

*Fighting Hunger, Feeding Hope*

**FOOD BANK**

Community **FOOD BANK** of Eastern Oklahoma



**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2018 and 2017**

**WITH**

**INDEPENDENT AUDITOR'S REPORTS**

## CONTENTS

Independent Auditor's Report .....	1
Statements of Financial Position.....	3
Statements of Activities .....	4
Statement of Functional Expenses for the year ended June 30, 2018.....	5
Statement of Functional Expenses for the year ended June 30, 2017.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8
Supplemental Information:	
Schedule of Expenditures of Federal Awards.....	17
Notes to Schedule of Expenditures of Federal Awards.....	18
Other Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	19
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.....	21
Schedule of Findings and Questioned Costs.....	23
Summary Schedule of Prior Audit Findings .....	25

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Community Food Bank of Eastern Oklahoma, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Community Food Bank of Eastern Oklahoma, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

We believe 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 Community Food Bank of Eastern Oklahoma, Inc., as of June 30, 2018 and 2017, and the changes in its net assets and 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 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* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic 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 auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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 November 14, 2018, on our consideration of Community Food Bank of Eastern Oklahoma, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Community Food Bank of Eastern Oklahoma, Inc.'s internal control over financial reporting and compliance.



Tulsa, Oklahoma  
November 14, 2018

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,478,813	\$ 1,523,706
Accounts, grants and pledges receivable	249,681	315,833
Inventory	3,244,828	5,013,017
Total current assets	4,973,322	6,852,556
Noncurrent assets:		
Long-term pledges receivable, net	-	39,375
Investments	3,160,058	3,676,612
Property and equipment, net	9,060,890	8,681,011
Beneficial interest in assets held by community foundation	957,239	888,342
Total noncurrent assets	13,178,187	13,285,340
Total assets	\$ 18,151,509	\$ 20,137,896
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 257,498	\$ 194,551
Accrued expenses	260,539	248,169
Total liabilities	518,037	442,720
Net assets:		
Unrestricted	14,132,081	15,431,560
Temporarily restricted	3,440,303	4,202,528
Permanently restricted	61,088	61,088
Total net assets	17,633,472	19,695,176
Total liabilities and net assets	\$ 18,151,509	\$ 20,137,896

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**STATEMENTS OF ACTIVITIES**

**Years ended June 30, 2018 and 2017**

	2018	2017
<b>Changes in Unrestricted Net Assets</b>		
Revenues, gains, and other support:		
Contributions - donated product	\$ 40,289,205	\$ 34,749,408
Contributions - USDA commodities	2,553,925	3,298,776
Shared expense revenue	427,718	457,753
Contributions - cash and pledges	6,047,153	5,272,898
Contributions - noncash	180,140	172,611
Purchased product and staple food sales	1,143,739	1,113,829
Commodities income	605,667	491,052
Investment income	222,991	270,760
Other income	86,377	55,088
Funds released from restriction	826,662	548,695
Total unrestricted revenues, gains, and other support	52,383,577	46,430,870
Expenses:		
Program services:		
Value of inventory distributed, including shrinkage and spoilage	46,223,165	36,941,641
Other program services	5,717,541	5,066,969
Total program services	51,940,706	42,008,610
Supporting services:		
Management and general	528,889	460,047
Fundraising	1,213,461	1,064,425
Total expenses	53,683,056	43,533,082
Increase (decrease) in unrestricted net assets	(1,299,479)	2,897,788
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions - cash and pledges	11,197	482,969
Investment income	53,240	51,567
Funds released from restriction	(826,662)	(548,695)
Decrease in temporarily restricted net assets	(762,225)	(14,159)
Change in net assets	(2,061,704)	2,883,629
Net assets, beginning of year	19,695,176	16,811,547
Net assets, end of year	\$ 17,633,472	\$ 19,695,176

