

Freestore Foodbank, Inc. and Affiliates

Combined Financial Statements and
Additional Financial Information
June 30, 2018 and 2017
with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Freestore Foodbank, Inc. and Affiliates:

Report on the Financial Statements

We have audited the accompanying combined financial statements of Freestore Foodbank, Inc. and Affiliates (a not-for-profit organization), which comprise the combined statements of financial position as of June 30, 2018 and 2017, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Freestore Foodbank, Inc. and Affiliates as of June 30, 2018 and 2017, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and supplemental schedules are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined 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 September 26, 2018 on our consideration of Freestore Foodbank, Inc. and Affiliates' 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 effectiveness of Freestore Foodbank, Inc. and Affiliates' 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 Freestore Foodbank, Inc. and Affiliates' internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
September 26, 2018

Freestore Foodbank, Inc. and Affiliates
 Combined Statements of Financial Position
 June 30, 2018 and 2017

Assets:	2018	2017
Current assets:		
Cash and cash equivalents	\$ 112,816	1,473,823
Restricted cash - Facility maintenance reserve	882,651	649,861
Restricted cash - Representative Payee & Direct Rent	911,116	875,165
Accounts receivable	775,559	524,910
Pledges receivable	707,200	376,713
Inventory	4,387,086	3,523,005
Prepaid expenses and other	466,719	217,620
Total current assets	8,243,147	7,641,097
Property and equipment:		
Land	1,350,230	1,350,230
Buildings and improvements	12,174,099	12,145,219
Furniture, fixtures and equipment	2,751,746	2,359,895
Vehicles	1,256,252	977,339
	17,532,327	16,832,683
Less accumulated depreciation	6,831,152	6,233,946
Total property and equipment	10,701,175	10,598,737
Other assets:		
Investments	11,153,268	10,592,529
Beneficial interest in charitable trust	251,252	246,911
Pledges receivable	169,848	71,142
Other	15,620	15,392
Total other assets	11,589,988	10,925,974
Total assets	\$ 30,534,310	29,165,808
Liabilities and net assets:		
Current liabilities:		
Current portion of capital lease obligation	\$ -	7,436
Accounts payable	906,922	810,849
Amounts held for others - Representative Payee & Direct Rent	911,116	875,165
Accrued expenses	675,149	477,422
Total liabilities	2,493,187	2,170,872
Net assets:		
Unrestricted	25,995,848	25,624,409
Temporarily restricted	1,764,023	1,093,616
Permanently restricted	281,252	276,911
Total net assets	28,041,123	26,994,936
Total liabilities and net assets	\$ 30,534,310	29,165,808

See accompanying notes to the combined financial statements.

Freestore Foodbank, Inc. and Affiliates
 Combined Statement of Activities
 Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support:				
Contributions and grants	\$ 6,552,446	3,914,865	-	10,467,311
United Way/Community Chest	374,888	16,112	-	391,000
Change in interest in irrevocable trusts	-	-	4,341	4,341
	<u>6,927,334</u>	<u>3,930,977</u>	<u>4,341</u>	<u>10,862,652</u>
Revenues:				
Program services:				
Government agencies	2,876,016	-	-	2,876,016
Private organizations	105,024	-	-	105,024
Member agency fees/product resale	1,657,093	-	-	1,657,093
Client services - individuals	195,729	-	-	195,729
Social enterprises	172,235	-	-	172,235
Special events	1,564,413	-	-	1,564,413
Less special event direct expenses	(578,025)	-	-	(578,025)
In-kind goods and services:				
Advertising services	52,000	-	-	52,000
Foodbank donations - food and products	41,767,794	500	-	41,768,294
Interest and dividend income, net	181,285	5,335	-	186,620
Net realized and unrealized gain on investments	489,872	15,008	-	504,880
Net loss on disposal of property and equipment	(22,057)	-	-	(22,057)
Other	30,661	-	-	30,661
Net assets released from restriction:				
Satisfaction of program and purpose restrictions	3,051,413	(3,051,413)	-	-
Satisfaction of time restrictions	230,000	(230,000)	-	-
	<u>51,773,453</u>	<u>(3,260,570)</u>	<u>-</u>	<u>48,512,883</u>
	<u>58,700,787</u>	<u>670,407</u>	<u>4,341</u>	<u>59,375,535</u>
Expenses:				
Client services	4,291,599	-	-	4,291,599
Workforce development	1,639,439	-	-	1,639,439
Foodbank:				
In-kind expenses	41,169,374	-	-	41,169,374
Foodbank supportive services	7,209,749	-	-	7,209,749
Social enterprises	265,303	-	-	265,303
Management and general	2,061,658	-	-	2,061,658
Fundraising	1,692,226	-	-	1,692,226
	<u>58,329,348</u>	<u>-</u>	<u>-</u>	<u>58,329,348</u>
Change in net assets	371,439	670,407	4,341	1,046,187
Net assets at beginning of year	<u>25,624,409</u>	<u>1,093,616</u>	<u>276,911</u>	<u>26,994,936</u>
Net assets at end of year	\$ <u>25,995,848</u>	<u>1,764,023</u>	<u>281,252</u>	<u>28,041,123</u>

See accompanying notes to the combined financial statements.

