising based on actual direct expenditures and other methods.

Note 9 – 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, 2018:

Grant	Term	Grant Amount	Earned as of June 30, 2018	Funding Available June 30, 2018
Emergency Food Assistance Program				
State of Indiana	10/01/17 - 09/30/2018	\$ 85,820	\$ 63,035	\$ 22,785

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 10 – Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Investments: Fair values for equity securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Beneficial Interest in Trust: Fair value for beneficial interest in trusts is derived using the present value of the future distributions expected to be received over the terms of the agreement.

Fair values of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

June 30, 2018	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bonds	\$ 422,165	\$ 422,165	\$ 0	\$ 0
Mutual Funds	220,119	220,119	0	0
Common Stock	118,991	118,991	0	0
	<u>\$ 761,275</u>	<u>\$ 761,275</u>	<u>\$ 0</u>	<u>\$ 0</u>
Beneficial interest in trust	408,000	0	408,000	0

June 30, 2017	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial interest in trust	\$ 390,226	\$ 0	\$ 390,226	\$ 0

TRI-STATE FOOD BANK, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 11 – 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 the 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.

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.

----- ADDITIONAL INFORMATION -----

TRI-STATE FOOD BANK, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number/ Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Food Distribution Cluster				
United States Department of Agriculture				
Emergency Food Assistance				
Program (Food Commodities)				
State of Indiana Department of Health	10.569		\$ 1,399,357	\$ 1,399,357
State of Indiana Office of Community and Rural Affairs	10.569		170,440	170,440
Indiana State Department of Agriculture	10.569	A337-17-FB-310	19,020	19,020
Commonwealth of Kentucky, Department of Agriculture, Division of Food Distribution, Dare to Care Food Bank of Louisville	10.569		976,508	976,508
State of Illinois Department of Human Services	10.569	FCSUH01404	329,727	329,727
State of Illinois Department of Human Services	10.569		<u>880,103</u>	<u>880,103</u>
Total CFDA Number 10.569			<u>3,775,155</u>	<u>3,775,155</u>
Emergency Food Assistance				
Program (Administrative Costs)				
State of Indiana Department of Health Commonwealth of Kentucky, Department of Agriculture, Division of Food Distribution, Dare to Care Food Bank of Louisville	10.568	2IN810001	0	63,035
State of Illinois Department of Human Services	10.568		0	67,503
State of Illinois Department of Human Services	10.568	FCSUH01404	<u>0</u>	<u>58,287</u>
Total CFDA Number 10.568			<u>0</u>	<u>188,825</u>
Commodity Supplemental Food Program				
State of Illinois Department of Human Services	10.565	FCSUQ00668	0	41,233
State of Indiana Department of Health	10.565	2IN810001	<u>0</u>	<u>23,908</u>
Total CFDA Number 10.565			<u>0</u>	<u>65,141</u>
Total Food Distribution Cluster			<u>3,775,155</u>	<u>4,029,121</u>

TRI-STATE FOOD BANK, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)

Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number/ Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Child Nutrition Cluster				
United States Department of Agriculture Summer Food Service Program for Children (SFSPC)				
State of Indiana Department of Education	10.559		\$ 10,572	\$ 10,572
United States Department of Agriculture Child and Adult Care Food Program				
State of Indiana Department of Education	10.558		32,425	32,425
Total United States Department of Agriculture			3,818,152	4,072,118
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	12,851	12,851
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	0	74,500
			\$ 3,831,003	\$ 4,159,469

TRI-STATE FOOD BANK, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2018

Note A – Basis of Accounting

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, 2018. 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.

Note B – Summary of Significant Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions*, 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 rates allowed under the Uniform Guidance. Pass-through entity identifying numbers are presented where available.

Note C – Federal Loan Programs

There are no federal loan programs administered directly by the Organization.

