

The Foodbank, Inc.

Financial Statements and
Accompanying Information
June 30, 2019 and 2018
with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Foodbank, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Foodbank, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of June 30, 2019 and 2018 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Foodbank, Inc. as of June 30, 2019 and 2018, 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2019, on our consideration of The Foodbank, 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 solely 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 The Foodbank, Inc.'s 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 Foodbank, Inc.'s internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Dayton, Ohio
October 22, 2019

The Foodbank, Inc.
Statements of Financial Position
June 30, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 1,399,212	1,375,908
Accounts receivable	97,933	85,257
Contributions receivable	-	42,000
Inventory	<u>1,357,600</u>	<u>227,389</u>
	2,854,745	1,730,554
Property and equipment:		
Land and land improvements	417,542	403,059
Buildings and improvements	1,993,922	1,967,237
Furniture, fixtures and equipment	585,699	580,280
Vehicles	792,676	669,261
Software	<u>17,959</u>	<u>17,959</u>
	3,807,798	3,637,796
Less accumulated depreciation	<u>1,162,829</u>	<u>963,008</u>
	2,644,969	2,674,788
Beneficial interest in endowment funds held by the Dayton Foundation	<u>4,213,249</u>	<u>2,821,580</u>
Total assets	\$ <u>9,712,963</u>	<u>7,226,922</u>
Liabilities and net assets		
Current liabilities:		
Current maturities of capital lease obligation	\$ 54,919	53,595
Accounts payable	76,665	38,039
Accrued expenses	<u>64,918</u>	<u>52,412</u>
	196,502	144,046
Non-current portion of capital lease obligation	<u>193,813</u>	<u>132,283</u>
	390,315	276,329
Net assets:		
Without donor restrictions	8,953,668	6,471,701
With donor restrictions	<u>368,980</u>	<u>478,892</u>
	<u>9,322,648</u>	<u>6,950,593</u>
Total liabilities and net assets	\$ <u>9,712,963</u>	<u>7,226,922</u>

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
Governmental grants	\$ 735,539	-	735,539
United Way allocation	128,857	-	128,857
Contributions	2,627,620	397,461	3,025,081
Net assets released from purpose restriction	<u>525,356</u>	<u>(525,356)</u>	<u>-</u>
	4,017,372	(127,895)	3,889,477
Revenues:			
Member agency fees	258,313	-	258,313
Donated food and products	18,079,238	-	18,079,238
Change in value of beneficial interest in endowment funds	123,686	17,983	141,669
Other revenue	<u>23,293</u>	<u>-</u>	<u>23,293</u>
	<u>18,484,530</u>	<u>17,983</u>	<u>18,502,513</u>
	<u>22,501,902</u>	<u>(109,912)</u>	<u>22,391,990</u>
Expenses:			
Program services	19,276,801	-	19,276,801
Management and general	397,594	-	397,594
Fundraising	<u>345,540</u>	<u>-</u>	<u>345,540</u>
	<u>20,019,935</u>	<u>-</u>	<u>20,019,935</u>
Change in net assets	2,481,967	(109,912)	2,372,055
Net assets at beginning of year	<u>6,471,701</u>	<u>478,892</u>	<u>6,950,593</u>
Net assets at end of year	\$ <u>8,953,668</u>	<u>368,980</u>	<u>9,322,648</u>

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Activities
Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
Governmental grants	\$ 721,307	-	721,307
United Way allocation	128,857	-	128,857
Contributions	1,683,302	314,089	1,997,391
Net assets released from purpose restriction	<u>303,431</u>	<u>(303,431)</u>	<u>-</u>
	2,836,897	10,658	2,847,555
Revenues:			
Member agency fees	329,046	-	329,046
Donated food and products	13,186,730	-	13,186,730
Change in value of beneficial interest in endowment funds	118,069	25,286	143,355
Other revenue	<u>22,404</u>	<u>-</u>	<u>22,404</u>
	<u>13,656,249</u>	<u>25,286</u>	<u>13,681,535</u>
	16,493,146	35,944	16,529,090
Expenses:			
Program services	15,329,656	-	15,329,656
Management and general	343,982	-	343,982
Fundraising	<u>266,276</u>	<u>-</u>	<u>266,276</u>
	<u>15,939,914</u>	<u>-</u>	<u>15,939,914</u>
Change in net assets	553,232	35,944	589,176
Net assets at beginning of year	<u>5,918,469</u>	<u>442,948</u>	<u>6,361,417</u>
Net assets at end of year	\$ <u>6,471,701</u>	<u>478,892</u>	<u>6,950,593</u>