Freestore Foodbank, Inc. and Affiliates
 Combined Statement of Activities
 Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support:				
Contributions and grants	\$ 5,876,476	2,496,100	-	8,372,576
United Way/Community Chest	179,931	203,500	-	383,431
Change in interest in irrevocable trusts	-	-	13,114	13,114
	<u>6,056,407</u>	<u>2,699,600</u>	<u>13,114</u>	<u>8,769,121</u>
Revenues:				
Program services:				
Government agencies	2,557,884	-	-	2,557,884
Private organizations	61,986	-	-	61,986
Member agency fees/product resale	1,487,499	-	-	1,487,499
Client services - individuals	182,256	-	-	182,256
Social enterprises	168,193	-	-	168,193
Special events	1,436,559	-	-	1,436,559
Less special event direct expenses	(495,691)	-	-	(495,691)
In-kind goods and services:				
Advertising services	45,500	-	-	45,500
Foodbank donations - food and products	40,105,271	-	-	40,105,271
Interest and dividend income, net	143,450	4,059	-	147,509
Net realized and unrealized gain on investments	1,246,484	25,099	-	1,271,583
Net loss on disposal of property and equipment	(107,083)	-	-	(107,083)
Other	43,097	-	-	43,097
Net assets released from restriction:				
Satisfaction of program and purpose restrictions	2,419,277	(2,419,277)	-	-
Satisfaction of time restrictions	205,326	(205,326)	-	-
	<u>49,500,008</u>	<u>(2,595,445)</u>	<u>-</u>	<u>46,904,563</u>
	<u>55,556,415</u>	<u>104,155</u>	<u>13,114</u>	<u>55,673,684</u>
Expenses:				
Client services	3,599,828	-	-	3,599,828
Workforce development	1,222,647	-	-	1,222,647
Foodbank:				
In-kind expenses	41,915,894	-	-	41,915,894
Foodbank supportive services	6,130,869	-	-	6,130,869
Social enterprises	283,451	-	-	283,451
Management and general	1,651,101	-	-	1,651,101
Fundraising	1,696,950	-	-	1,696,950
	<u>56,500,740</u>	<u>-</u>	<u>-</u>	<u>56,500,740</u>
Change in net assets	(944,325)	104,155	13,114	(827,056)
Net assets at beginning of year	<u>26,568,734</u>	<u>989,461</u>	<u>263,797</u>	<u>27,821,992</u>
Net assets at end of year	\$ <u>25,624,409</u>	<u>1,093,616</u>	<u>276,911</u>	<u>26,994,936</u>

See accompanying notes to the combined financial statements.

Freestore Foodbank, Inc. and Affiliates
 Combined Statement of Functional Expenses
 Year Ended June 30, 2018

	Program Services					Supporting Services		
	Client Services	Workforce	Foodbank	Social	Total Program Services	Management and General	Fundraising	Total
		Development		Enterprises				
Salaries	\$ 2,406,577	563,834	2,058,033	63,149	5,091,593	997,236	642,193	6,731,022
Employee benefits	379,000	62,826	427,606	6,984	876,416	338,327	117,299	1,332,042
Payroll taxes	154,394	37,027	151,161	6,190	348,772	140,097	44,212	533,081
	<u>2,939,971</u>	<u>663,687</u>	<u>2,636,800</u>	<u>76,323</u>	<u>6,316,781</u>	<u>1,475,660</u>	<u>803,704</u>	<u>8,596,145</u>
In-kind food and products distributed	-	-	41,169,374	-	41,169,374	-	-	41,169,374
Specific assistance to individuals	634,115	356,794	1,540,222	26,500	2,557,631	-	-	2,557,631
Fleet	5,476	17,090	303,412	7,762	333,740	-	-	333,740
Occupancy	189,060	284,579	238,069	20,293	732,001	40,933	24,001	796,935
Data and communications	45,908	17,168	95,022	2,939	161,037	81,732	51,261	294,030
Equipment, supplies and repairs	67,764	103,626	209,316	17,873	398,579	52,023	8,166	458,768
Office expenses and mailings	58,636	6,977	9,822	644	76,079	49,065	613,620	738,764
Advertising	10,640	4,569	483	2,358	18,050	900	33,783	52,733
Dues and fees	48,028	794	54,654	1,722	105,198	98,911	3,146	207,255
Travel, conferences and conventions	29,144	3,592	31,467	272	64,475	52,802	15,964	133,241
Professional fees	9,797	2,917	8,565	653	21,932	20,953	2,128	45,013
Contracted services	21,514	17,394	350,033	26,101	415,042	97,084	118,985	631,111
Miscellaneous	-	-	29	523	552	58	-	610
Insurance	11,392	3,455	10,131	557	25,535	25,630	2,489	53,654
Product purchases	-	-	1,423,359	59,213	1,482,572	-	-	1,482,572
Total expenses before depreciation	<u>4,071,445</u>	<u>1,482,642</u>	<u>48,080,758</u>	<u>243,733</u>	<u>53,878,578</u>	<u>1,995,751</u>	<u>1,677,247</u>	<u>57,551,576</u>
Depreciation	<u>220,154</u>	<u>156,797</u>	<u>298,365</u>	<u>21,570</u>	<u>696,886</u>	<u>65,907</u>	<u>14,979</u>	<u>777,772</u>
Total expenses	\$ <u>4,291,599</u>	<u>1,639,439</u>	<u>48,379,123</u>	<u>265,303</u>	<u>54,575,464</u>	<u>2,061,658</u>	<u>1,692,226</u>	<u>58,329,348</u>

See accompanying notes to the combined financial statements.

Freestore Foodbank, Inc. and Affiliates
 Combined Statement of Functional Expenses
 Year Ended June 30, 2017