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2018**

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Value of inventory distributed:				
Distributed - donated inventory	\$ 42,153,379	\$ -	\$ -	\$ 42,153,379
Distributed - USDA inventory	2,672,716	-	-	2,672,716
Purchased food	1,397,070	-	-	1,397,070
Total value of inventory distributed	46,223,165	-	-	46,223,165
Operating activities:				
Salaries and related expenses:				
Salaries and contract labor	2,342,680	258,944	444,774	3,046,398
Payroll taxes	181,968	20,114	34,548	236,630
Employee benefits	349,861	38,671	66,423	454,955
Employee travel	31,470	3,478	5,975	40,923
Employee incentives	17,348	1,917	3,293	22,558
Total salaries and related expenses	2,923,327	323,124	555,013	3,801,464
Food 4 Kids	510,560	-	-	510,560
Facilities, maintenance and supplies	218,212	12,349	5,157	235,718
Utilities	190,285	6,430	4,220	200,935
Vehicle operations	105,047	1,066	534	106,647
Maintenance and repair	90,444	918	460	91,822
Freight	513,734	-	-	513,734
Office supplies	9,884	1,472	1,893	13,249
Postage	14,950	2,136	4,271	21,357
Telephone	14,213	2,117	2,722	19,052
Warehouse supplies	50,958	-	-	50,958
Computer maintenance and supplies	77,121	11,486	14,768	103,375
Insurance	170,697	14,146	17,929	202,772
Accounting	-	34,028	-	34,028
Fundraising	-	-	531,441	531,441
State advocacy/public policy	12,846	-	-	12,846
Food raising	119,850	-	-	119,850
Outside labor	40,216	-	-	40,216
Culinary center	100,391	-	-	100,391
Other	137,529	80,554	10,648	228,731
Total operating activities	5,300,264	489,826	1,149,056	6,939,146
Depreciation expense	417,277	39,063	64,405	520,745
Total expenses	\$ 51,940,706	\$ 528,889	\$ 1,213,461	\$ 53,683,056

See notes to financial statements.

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2017**

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Value of inventory distributed:				
Distributed - donated inventory	\$ 32,356,909	\$ -	\$ -	\$ 32,356,909
Distributed - USDA inventory	3,227,008	-	-	3,227,008
Purchased food	1,357,724	-	-	1,357,724
Total value of inventory distributed	36,941,641	-	-	36,941,641
Operating activities:				
Salaries and related expenses:				
Salaries and contract labor	2,149,514	218,880	437,760	2,806,154
Payroll taxes	168,772	17,186	34,371	220,329
Employee benefits	379,159	38,609	77,218	494,986
Employee travel	34,501	3,513	7,026	45,040
Employee incentives	15,500	1,578	3,157	20,235
Total salaries and related expenses	2,747,446	279,766	559,532	3,586,744
Food 4 Kids	342,520	-	-	342,520
Facilities, maintenance and supplies	146,738	16,304	-	163,042
Utilities	145,752	4,925	3,232	153,909
Vehicle operations	104,217	1,058	529	105,804
Maintenance and repair	97,304	988	494	98,786
Freight	402,360	-	-	402,360
Office supplies	9,137	1,361	1,749	12,247
Postage	15,294	2,185	4,370	21,849
Telephone	15,104	2,250	2,892	20,246
Warehouse supplies	80,465	-	-	80,465
Computer maintenance and supplies	45,033	6,703	8,625	60,361
Insurance	176,965	15,500	24,245	216,710
Accounting	-	35,087	-	35,087
Fundraising	-	-	437,764	437,764
State advocacy/public policy	33,724	-	-	33,724
Food raising	83,039	-	-	83,039
Outside labor	43,998	-	-	43,998
Culinary center	99,303	-	-	99,303
Other	81,693	79,900	8,133	169,726
Total operating activities	4,670,092	446,027	1,051,565	6,167,684
Depreciation expense	396,877	14,020	12,860	423,757
Total expenses	\$ 42,008,610	\$ 460,047	\$ 1,064,425	\$ 43,533,082

See notes to financial statements.



**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2018 and 2017**

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (2,061,704)	\$ 2,883,629
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	520,745	423,757
Net realized and unrealized gain on investments	(186,695)	(230,841)
Value of contributed inventory	(42,843,130)	(38,048,184)
Value of inventory distributed, including shrinkage and spoilage	46,223,165	36,941,641
Contributions received for purchase of property and equipment	(526,601)	(443,082)
Changes in operating assets and liabilities:		
Accounts, grants, and pledges receivable	105,527	(85,137)
Inventory	(1,611,846)	(1,523,678)
Accounts payable	62,947	14,334
Accrued expenses	12,370	4,652
	(305,222)	(62,909)
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(900,624)	(604,078)
Proceeds from sales of investments	713,192	201,824
Purchases of investments	(78,840)	(8,478)
	(266,272)	(410,732)
<b>Cash Flows from Financing Activities</b>		
Contributions received for purchase of property and equipment	526,601	443,082
	(44,893)	(30,559)
Net change in cash and cash equivalents		
Cash and cash equivalents, beginning of year	1,523,706	1,554,265
Cash and cash equivalents, end of year	\$ 1,478,813	\$ 1,523,706

# COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

### Note 1 – Nature of Operations

Community Food Bank of Eastern Oklahoma, Inc. (the Organization) is an Oklahoma not-for-profit corporation organized to collect food and distribute it to charitable organizations throughout eastern Oklahoma.