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services	Management and General	Fundraising	Total
Goods distributed - in-kind	\$ 16,806,084	-	-	16,806,084
Goods distributed - purchased inventory	580,468	-	-	580,468
Salaries and wages	908,331	172,433	155,208	1,235,972
Payroll taxes	78,979	14,993	13,495	107,467
Employee benefits	140,515	26,675	24,010	191,200
Temporary hire	4,919	934	840	6,693
Insurance	21,252	7,084	-	28,336
Professional services	5,771	50,609	2,886	59,266
Membership fees	26,320	-	-	26,320
Interest	4,053	-	-	4,053
Dues and subscriptions	-	1,899	-	1,899
Equipment rent	3,930	4,583	3,648	12,161
Vehicle expense	97,071	-	-	97,071
Repairs and maintenance	33,517	5,078	-	38,595
Utilities	35,838	11,946	-	47,784
Telephone and internet	5,128	4,215	3,476	12,819
Office and warehouse	53,467	15,458	10,765	79,690
Garden	14,952	-	-	14,952
Marketing and printing	11,604	13,954	126,761	152,319
Security	3,725	1,242	-	4,967
Conferences and training	21,189	7,276	1,914	30,379
Miscellaneous	4,931	23,518	2,537	30,986
Bad debt	278	-	-	278
Freight out	36,545	-	-	36,545
Disaster relief	4,683	-	-	4,683
Inventory spoilage	209,127	-	-	209,127
Total expenses before depreciation	19,112,677	361,897	345,540	19,820,114
Depreciation	164,124	35,697	-	199,821
Total expenses	\$ 19,276,801	397,594	345,540	20,019,935

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	Management and General	Fundraising	Total
Goods distributed - in-kind	\$ 13,068,065	-	-	13,068,065
Goods distributed - purchased inventory	436,414	-	-	436,414
Salaries and wages	878,419	139,180	113,534	1,131,133
Payroll taxes	85,095	13,483	10,998	109,576
Employee benefits	125,566	19,895	16,229	161,690
Temporary hire	1,598	253	206	2,057
Insurance	16,022	5,341	-	21,363
Professional services	8,414	47,508	4,207	60,129
Membership fees	25,851	-	-	25,851
Interest	5,901	-	-	5,901
Dues and subscriptions	-	386	-	386
Equipment rent	3,949	4,607	3,667	12,223
Vehicle expense	92,463	-	-	92,463
Repairs and maintenance	40,731	6,551	-	47,282
Utilities	36,778	12,259	-	49,037
Telephone and internet	5,608	4,489	3,923	14,020
Office and warehouse	47,334	22,251	13,616	83,201
Garden	20,337	-	-	20,337
Marketing and printing	20,970	1,932	94,704	117,606
Security	4,250	1,416	-	5,666
Conferences and training	10,932	3,917	2,460	17,309
Miscellaneous	2,840	9,525	2,732	15,097
Bad debt	2,632	-	-	2,632
Freight out	36,790	-	-	36,790
Disaster relief	17,375	-	-	17,375
Inventory spoilage	164,621	-	-	164,621
Total expenses before depreciation	15,158,955	292,993	266,276	15,718,224
Depreciation	170,701	50,989	-	221,690
Total expenses	\$ 15,329,656	343,982	266,276	15,939,914