	Program Services					Supporting Services		
	Client Services	Workforce	Foodbank	Social	Total Program Services	Management and General	Fundraising	Total
		Development		Enterprises				
Salaries	\$ 1,959,913	474,718	1,815,773	114,566	4,364,970	749,909	648,746	5,763,625
Employee benefits	339,427	66,871	366,706	25,598	798,602	276,678	88,672	1,163,952
Payroll taxes	137,678	31,311	131,725	9,944	310,658	111,115	49,094	470,867
	<u>2,437,018</u>	<u>572,900</u>	<u>2,314,204</u>	<u>150,108</u>	<u>5,474,230</u>	<u>1,137,702</u>	<u>786,512</u>	<u>7,398,444</u>
In-kind food and products distributed	-	-	41,915,894	-	41,915,894	-	-	41,915,894
Specific assistance to individuals	509,298	293,368	1,013,185	-	1,815,851	-	-	1,815,851
Fleet	6,191	898	291,612	5,817	304,518	-	-	304,518
Occupancy	173,631	123,922	368,386	15,919	681,858	86,635	24,891	793,384
Data and communications	49,515	8,917	54,118	4,027	116,577	75,696	46,759	239,032
Equipment, supplies and repairs	49,315	74,285	306,717	13,399	443,716	15,272	3,220	462,208
Office expenses and mailings	19,932	3,812	47,824	1,852	73,420	48,376	651,740	773,536
Advertising	26,916	2,035	4,541	1,336	34,828	-	31,695	66,523
Dues and fees	35,625	649	50,951	-	87,225	95,481	3,268	185,974
Travel, conferences and conventions	21,274	1,722	62,517	78	85,591	38,736	11,778	136,105
Professional fees	9,015	2,644	8,982	661	21,302	18,442	2,037	41,781
Contracted services	33,088	9,945	258,049	14,457	315,539	37,119	116,393	469,051
Miscellaneous	-	-	101	159	260	735	-	995
Insurance	11,899	3,550	11,751	869	28,069	25,962	2,774	56,805
Product purchases	-	-	1,063,781	50,662	1,114,443	-	-	1,114,443
	<u>3,382,717</u>	<u>1,098,647</u>	<u>47,772,613</u>	<u>259,344</u>	<u>52,513,321</u>	<u>1,580,156</u>	<u>1,681,067</u>	<u>55,774,544</u>
Total expenses before depreciation								
Depreciation	217,111	124,000	274,150	24,107	639,368	70,945	15,883	726,196
	<u>217,111</u>	<u>124,000</u>	<u>274,150</u>	<u>24,107</u>	<u>639,368</u>	<u>70,945</u>	<u>15,883</u>	<u>726,196</u>
Total expenses	\$ <u>3,599,828</u>	<u>1,222,647</u>	<u>48,046,763</u>	<u>283,451</u>	<u>53,152,689</u>	<u>1,651,101</u>	<u>1,696,950</u>	<u>56,500,740</u>

See accompanying notes to the combined financial statements.

Freestore Foodbank, Inc. and Affiliates
 Combined Statements of Cash Flows
 Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,046,187	(827,056)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	777,772	726,196
Realized and unrealized gains on investments	(504,880)	(1,271,583)
Loss on disposal of property and equipment	22,057	107,083
Effects of change in operating assets and liabilities:		
Accounts receivable	(250,649)	6,874
Pledges receivable	(429,193)	(155,170)
Inventory	(864,081)	2,126,521
Prepaid expenses and other	(249,099)	187,847
Beneficial interest in charitable trust	(4,341)	(13,114)
Other assets	(228)	(402)
Accounts payable	96,073	125,079
Accrued expenses	<u>197,727</u>	<u>(217,067)</u>
Net cash provided (used) by operating activities	<u>(162,655)</u>	<u>795,208</u>
Cash flows from investing activities:		
Proceeds from sale of investments	48,001	720,894
Purchase of investments	(103,860)	(680,218)
Capital expenditures	<u>(902,267)</u>	<u>(502,241)</u>
Net cash used by investing activities	<u>(958,126)</u>	<u>(461,565)</u>
Cash flows from financing activities:		
Payments on capital lease	<u>(7,436)</u>	<u>(20,121)</u>
Net change in cash and cash equivalents	(1,128,217)	313,522
Cash and cash equivalents - beginning of the year	<u>2,123,684</u>	<u>1,810,162</u>
Cash and cash equivalents - end of the year	\$ <u>995,467</u>	<u>2,123,684</u>
Reconciliation to Combined Statements of Financial Position:		
Cash and cash equivalents	\$ 112,816	1,473,823
Restricted cash - facility maintenance reserve	<u>882,651</u>	<u>649,861</u>
	\$ <u>995,467</u>	<u>2,123,684</u>

See accompanying notes to the combined financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Freestore Foodbank, Inc. is a not-for-profit corporation that exists to help people throughout the tri-state area of Ohio, Kentucky, and Indiana who are facing crisis because they are unable to meet their basic survival needs. The primary mission of the Freestore Foodbank, Inc. is to provide food and services; create stability and further self-reliance for people in crisis. Additionally, the Freestore Foodbank, Inc. strives to be the leader of a community mobilized to end hunger and address its causes.

The Freestore Foodbank Foundation is a not-for-profit corporation, whose governing board is comprised of Freestore Foodbank, Inc. trustees and independent trustees. The Foundation grants funds to Freestore Foodbank, Inc. for operations and raises money on its behalf. Corwine Foundation, Inc. is a not-for-profit corporation, whose governing board is comprised of Freestore Foodbank, Inc. trustees and independent trustees, for the purpose of holding property for Freestore Foodbank, Inc.

A summary of significant accounting policies applied in the preparation of the accompanying combined financial statements follows.

Principles of combination

These combined financial statements are the result of the combination of the operations of the Freestore Foodbank, Inc., Corwine Foundation, Inc. and The Freestore Foodbank Foundation (the "Agency"). All intercompany transactions are eliminated upon combination.

Temporarily restricted net assets

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Agency reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Permanently restricted net assets

Net assets that are subject to donor-imposed stipulations that require the assets be maintained permanently by the Agency are recorded as permanently restricted net assets. Generally, the donors of these assets permit the Agency to use all or part of the income earned on related investments for general or specific purposes.

Food contributions and other in-kind donations/inventory

Receipt and subsequent distribution of in-kind food contributions are reported in the statement of activities at \$1.97 and \$1.60 per pound for non-USDA and USDA products, respectively in 2018. In-kind food contributions are reported in the statement of activities at \$2.12 and \$1.84 per pound for non-USDA and USDA products, respectively in 2017. Inventory on hand at year-end is also valued at the same amounts per pound. The price per pound is based on price indexes from a Feeding America survey which is then

adjusted for gross profit based on a local grocery survey. In December 2016, USDA issued a new version of FD-104 which was intended to update out-of-date references and provide additional clarification on valuing USDA foods. This memo still allows the use of the fair market value (FMV), which the Agency obtains from the Feeding America survey, it just clarifies the FMV of USDA foods must *exclude* all non-food items. As such, the Agency prepared two product valuations for FY18 and FY17 – one specifically for USDA product received (which excludes non-food items), and one for all other product received.