### Note 2 – Summary of Significant Accounting Policies

#### Basis of presentation

The financial statements have been prepared on the accrual basis of accounting. The assets, liabilities and net assets of the Organization are reported in three classes of net assets as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of operations.
- Temporarily restricted net assets represent funds with donor-designated restrictions that expire with the passage of time or for a specific purpose such as acquisitions, capital campaign funds, maintenance of the facility and equipment or specific programs.
- Permanently restricted net assets represent funds that are subject to donor-designated restrictions requiring the principal to be invested in perpetuity and only the income is available for use.

The Organization reports gifts of cash and other assets and unconditional promises to give 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 a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as funds released from restriction.

Net assets that are not subject to donor-imposed restrictions are classified as unrestricted. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as unrestricted support.

The Organization reports gifts of long-lived assets 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 Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributed food is recognized as unrestricted support when received and as program expenses when distributed.

Contract revenues under grants for reimbursement of expenditures are recognized as unrestricted revenues in the period in which the expenditures in compliance with the specific grant restrictions are incurred.

Unconditional promises to give are recognized as contribution revenue in the period the promise to give is made by the donor, and as assets, decreases of liabilities or expense, depending on the form of the benefit

received. Promises to give are recorded at the estimated net realizable value. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Shared expense revenue representing revenue from the billing of operating charges to organizations receiving food is recorded at the time the food is shipped, regardless of when the monies are received.

#### Cash and cash equivalents

The Organization considers certificates of deposit, money market funds, and all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in accounts which typically exceed federally insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### Accounts, grants and pledges receivable

Grants and pledges receivable are carried at the original pledge amount discounted to the present value less an estimate made for doubtful accounts. Accounts receivable include program and other operating receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to the receivable balance. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. No allowance for doubtful accounts was deemed necessary as of June 30, 2018 or 2017.

#### Inventory

Inventory consists of contributed and purchased food items. United States Department of Agriculture (USDA) contributed food items are valued at per pound amounts established by the USDA. Other contributed food items are valued at estimated weighted average wholesale amount per pound as determined by Feeding America. Purchased food items are stated at the lower of cost (determined on the first-in, first-out method) or net realizable value. The distributed inventory expense includes spoilage and shrinkage (overage) for the years ended June 30, 2018 and 2017, of \$2,973,010 and \$1,175,247 for non-USDA items and \$(12,926) and \$35,332 for USDA items, respectively.

#### Investments

The Organization's investments, which are held under managerial agency agreements, include equity securities, federal and federal agency, state and corporate debt securities, certificates of deposit and money market funds, which are carried at fair value, based upon quoted market prices or dealer quotes. Investment income or loss, including realized and unrealized gains and losses on investments, interest and dividends, is included in the statement of activities as increases or decreases in net assets. Donated investment instruments are initially recorded at estimated fair value at the date of the donation.

#### Property and equipment

Property and equipment is recorded at historical cost or fair value at date of donation. Depreciation of these assets is computed on the straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 39 years. Maintenance and repair costs are expensed as incurred, while renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statements of activities for the period. Generally, expenditures for equipment in excess of \$1,000 are capitalized.

#### Donated services

The Organization uses, to varying degrees, the services of unpaid volunteers in conducting its warehousing and distribution activities. For the years ended June 30, 2018 and 2017, approximately

9,100 and 8,300 volunteers donated approximately 68,000 and 52,500 hours of service, respectively. No amounts have been reflected in the accompanying financial statements for such donated services because they do not meet the criteria for recognition.

#### Allocation of expenses

Salaries and wages are allocated based on actual staff position. Administrative expenses are allocated to each area based on an estimate of usage. Occupancy expenses are allocated based upon square footage and communication expenses are allocated based upon headcount.

#### Income taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and has been determined not to be a private foundation. As a result, as long as the Organization maintains its tax exemption, it will not be subject to income tax.