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,372,055	589,176
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	199,821	221,690
Bad debt expense	278	2,632
Change in value of beneficial interest in endowment funds	(141,669)	(143,355)
In-kind donation of food and products	(18,079,238)	(13,186,730)
In-kind goods distributed and inventory spoilage	17,015,211	13,232,686
Effects of change in operating assets and liabilities:		
Accounts receivable	(12,954)	(32,942)
Contributions receivable	42,000	(42,000)
Purchased inventory	(66,184)	48,271
Accounts payable	38,626	34,187
Accrued expenses	<u>12,506</u>	<u>686</u>
Net cash provided by operating activities	1,380,452	724,301
Cash flows from investing activities:		
Transfer of cash to endowment fund held by the Dayton Foundation	(1,250,000)	(250,000)
Purchases of property and equipment	<u>(51,944)</u>	<u>(341,873)</u>
Net cash used by investing activities	(1,301,944)	(591,873)
Cash flows from financing activities:		
Payments on capital lease obligations	<u>(55,204)</u>	<u>(51,927)</u>
Increase in cash and cash equivalents	23,304	80,501
Cash and cash equivalents, beginning of the year	<u>1,375,908</u>	<u>1,295,407</u>
Cash and cash equivalents, end of the year	\$ <u>1,399,212</u>	<u>1,375,908</u>
Supplemental disclosure:		
Interest paid	\$ <u>4,053</u>	<u>5,901</u>
Supplemental disclosure of non-cash activity:		
Acquisition of vehicles through capital lease	\$ <u>118,058</u>	<u>202,258</u>

See accompanying notes to the financial statements.

1. NATURE OF THE ORGANIZATION:

The Foodbank, Inc. (the "Organization") is an Ohio not-for-profit corporation committed to alleviating hunger in its community. The Organization achieves this commitment through the distribution of food commodities to member agencies located in Montgomery County and various other counties in Ohio. The Organization's primary funding sources are from the United States Department of Agriculture (USDA), United States Department of Health and Human Services (HHS), Feeding America, Shared Harvest Foodbank, the United Way campaign and donor contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of the Organization are set forth to facilitate the understanding of data presented in the financial statements:

Adoption of new accounting standard

The Organization adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, issued by the Financial Accounting Standards Board (FASB). ASU 2016-14 improves (1) the understandability of net asset classifications by summarizing net assets into two categories, with donor restrictions and without donor restrictions, (2) the information presented about an entity's liquidity and resources available to meet cash need for general expenditures within one year, (3) the consistency in the type of information provided about investment return and (4) the disclosure of expenses by natural classification and function, including the allocation methodologies used in the presentation of the statement of functional expenses.

The standard was adopted effective July 1, 2018 and applied retrospectively with the following exception. As permitted by ASU 2016-14, the Organization did not disclose liquidity information for the year ended June 30, 2018. The adoption of this new standard had no impact on total net assets at June 30, 2018 and 2017 or on changes in net assets for the years then ended.

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.

Financial statement presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which have no donor-imposed restrictions, and net assets with donor restrictions, which are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will likely be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization did not have net assets that must be maintained in perpetuity as of June 30, 2019 and 2018.

Cash and cash equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Minimum cash requirement

In accordance with the terms of a grantor, the Organization is required to maintain cash reserves without donor restrictions equal to or greater than the previous year's average quarterly cash operating expenses, which exclude distributions of donated food. Minimum cash reserves of \$717,962 and \$697,354 were required to be maintained for the fiscal years ended June 30, 2019 and 2018, respectively. The Organization was in compliance with the minimum cash requirement.

Accounts receivable

Accounts receivable balances have been adjusted for all known uncollectible accounts. Initial and ongoing credit evaluations are performed, at management's discretion, in order to minimize credit risk, and account balances are reviewed on a regular basis. Organizations not making payments in accordance with terms offered or historical practices are determined to be past due. Accounts are written off when management determines that probability of collection is remote. Therefore, no allowance for doubtful accounts was considered necessary at June 30, 2019 and 2018.