TRI-STATE FOOD BANK, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(CONCLUDED)**

June 30, 2018

Note D – Subrecipients

Of the federal expenditures presented in the Schedule, the Organization provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
	<i>Indiana</i>	
10.569	Emergency Food Assistance Program (Food Commodities)	\$ 1,588,817
10.559	Summer Food Service Program for Children (SFSPC)	10,572
10.558	Child and Adult Care Food Program	32,425
	(Noncash Assistance to 15 Soup Kitchens and 20 Food Pantries)	1,631,814
	<i>Illinois</i>	
10.569	Emergency Food Assistance Program (Food Commodities)	1,209,830
93.558	Temporary Assistance for Needy Families	12,851
	(Noncash Assistance to 3 Soup Kitchens and 24 Food Pantries)	1,222,681
	<i>Kentucky</i>	
10.569	Emergency Food Assistance Program (Food Commodities)	
	(Noncash Assistance to 5 Soup Kitchens and 16 Food Pantries)	976,508
	Total noncash subrecipients' food assistance	\$ 3,831,003

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tri-State Food Bank, Inc. (a nonprofit organization) (Organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated January 18, 2019.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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.

To the Board of Directors
Tri-State Food Bank, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-001.

The Organization's Response to Finding

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.

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 result 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kramer CPA Group, LLP

January 18, 2019
Evansville, Indiana

Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the 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, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

To the Board of Directors
Tri-State Food Bank, Inc.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the 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 each of its major federal programs for the year ended June 30, 2018.

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 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's response to the noncompliance 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 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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

To the Board of Directors
Tri-State Food Bank, Inc.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

January 18, 2019
Evansville, Indiana


Certified Public Accountants and Consultants

TRI-STATE FOOD BANK, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2018

<u>Finding No.</u>	<u>Condition</u>	<u>Current Status</u>
2017-001	Lack of Segregation of Duties	Corrected
2017-002	Compliance –Emergency Food Assistance Program	Corrected

TRI-STATE FOOD BANK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

- 1) Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified
- 2) Internal control over financial reporting:
 - a) Material weaknesses identified? No
 - b) Significant deficiencies identified? None reported
 - c) Noncompliance material to the financial statements noted? No

Federal Awards

- 1) Internal control over major program:
 - a) Material weaknesses identified? No
 - b) Significant deficiencies identified? None reported
- 2) Type of auditor’s report issued on compliance for major programs: Unmodified
- 3) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes
- 4) Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
Food Distribution Cluster	
10.565	Commodity Supplemental Food Program
10.568	Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)

TRI-STATE FOOD BANK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS (CONCLUDED)

Federal Awards (Concluded)

- | | |
|-----------------------------------------------------------------------------|-----------|
| 5) Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 |
| 6) Auditee qualified as a low-risk auditee? | No |

TRI-STATE FOOD BANK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2018

SECTION II – MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING OF NONCOMPLIANCE:

Finding No.: 2018-001 Subrecipient Monitoring

Federal Program Name: Emergency Food Assistance Program (Food Commodities)

CFDA Number: 10.569

Federal Agency: U.S. Department of Agriculture

Information on the Federal Program:

- 10.569 – To strengthen the nutrition safety net through the provision of U.S. Department of Agriculture (USDA) – donated foods to low-income persons.

Criteria or Specific Requirement:

The Organization is required to monitor subrecipients annually according to their agreement with the State of Illinois.

Condition:

During the testing of monitoring of subrecipients in Illinois we noted that four subrecipients had not been monitored during fiscal year 2018.

Questioned Costs: N/A

Context:

We tested 14 Illinois subrecipients and noted four that had not been monitored in fiscal year 2018.

Effect:

The Organization was not in compliance with Illinois requirements.

Cause:

The State of Illinois had required bi-annual monitorings in fiscal year 2017 but changed their agreement for fiscal year 2018 and the Organization had not gotten caught up in their monitoring after this change.

Identification as a repeat finding, if applicable: N/A

Recommendation:

The Organization should monitor all Illinois subrecipients annually as required by their contract.

TRI-STATE FOOD BANK, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

June 30, 2018

**SECTION II – MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
(CONCLUDED)**

FINDING OF NONCOMPLIANCE (CONCLUDED):

Finding No.: 2018-001 Subrecipient Monitoring (Concluded)

Views of Responsible Officials:

Management is aware of the requirement to monitor all of its Illinois subrecipients on an annual basis.

Corrective Actions:

Management has a plan and a schedule to monitor accordingly.