The following table summarizes food inventory activity, in pounds, as of and for the years ended June 30, 2018 and 2017:

	<u>Total Pounds</u>	
	<u>2018</u>	<u>2017</u>
Beginning balance	1,948,179	2,949,038
Donated product	22,038,741	19,602,095
Purchased product	3,688,179	2,348,840
Donated product distributed	(19,204,538)	(18,686,939)
Purchased product distributed	(3,139,475)	(2,706,458)
Physical inventory variance and spoilage	<u>(2,493,420)</u>	<u>(1,558,397)</u>
Ending balance	<u>2,837,666</u>	<u>1,948,179</u>

Products distributed by the Agency which have both been donated by others and purchased from outside vendors are carried at fair value. Purchased and donated inventory amounts to \$4,387,086 and \$3,523,005 at June 30, 2018 and 2017, respectively.

Food contributions increased 2,436,646 pounds in 2018 to 22,038,741 pounds versus 19,602,095 pounds in 2017. The increase is attributed to more donations due to the Ohio Food Program and retail pickup program.

The Agency works with Northern Kentucky Area Development District to distribute federal food commodities to other non-profits in Northern Kentucky. While these pounds are not included above, the total amounts distributed were 1,165,578 and 690,674 pounds, respectively, in the years ended June 30, 2018 and 2017.

Donated materials and services

Donated vehicles, equipment, investments and services are recorded as public support contributions in the accompanying statements at their estimated fair value at the date of receipt.

Donated services are recorded as public support only if they create or enhance non-financial assets or require specialized services. Donated services, all of which were advertising services, were estimated at \$52,000 and \$45,500 in 2018 and 2017, respectively. The Agency received volunteer services of approximately 88,300 and 88,000 hours for the years ended June 30, 2018 and 2017, respectively, which are not recorded in these financial statements as public support in accordance with generally accepted accounting principles.

Functional expense allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities, accordingly, certain costs have been allocated among benefited programs and supporting services. All fundraising costs are charged to fundraising; there are no joint costs.

Depreciation

Property and equipment is recorded at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the depreciable assets. The estimated useful lives are:

Buildings	20 - 40 years
Building improvements	10 - 20 years
Furniture, fixtures and equipment	5 - 8 years
Vehicles	3 - 6 years

Use of estimates in financial statements

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Agency maintains its cash in deposit accounts, which at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

The Agency maintains funds for the maintenance and replacement of its facilities and improvements which is shown as restricted cash in the combined financial statements. Amounts held for this purpose were \$882,651 and \$649,861 at June 30, 2018 and 2017, respectively.

The Agency also maintains funds for the use of others which is shown as restricted cash on the combined statements of financial position. Amounts held as restricted cash were \$911,116 and \$875,165 at June 30, 2018 and 2017, respectively, which includes amounts for the Direct Rent and Representative Payee programs. See Note 12 for a description of the Representative Payee program.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the combined statements of financial position. Unrealized gains and losses are included in the combined statements of activities.

Accounts and grants receivable

The majority of the Agency's accounts and grants receivable are due from other not-for-profit or governmental agencies. It is the opinion of management that the receivables are all collectible. Therefore, an allowance for doubtful accounts has not been provided for in these combined financial statements.

Pledges receivable

As of June 30, 2018 and 2017, contributors to the Agency have promised to give \$877,048 and \$447,855 for its Powerpack program, Rubber Duck Regatta, United Way and other projects. Multiple year pledges are discounted to net present value using the risk-free rate of return in the year pledged.

Management expects to collect all pledges.

Pledges are reviewed quarterly and compared to scheduled payments for collectability. Pledges receivable at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 707,200	376,713
Due within three years	<u>180,000</u>	<u>75,000</u>
	887,200	451,713
Less discount	<u>10,152</u>	<u>3,858</u>
	<u>\$ 877,048</u>	<u>447,855</u>

Subsequent events

The Agency evaluates events and transactions occurring subsequent to the date of the combined financial statements for matters requiring recognition or disclosure in the combined financial statements. The accompanying combined financial statements consider events through September 26, 2018, the date on which the combined financial statements were available to be issued.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to be consistent with the current year presentation.

2. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Program activities	\$ 1,497,911	890,116
Time restrictions	<u>266,112</u>	<u>203,500</u>
	<u>\$ 1,764,023</u>	<u>1,093,616</u>

3. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Beneficial interest in charitable trust	\$ 251,252	246,911
Cincinnati Cooks! Student Scholarship Fund	<u>30,000</u>	<u>30,000</u>
	<u>\$ 281,252</u>	<u>276,911</u>

4. LINE OF CREDIT:

The Agency has a \$2,000,000 line of credit with a financial institution with interest at LIBOR plus 2.75% (4.82% and 3.92% at June 30, 2018 and 2017, respectively). No balance was drawn on the line at June 30, 2018 and 2017. The line of credit is secured by all assets of the Agency.

5. CAPITAL LEASE OBLIGATION:

The Agency financed the purchase of equipment through a capital lease which required monthly payments of \$1,920 through October 2017.

6. INCOME TAXES:

Freestore Foodbank, Inc., Corwine Foundation, Inc., and Freestore Foodbank Foundation have been classified as exempt organizations under Internal Revenue Code Sections 501(c)(3), 501(c)(2) and 501(c)(3), respectively. Freestore Foodbank, Inc. has been classified as a public charity qualified for charitable contributions under Internal Revenue Code Section 170.