Contributions receivable

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Inventory

Inventory consists of perishable and non-perishable foods and related products.

Purchased food is valued at the cost of products purchased as determined by the first-in, first-out method.

The Organization generally carries all donated inventory, including donations received through Feeding America, at \$1.68 and \$1.73 per pound at June 30, 2019 and 2018. The valuation per pound is based on the approximate average wholesale value of one pound of donated product at the national level as outlined in the Product Valuation Survey Methodology prepared for Feeding America. Management believes the estimate to be an accurate measure of the inventory cost.

The Organization received a large volume of donated water following a series of tornados that struck the region on May 27, 2019. The quantity of donated water on hand at June 30, 2019 impacted the inventory mix. Therefore, the Organization valued the June 30, 2019 donated water inventory utilizing the Feeding America rate of \$.52 per pound for beverages. Management believes that this rate more appropriately values the donated inventory at June 30, 2019. Management anticipates resuming the Feeding America average wholesale value methodology in the future when the inventory mix returns to normal.

The Organization carries all federal and state program inventories at the donated value on the date received.

Property and equipment

Property and equipment are recorded at cost (fair value at date of donation for donated assets) and is depreciated over the estimated useful lives of the respective assets using the straight-line method. The Organization's policy is to capitalize assets with value greater than \$5,000.

Income taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Subsequent events

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

3. BENEFICIAL INTEREST IN ENDOWMENT FUNDS:

The Organization has a beneficial interest in a portion of The Lester L. Haubach Fund for The Foodbank, Inc. (the "Fund"), which is held by The Dayton Foundation. In accordance with the fund agreement, the Organization has the right to receive income earned on the endowment assets. Under the terms of the fund agreement, the Organization's Board of Directors has the right to distribute the fund principal, subject to approval of The Dayton Foundation. Therefore, the Fund is considered to have a purpose restriction and has been classified as part of net assets with donor restrictions. Adjustments to the value of the asset are recorded as changes in net assets with donor restrictions. When income from the fund is appropriated for expenditure, it is released to net assets without donor restrictions. The fair value of the Fund was \$343,980 and \$325,997 at June 30, 2019 and 2018, respectively.

The Organization has established The Foodbank Endowment Fund, a charitable endowment fund, with The Dayton Foundation, of which the Organization is the named beneficiary. The beneficial interest in endowment fund was \$3,869,269 and \$2,495,583 at June 30, 2019 and 2018, respectively, and represents amounts contributed by the Organization, plus any net subsequent earnings retained in this fund. Net investment earnings of the endowment fund are included in the statements of activities as a change in net assets without donor restrictions.

4. ENDOWMENT FUNDS:

Generally accepted accounting principles ("GAAP") require that the net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization's endowment consists of donor-restricted funds and funds designated by the Board of Directors to function as endowments, of which all funds are held by The Dayton Foundation, a community foundation. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Return objectives and risk parameters

The policy for endowment assets held by The Dayton Foundation is to preserve the real purchasing power of the endowed assets and provide a growing stream of income to be made available for spending, net of inflation. This investment policy establishes a return objective through diversification of asset classes. The Dayton Foundation's investment objective for the endowment assets is for the total return to exceed the rate of inflation, as measured by the Consumer Price Index, by 4% over a 5-year moving average. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on the total return strategy of specific accounts used for these funds by The Dayton Foundation, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The endowment funds held at The Dayton Foundation target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk parameters.

Spending policy and how the investment objectives relate to spending policy

The Organization has adopted investment and spending policies for donor-restricted endowment assets held by The Dayton Foundation. The Dayton Foundation's spending policy calculates the amount of money that can be distributed from the funds annually.