In addition, Freestore Foodbank Foundation and Corwine Foundation, Inc. are not classified as private foundations as defined in Section 509(a)(1) of the Internal Revenue Code.

7. COMMITMENTS:

Freestore Foodbank, Inc. leases office and warehouse space from Corwine Foundation, Inc. Under the lease agreements, which expire in June 2032, monthly lease payments were \$44,587 from July 1, 2017 to December 31, 2017 and \$45,233 from January 1, 2018 to June 30, 2018. These transactions are eliminated upon the combination of the financial statements.

8. EMPLOYEE BENEFITS:

The Agency offers retirement benefits for all of its eligible full-time employees through a defined contribution plan, which meets the requirements of Internal Revenue Code Section 403(b), and is funded by contributions from the Agency and employees. Contributions are paid as accrued. Employees vest over five years in employer contributions. Agency contributions were \$250,148 and \$220,959 for the years ended June 30, 2018 and 2017, respectively.

9. BENEFICIAL INTEREST IN CHARITABLE TRUST:

A donor established a perpetual trust with a bank naming the Agency as one of the beneficiaries. Under terms of the split-interest agreement, the Agency is to receive the investment income earned annually for its use into perpetuity. The fair value of the Agency's interest in this perpetual trust was recorded as a permanently restricted contribution and as beneficial interest in a charitable trust. Income received from the trust in 2018 and 2017 was \$8,807 and \$9,101, respectively.

10. FAIR VALUE:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Agency has the ability to access.

- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The beneficial interest in charitable trust is valued on Level 2 inputs using prices obtained from the custodians, which used third party data service providers.

The following table presents the Agency's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2018.

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities:				
Cash and cash equivalents	\$ 414,546	414,546	-	-
Equity securities:				
Healthcare	719,679	719,679	-	-
Financial	557,090	557,090	-	-
Energy	163,651	163,651	-	-
Basic materials	236,770	236,770	-	-
Technology	1,159,170	1,159,170	-	-
Consumer Staples	191,888	191,888	-	-
Consumer Discretionary	455,752	455,752	-	-
Industrial goods	<u>306,882</u>	<u>306,882</u>	-	-
	<u>3,790,882</u>	<u>3,790,882</u>	-	-
Mutual funds and ETFs:				
Foreign bond and equity	1,442,860	1,442,860	-	-
Emerging markets	246,982	246,982	-	-
Large cap	767,728	767,728	-	-
Small cap	<u>1,038,207</u>	<u>1,038,207</u>	-	-
	<u>3,495,777</u>	<u>3,495,777</u>	-	-
Corporate debt obligations	<u>3,446,556</u>	-	<u>3,446,556</u>	-
U.S. government agency	<u>5,507</u>	-	<u>5,507</u>	-
Beneficial interest in charitable trust	<u>251,252</u>	-	<u>251,252</u>	-
	<u>\$11,404,520</u>	<u>7,701,205</u>	<u>3,703,315</u>	-

The following table presents the Agency's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2017.

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investment securities:				
Cash and cash equivalents	\$ 413,187	413,187	-	-
Equity securities:				
Healthcare	538,869	538,869	-	-
Financial	648,364	648,364	-	-
Energy	127,293	127,293	-	-
Basic materials	138,419	138,419	-	-
Technology	999,689	999,689	-	-
Consumer Staples	182,812	182,812	-	-
Consumer Discretionary	666,929	666,929	-	-
Industrial goods	<u>439,978</u>	<u>439,978</u>	-	-
	<u>3,742,353</u>	<u>3,742,353</u>	-	-
Mutual funds and ETFs:				
Foreign bond and equity	1,631,400	1,631,400	-	-
Emerging markets	235,922	235,922	-	-
Large cap	1,306,421	1,306,421	-	-
Small cap	<u>609,479</u>	<u>609,479</u>	-	-
	<u>3,783,222</u>	<u>3,783,222</u>	-	-
Corporate debt obligations	<u>2,646,705</u>	-	<u>2,646,705</u>	-
U.S. government agency	<u>7,062</u>	-	<u>7,062</u>	-
Beneficial interest in charitable trust	<u>246,911</u>	-	<u>246,911</u>	-
	<u>\$10,839,440</u>	<u>7,938,762</u>	<u>2,900,678</u>	-

11. ENDOWMENT FUNDS:

The Agency implemented guidance requiring that the net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, to be classified and reported based on the existence or absence of donor-imposed restrictions. The Agency's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments, which is held within The Freestore Foodbank Foundation. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Agency has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted

endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the Agency and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Agency; and the investment policies of the Agency.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires to be retained permanently. Such deficiencies result from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Deficiencies of this nature are reported as part of unrestricted net assets.

Return objectives and risk parameters

The Agency has adopted investment and spending policies for endowment assets that attempt to provide for long-term growth in excess of inflation, annual distributions and expenses. The return objective shall be accomplished utilizing a strategy of equities, fixed income and cash equivalents. The performance objectives will be measured against appropriate industry benchmarks such as the S&P 500 Index, Russell 3000 Stock Index, and other indexes.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

The Agency has a policy of appropriating for distribution each year five percent of its previous three year moving average endowment fund balance as needed. Any distributions in excess of the normal annual distribution require approval of the Board of Trustees of The Freestore Foodbank Foundation. In establishing this policy, the Agency considered the long-term expected return on its endowment. Accordingly, this spending policy should, over time, protect the inflation-adjusted value of the endowment and, consequently, allow inflation-adjusted spending to occur in the distant future. This is consistent with the Agency's objective to maintain purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

The Agency's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The portion of the Agency's endowment funds classified as temporarily restricted and permanently restricted are donor-restricted and the portion classified as unrestricted are board-designated endowment funds.

The changes in endowment net assets are as follows for the year ended June 30, 2018 and 2017 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 9,104,417	227,205	30,000	9,361,622
Investment income:				
Investment income, net of investment fees	143,450	4,059	-	147,509
Net realized and unrealized gains on investments	<u>1,246,484</u>	<u>25,099</u>	<u>-</u>	<u>1,271,583</u>
Total investment income	1,389,934	29,158	-	1,419,092
Contributions	188,497	28,230	-	216,727
Appropriation of assets for expenditures	<u>(404,912)</u>	<u>-</u>	<u>-</u>	<u>(404,912)</u>
Endowment net assets, June 30, 2017	10,277,936	284,593	30,000	10,592,529
Investment income:				
Investment income, net of investment fees	174,303	5,335	-	179,638
Net realized and unrealized gains on investments	<u>489,872</u>	<u>15,008</u>	<u>-</u>	<u>504,880</u>
Total investment income	664,175	20,343	-	684,518
Contributions	342,432	23,725	-	366,157
Appropriation of assets for expenditures	<u>(463,436)</u>	<u>(26,500)</u>	<u>-</u>	<u>(489,936)</u>
Endowment net assets, June 30, 2018	\$ <u>10,821,107</u>	<u>302,161</u>	<u>30,000</u>	<u>11,153,268</u>

12. REPRESENTATIVE PAYEE PROGRAM:

The Agency is appointed by the Social Security Administration to act as a representative payee. The Agency receives Social Security and/or SSI benefits for customers who cannot manage or cannot direct someone else to manage their money. The main responsibilities of a payee are to use the benefits to pay for the current and foreseeable needs of the beneficiary and properly save any benefits not needed to meet current needs. The Agency managed monthly receipts averaging \$599,799 and \$484,660 for the years ending June 30, 2018 and 2017, respectively.

13. NEW ACCOUNTING PRONOUNCEMENTS:

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, Presentation of Financial Statements of Not-For-Profit Entities. The standard aims to improve not-for-profit financial statements in an effort to provide more useful information to donors, grantors, creditors and other users. Major components of this standard include: net asset classifications, liquidity and availability of cash and consistency in reporting expenses. Net asset classifications will be reduced from three classes (unrestricted, temporarily restricted and permanently restricted) to two: net assets with donor restrictions and net assets without donor restrictions. Updated disclosure requirements will be presented regarding risk exposure and availability of cash for short term use. Expenses will be reported by both their natural and functional classification to aid in the usefulness of financial statements. This standard will be effective for the Agency’s year ending June 30, 2019.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard’s core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. This standard will be effective for the Agency’s year ending June 30, 2020.

In June 2018, FASB issued ASU 2018-08, Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. The standard will assist entities in determining whether transactions should be recorded as a contribution (nonreciprocal transaction) or as an exchange (reciprocal transaction). The standard also provides expanded guidance on determining whether or not a contribution is conditional. This standard will be effective for the Agency’s year ending June 30, 2020.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of the lease commencement. Leases will be classified as either financing or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for the Agency’s year ending June 30, 2021.

The Agency is currently in the process of evaluating the impact of adoption of these ASU’s on the financial statements.

Freestore Foodbank, Inc. and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>		
Food Distribution Cluster:		
<i>Passed through Ohio Department of Job & Family Services</i>		
Commodity Supplemental Food Program - Senior Box Program	10.565	\$ 100,222
Commodity Supplemental Food Program - Senior Box Program Distributed Product	10.565	780,842
Emergency Food Assistance Program (Administrative Costs)	10.568	366,963
Emergency Food Assistance Program (Food Commodities)	10.569	3,930,568
<i>Passed through Indiana State Department of Health</i>		
Emergency Food Assistance Program (Administrative Costs)	10.568	8,635
Emergency Food Assistance Program (Food Commodities)	10.569	<u>464,077</u>
		<u>5,651,307</u>
<i>Passed through Ohio Department of Education (ODE)</i>		
Child and Adult Care Food Program (CACFP)	10.558	171,498
<i>Passed through Kentucky Department of Education</i>		
Child and Adult Care Food Program (CACFP)	10.558	<u>162,918</u>
		<u>334,416</u>
<i>Passed through Ohio Department of Education (ODE)</i>		
Summer Food Service Program for Children (SFSP)	10.559	16,105
<i>Passed through Kentucky Department of Education</i>		
Summer Food Service Program for Children (SFSP)	10.559	<u>4,277</u>
		<u>20,382</u>
<i>Passed through Ohio Association of Foodbanks</i>		
Supplemental Nutrition Assistance Program (SNAP) Outreach Program	10.561	<u>242,375</u>
Total U.S. Department of Agriculture		<u>6,248,480</u>
<u>U.S. Department of Housing and Urban Development:</u>		
<i>Passed through City of Cincinnati, Ohio</i>		
Community Development Block Grants/Entitlement Grants	14.218	194,643
<i>Passed through Hamilton County, Ohio</i>		
Community Development Block Grants/Entitlement Grants	14.218	<u>78,383</u>
		<u>273,026</u>
Total U.S. Department of Housing and Urban Development		<u>273,026</u>
<u>U.S. Department of Health and Human Services:</u>		
<i>Passed through Cincinnati Health Network</i>		
Health Center Program	93.224	<u>300,271</u>
<i>Passed through Ohio Association of Foodbanks</i>		
Temporary Assistance For Needy Families (TANF)		
Ohio Food Program (OFP)	93.558	65,444
Ohio Food Program (OFP) Food Commodities	93.558	8,499,942
Summer Meals Program	93.558	61,797
Summer Meals Programs Distributed Product	93.558	<u>697,310</u>
		<u>9,324,493</u>

Freestore Foodbank, Inc. and Affiliates
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2018