The changes in endowment net assets are as follows for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	\$ 2,495,583	325,997	2,821,580
Change in value of beneficial interest in endowment funds held by The Dayton Foundation	123,686	17,983	141,669
Transfer of cash to board-designated endowment fund	<u>1,250,000</u>	<u>-</u>	<u>1,250,000</u>
Endowment net assets, June 30, 2019	\$ <u>3,869,269</u>	<u>343,980</u>	<u>4,213,249</u>

The changes in endowment net assets are as follows for the years ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2017	\$ 2,127,514	300,711	2,428,225
Change in value of beneficial interest in endowment funds held by The Dayton Foundation	118,069	25,286	143,355
Transfer of cash to board-designated endowment fund	<u>250,000</u>	<u>-</u>	<u>250,000</u>
Endowment net assets, June 30, 2018	\$ <u>2,495,583</u>	<u>325,997</u>	<u>2,821,580</u>

5. LIQUIDITY

The Organization is substantially supported by government grants, contributions and food and product donations. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following table presents the financial assets available to meet cash needs for general expenditures within one year at June 30, 2019:

Financial assets:	
Cash	\$ 1,399,212
Accounts receivable	97,933
Endowment fund	4,213,249
Financial assets available at year end	<u>5,710,394</u>
Less those unavailable for general expenditures within one year due to:	
Donor restricted endowment fund	343,980
Cash designated for composter	25,000
	<u>368,980</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,341,414</u>

6. 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 Organization 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.

Following is a description of the valuation methodologies used for assets measured at fair value:

Beneficial interest in endowment funds held by The Dayton Foundation: The Organization maintains units of participation in pooled investment fund accounts held at a local community foundation. The investment pool maintains an asset allocation that distributes the pool's

investments into a variety of classes including equity securities, fixed income securities, hedge funds and mutual funds. The fair value as reported by The Dayton Foundation is based on the fair value of the individual securities within the pooled account as determined by the custodian using quoted market prices and other techniques, without adjustment by management.

The method previously described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management believes that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2019 and 2018.

The following table presents the Organization's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2019:

Fair Value Measurements at Reporting Date Using:				
	Total	Level 1	Level 2	Level 3
Beneficial interest in endowment funds held by The Dayton Foundation	\$ 4,213,249	-	-	4,213,249

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

Fair Value Measurements at Reporting Date Using:				
	Total	Level 1	Level 2	Level 3
Beneficial interest in endowment funds held by The Dayton Foundation	\$ 2,821,580	-	-	2,821,580

The table below presents information about fair value measurements that use significant unobservable inputs (Level 3):

		Beneficial interest in endowments held by the Dayton Foundation	
		2019	2018
Balance, beginning of year	\$	2,821,580	2,428,225
Transfers of cash to endowment fund		1,250,000	250,000
Change in value of beneficial interest in endowment funds, held at end of year		141,669	143,355
Balance, end of year	\$	4,213,249	2,821,580

7. CAPITAL LEASE OBLIGATIONS:

The Organization leases certain vehicles under agreements that are classified as capital leases. These leases mature through March 2025. The cost of vehicles under capital leases included in the statements of financial position is \$320,316 and \$292,936 with related accumulated amortization of \$30,703 and \$104,318 at June 30, 2019 and 2018, respectively. Amortization of assets under capital leases is included in depreciation expense. Interest expense on the capital leases was \$4,053 and \$5,901 for the years ended June 30, 2019 and 2018, respectively.

The future minimum lease payments under the capital leases and the present values of the net minimum lease payments at June 30, 2019, are as follows:

2020	\$ 60,336
2021	60,336
2022	60,336
2023	43,341
2024	22,832
Thereafter	<u>15,831</u>
Total future minimum payments	263,012
Less amounts representing interest	<u>(14,280)</u>
Present value of net minimum lease payments	248,732
Less current maturities	<u>(54,919)</u>
	<u>\$ 193,813</u>

8. OPERATING LEASES:

The Organization leases office equipment through an operating lease expiring in July 2020. Equipment rental expense under this lease was \$7,413 for years ended June 30, 2019 and 2018.