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services (continued):</u>		
Social Services Block Grant		
Ohio Food Program (OFP)	93.667	7,677
Ohio Food Program (OFP) Food Commodities	93.667	<u>997,070</u>
		<u>1,004,747</u>
 Cooperative Agreement to Support Navigators in Federally-facilitated and State Partnership Marketplaces	 93.332	 <u>36,248</u>
<i>Passed through Coalition on Homelessness and Housing in Ohio</i>		
Money Follows the Person Rebalancing Demonstration	93.791	<u>111,491</u>
Total U.S. Department of Health and Human Services		<u>10,777,250</u>
 <u>Corporation for National and Community Service:</u>		
AmeriCorps	94.006	<u>3,673</u>
 <u>U.S. Department of Homeland Security:</u>		
<i>Passed through United Way of Greater Cincinnati</i>		
Emergency Food and Shelter National Board Program	97.024	<u>50,000</u>
Total expenditures of federal awards		\$ <u>17,352,429</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Freestore Foodbank, Inc. and Affiliates 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 Freestore Foodbank, Inc. and Affiliates, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Freestore FoodBank, Inc. and Affiliates.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

NOTE C - INDIRECT COST RATE

Freestore Foodbank, Inc and Affiliates has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE D - DONATED COMMODITIES

The amounts reported as commodities or distributed products represent federal commodities distributed through states to local agencies under the programs with CFDA numbers 10.565, 10.569, 93.558 and 93.667. The amount of commodities on hand for these programs at June 30, 2018 is \$3,030,452.

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

The Board of Trustees
Freestore Foodbank, Inc. and Affiliates:

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 combined financial statements of Freestore Foodbank, Inc. and Affiliates (a not-for-profit organization), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Freestore Foodbank, Inc. and Affiliates' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Freestore Foodbank, Inc. and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of Freestore Foodbank, Inc. and Affiliates' 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Freestore Foodbank, Inc. and Affiliates' combined 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 combined 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
September 26, 2018

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

The Board of Trustees
Freestore Foodbank, Inc. and Affiliates:

Report on Compliance for Each Major Federal Program

We have audited Freestore Foodbank, Inc. and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Freestore Foodbank, Inc. and Affiliates' major federal programs for the year ended June 30, 2018. Freestore Foodbank, Inc. and Affiliates' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Freestore Foodbank, Inc. and Affiliates' 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 Freestore Foodbank, Inc. and Affiliates' 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 each major federal program. However, our audit does not provide a legal determination of Freestore Foodbank, Inc. and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, Freestore Foodbank, Inc. and Affiliates 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.

Report on Internal Control Over Compliance

Management of Freestore Foodbank, Inc. and Affiliates 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 Freestore Foodbank, Inc. and Affiliates' 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 Freestore Foodbank, Inc. and Affiliates' 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 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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
September 26, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of report issued on financial statements:	unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with Uniform Guidance?	none
Identification of major programs:	
CFDA 93.558 – Temporary Assistance for Needy Families (TANF)	
CFDA 93.667 – Social Services Block Grant	
Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Freestore Foodbank, Inc. and Affiliates
Combining Statement of Financial Position
June 30, 2018

Assets:	Freestore Foodbank, Inc.	Corwine Foundation	The Freestore Foodbank Foundation, Inc.	Total
Current assets:				
Cash and cash equivalents	\$ 112,816	-	-	112,816
Restricted cash - Facility maintenance reserve	-	882,651	-	882,651
Restricted cash - Representative Payee & Direct Rent	911,116	-	-	911,116
Accounts receivable	775,559	-	-	775,559
Pledges receivable	457,200	-	250,000	707,200
Inventory	4,387,086	-	-	4,387,086
Prepaid expenses and other	<u>455,740</u>	<u>10,979</u>	-	<u>466,719</u>
Total current assets	<u>7,099,517</u>	<u>893,630</u>	<u>250,000</u>	<u>8,243,147</u>
Property and equipment:				
Land	-	1,350,230	-	1,350,230
Buildings and improvements	57,542	12,116,557	-	12,174,099
Furniture, fixtures and equipment	2,291,066	460,680	-	2,751,746
Vehicles	<u>1,256,252</u>	<u>-</u>	<u>-</u>	<u>1,256,252</u>
	3,604,860	13,927,467	-	17,532,327
Less accumulated depreciation	<u>2,060,752</u>	<u>4,770,400</u>	<u>-</u>	<u>6,831,152</u>
Total property and equipment	<u>1,544,108</u>	<u>9,157,067</u>	<u>-</u>	<u>10,701,175</u>
Other assets:				
Investments	-	-	11,153,268	11,153,268
Beneficial interest in charitable trust	251,252	-	-	251,252
Pledges receivable	169,848	-	-	169,848
Other	<u>10,620</u>	<u>5,000</u>	<u>-</u>	<u>15,620</u>
Total other assets	<u>431,720</u>	<u>5,000</u>	<u>11,153,268</u>	<u>11,589,988</u>
Total assets	<u>\$ 9,075,345</u>	<u>10,055,697</u>	<u>11,403,268</u>	<u>30,534,310</u>
Liabilities and net assets:				
Current liabilities:				
Accounts payable	\$ 896,724	10,198	-	906,922
Amounts held for others - Representative Payee & Direct Rent	911,116	-	-	911,116
Accrued expenses	<u>675,149</u>	<u>-</u>	<u>-</u>	<u>675,149</u>
Total current liabilities	<u>2,482,989</u>	<u>10,198</u>	<u>-</u>	<u>2,493,187</u>
Net assets:				
Unrestricted	5,129,242	10,045,499	10,821,107	25,995,848
Temporarily restricted	1,211,862	-	552,161	1,764,023
Permanently restricted	<u>251,252</u>	<u>-</u>	<u>30,000</u>	<u>281,252</u>
Total net assets	<u>6,592,356</u>	<u>10,045,499</u>	<u>11,403,268</u>	<u>28,041,123</u>
Total liabilities and net assets	<u>\$ 9,075,345</u>	<u>10,055,697</u>	<u>11,403,268</u>	<u>30,534,310</u>

See accompanying notes to the combined financial statements.

Freestore Foodbank, Inc.				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support:				
Contributions and grants	\$ 6,185,475	3,641,140	-	9,851,615
United Way/Community Chest	374,888	16,112	-	391,000
Change in interest in irrevocable trusts	-	-	4,341	4,341
	<u>6,560,363</u>	<u>3,657,252</u>	<u>4,341</u>	<u>10,246,956</u>
Revenues:				
Program services:				
Government agencies	2,876,016	-	-	2,876,016
Private organizations	105,024	-	-	105,024
Member agency fees/product resale	1,657,093	-	-	1,657,093
Client services - individuals	195,729	-	-	195,729
Social enterprises	172,235	-	-	172,235
Special events	1,564,413	-	-	1,564,413
Less special event direct expenses	(578,025)	-	-	(578,025)
In-kind goods and services:				
Advertising services	52,000	-	-	52,000
Foodbank donations - food and products	41,767,794	500	-	41,768,294
Interest and dividend income, net	-	-	-	-
Net realized and unrealized gain on investments	-	-	-	-
Net loss on disposal of property and equipment	(14,140)	-	-	(14,140)
Other	30,200	-	-	30,200
Intercompany:				
Rental revenue/(expense)	(538,921)	-	-	(538,921)
Donation to Freestore Foodbank, Inc./ (from Freestore Foodbank Foundation)	488,436	-	-	488,436
Net assets released from restriction:				
Satisfaction of program and purpose restrictions	3,051,413	(3,051,413)	-	-
Satisfaction of time restrictions	203,500	(203,500)	-	-
	<u>51,032,767</u>	<u>(3,254,413)</u>	<u>-</u>	<u>47,778,354</u>
Total public support and revenues	<u>57,593,130</u>	<u>402,839</u>	<u>4,341</u>	<u>58,025,310</u>
Expenses:				
Client services	4,097,427	-	-	4,097,427
Workforce development	1,438,509	-	-	1,438,509
Foodbank:				
In-kind expenses	41,169,374	-	-	41,169,374
Supportive services	7,027,303	-	-	7,027,303
Social enterprises	240,303	-	-	240,303
Management and general	1,998,002	-	-	1,998,002
Fundraising	1,678,463	-	-	1,678,463
	<u>57,649,381</u>	<u>-</u>	<u>-</u>	<u>57,649,381</u>
Change in net assets	(56,251)	402,839	4,341	375,929
Net assets at beginning of year	<u>5,185,493</u>	<u>809,023</u>	<u>246,911</u>	<u>6,241,427</u>
Net assets at end of year	<u>\$ 5,129,242</u>	<u>1,211,862</u>	<u>251,252</u>	<u>6,617,356</u>

Freestore Foodbank, Inc. and Affiliates
Combining Statement of Activities
Year Ended June 30, 2018

Corwine Foundation	The Freestore Foodbank Foundation, Inc.				Total			
Unrestricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
-	366,971	273,725	-	640,696	6,552,446	3,914,865	-	10,467,311
-	-	-	-	-	374,888	16,112	-	391,000
-	-	-	-	-	-	-	4,341	4,341
-	<u>366,971</u>	<u>273,725</u>	-	<u>640,696</u>	<u>6,927,334</u>	<u>3,930,977</u>	<u>4,341</u>	<u>10,862,652</u>
-	-	-	-	-	2,876,016	-	-	2,876,016
-	-	-	-	-	105,024	-	-	105,024
-	-	-	-	-	1,657,093	-	-	1,657,093
-	-	-	-	-	195,729	-	-	195,729
-	-	-	-	-	172,235	-	-	172,235
-	-	-	-	-	1,564,413	-	-	1,564,413
-	-	-	-	-	(578,025)	-	-	(578,025)
-	-	-	-	-	52,000	-	-	52,000
-	-	-	-	-	41,767,794	500	-	41,768,294
-	181,285	5,335	-	186,620	181,285	5,335	-	186,620
-	489,872	15,008	-	504,880	489,872	15,008	-	504,880
(7,917)	-	-	-	-	(22,057)	-	-	(22,057)
-	461	-	-	461	30,661	-	-	30,661
538,921	-	-	-	-	-	-	-	-
-	(488,436)	-	-	(488,436)	-	-	-	-
-	-	-	-	-	3,051,413	(3,051,413)	-	-
-	26,500	(26,500)	-	-	230,000	(230,000)	-	-
<u>531,004</u>	<u>209,682</u>	<u>(6,157)</u>	-	<u>203,525</u>	<u>51,773,453</u>	<u>(3,260,570)</u>	-	<u>48,512,883</u>
<u>531,004</u>	<u>576,653</u>	<u>267,568</u>	-	<u>844,221</u>	<u>58,700,787</u>	<u>670,407</u>	<u>4,341</u>	<u>59,375,535</u>
194,172	-	-	-	-	4,291,599	-	-	4,291,599
199,430	1,500	-	-	1,500	1,639,439	-	-	1,639,439
-	-	-	-	-	41,169,374	-	-	41,169,374
182,446	-	-	-	-	7,209,749	-	-	7,209,749
-	25,000	-	-	25,000	265,303	-	-	265,303
56,674	6,982	-	-	6,982	2,061,658	-	-	2,061,658
13,763	-	-	-	-	1,692,226	-	-	1,692,226
<u>646,485</u>	<u>33,482</u>	-	-	<u>33,482</u>	<u>58,329,348</u>	-	-	<u>58,329,348</u>
(115,481)	543,171	267,568	-	810,739	371,439	670,407	4,341	1,046,187
<u>10,160,980</u>	<u>10,277,936</u>	<u>284,593</u>	<u>30,000</u>	<u>10,592,529</u>	<u>25,624,409</u>	<u>1,093,616</u>	<u>276,911</u>	<u>26,994,936</u>
<u>10,045,499</u>	<u>10,821,107</u>	<u>552,161</u>	<u>30,000</u>	<u>11,403,268</u>	<u>25,995,848</u>	<u>1,764,023</u>	<u>281,252</u>	<u>28,041,123</u>

See accompanying notes to the combined financial statements.