Minimum lease payments under operating lease agreements are as follows:

2020	\$ 7,413
2021	<u>618</u>
	<u>\$ 8,031</u>

9. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Equipment	\$ 25,000	33,587
Moblie pantry and mass distributions	-	119,308
The Lester Haubach Fund for The Foodbank, Inc.	<u>343,980</u>	<u>325,997</u>
	<u>\$ 368,980</u>	<u>478,892</u>

10. EMPLOYEE BENEFITS:

The Organization offers retirement benefits for all of its eligible full-time employees. The defined contribution plan meets the requirements of Internal Revenue Code Section 403(b) and is funded by contributions from the Organization and employees. Contributions are paid as accrued. Employees vest over five years in employer contributions. Organization contributions were \$41,368 and \$28,934 for the years ended June 30, 2019 and 2018, respectively.

11. RECENT PRONOUNCEMENTS:

In May 2014, the ASU No. 2014-09, *Revenue from Contracts with Customers*. Since the issuance of this standard, there have been several additional standards issued related to this topic. 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 Organization'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 grants and similar revenue sources 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 Organization's year ending June 30, 2020.

In February 2016, the FASB issued ASU 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 Organization's year ending June 30, 2022.

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

The Foodbank, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

<u>Federal Grantor/Pass-Through Entity/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>		
<i>Passed through Shared Harvest Foodbank:</i>		
Food Distribution Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	\$ 219,164
Emergency Food Assistance Program (Food Commodities)	10.569	2,745,678
<i>Passed through Ohio Department of Job and Family Services:</i>		
Food Distribution Cluster:		
Commodity Supplemental Food Program (Administrative costs)	10.565	76,889
Commodity Supplemental Food Program (Food Commodities)	10.565	237,969
		<u>3,279,700</u>
<i>Passed through Ohio Department of Education (ODE):</i>		
Child Nutrition Cluster:		
Summer Food Service Program for Children	10.559	93,935
Total U.S. Department of Agriculture		3,373,635
<u>U.S. Department of Health and Human Services:</u>		
<i>Passed through Ohio Association of Foodbanks:</i>		
Social Services Block Grant	93.667	113,259
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	965,526
Total U.S. Department of Health and Human Services		1,078,785
<u>U.S. Department of Homeland Security:</u>		
<i>Passed through the United Way:</i>		
Emergency Food and Shelter National Board Program	97.024	30,000
Total U.S. Department of Homeland Security		30,000
		<u>\$ 4,482,420</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 the The Foodbank, Inc. under programs of the federal government for the year ended June 30, 2019. 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 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

The Organization has elected not to use the 10 percent de minimus indirect cost rate as allowed under the Uniform

Note D - Donated Commodities

The amounts reported as federal expenditures for certain federal programs represents federal commodities distributed to pantries and other qualified agencies during the fiscal year under the programs with CFDA numbers 10.559, 10.565, 10.569, 93.558 and 93.667. The value of federal commodities on hand for these programs at June 30, 2019 was \$570,983.

**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 Directors
The Foodbank, Inc.:

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 Foodbank, Inc. (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon October 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Foodbank, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Foodbank, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of The Foodbank, Inc.'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. 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 The Foodbank, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Dayton, Ohio
October 22, 2019



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

The Board of Directors
The Foodbank, Inc.:

Report on Compliance for Each Major Federal Program

We have audited The Foodbank, Inc.'s (a not-for-profit corporation) 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 Foodbank, Inc.'s major federal programs for the year ended June 30, 2019. The Foodbank, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 The Foodbank, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Foodbank, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, The Foodbank, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of The Foodbank, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Foodbank, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Foodbank, Inc.'s internal control over compliance.

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

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.

Dayton, Ohio
October 22, 2019

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 the Uniform Guidance?	none
Identification of major programs:	
Food Distribution Cluster:	
CFDA 10.565 – Commodity Supplemental Food Program	
CFDA 10.568 – Emergency Food Assistance Program (Administrative Costs)	
CFDA 10.569 – Emergency Food Assistance Program (Food Commodities)	
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