#### Use of estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Concentration of credit risk

Financial instruments which potentially subject the Organization to credit risk consist of accounts receivable, unconditional promises to give and investments. Credit risk for all the Organization's receivables is concentrated because the majority of the balances are receivable from individuals and entities located within the same geographic region.

The Organization's investments consist of various equity and fixed income securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the investment account balances and the amounts reported in the statements of financial position and the statements of activities.

#### New accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, (2) expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds, (3) requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, and (4) requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The Organization is evaluating the impact this standard will have on its financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB has also issued a number of updates to this standard. The standard is effective for the Company for annual and interim periods beginning January 1, 2019. Management is still assessing the effects this standard will have on the financial statements and operations.

#### Subsequent events

Management has evaluated subsequent events through November 14, 2018, the date the financial statements were available to be issued.

#### Reclassifications

Certain reclassifications have been made to the 2017 financial statements to be in conformity with the 2018 financial statement presentation, net assets and changes in net assets are unaffected by these reclassifications.

### **Note 3 – Inventory**

Inventory is comprised of the following at June 30:

	2018	2017
USDA contributed food	\$ 216,553	\$ 335,344
Purchased food and product	304,908	183,302
Other contributed food and product	2,723,367	4,494,371
	<u>\$ 3,244,828</u>	<u>\$ 5,013,017</u>

### **Note 4 – Property and Equipment**

Property and equipment is comprised of the following at June 30:

	2018	2017
Land	\$ 157,060	\$ 157,060
Buildings and improvements	9,890,511	9,890,511
Warehouse equipment, trucks and commercial kitchen	2,959,284	2,238,920
Office equipment	1,055,225	795,589
Construction in progress	39,965	115,728
	<u>14,102,045</u>	<u>13,197,808</u>
Less: accumulated depreciation	5,041,155	4,516,797
Property and equipment, net	<u>\$ 9,060,890</u>	<u>\$ 8,681,011</u>

### **Note 5 – Investments and Fair Value Measurements**

The FASB Accounting Standards Codification established a consistent framework for measuring fair value and fair value hierarchy based on the observability of inputs used to measure fair value.

These inputs are summarized in the three broad levels listed below:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

There have been no changes in the methodologies used at June 30, 2018. During the year ended June 30, 2018, there were no transfers of financial instruments between Level 1 and Level 2 or transfers into or out of Level 3. Following is a description of the valuation methodologies used for assets measured at fair value:

The fair value of investments in money market funds, certificates of deposit, and equity securities are based upon quoted market prices for identical assets and are classified within Level 1.

The fair value of investments in debt securities are valued using quoted prices in active markets for identical assets when available. Where quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investments with similar characteristics, or discounted cash flows. Inputs used include broker/dealer quotes and other data which are obtained from independent pricing services. These investments are classified within Level 2.

Beneficial interest in assets held by others is measured at fair value using Level 3 inputs. Since Tulsa Community Foundation (TCF) maintains variance power for the beneficial interests held, there is no potential market for the beneficial interests or similar assets. Consequently, the valuation is determined by aggregating the valuation of the underlying investments of the beneficial interest. The underlying investments include cash equivalents, corporate obligations, equity securities and other investments. The fair values of the underlying investments are based on quoted prices from active and inactive markets.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30:

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 44,343	\$ -	\$ -	\$ 44,343
Certificates of deposit	585,626	-	-	585,626
Equity securities	1,505,287	-	-	1,505,287
Federal, federal agency, state and corporate debt securities	-	1,024,802	-	1,024,802
Total investments	2,135,256	1,024,802	-	3,160,058
Beneficial interest in assets held by community foundation	-	-	957,239	957,239
	<u>\$ 2,135,256</u>	<u>\$ 1,024,802</u>	<u>\$ 957,239</u>	<u>\$ 4,117,297</u>

Assets at Fair Value as of June 30, 2017				
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 67,333	\$ -	\$ -	\$ 67,333
Certificates of deposit	1,223,506	-	-	1,223,506
Equity securities	907,069	-	-	907,069
Federal, federal agency, state and corporate debt securities	-	1,478,704	-	1,478,704
Total investments	2,197,908	1,478,704	-	3,676,612
Beneficial interest in assets held by community foundation	-	-	888,342	888,342
	<u>\$ 2,197,908</u>	<u>\$ 1,478,704</u>	<u>\$ 888,342</u>	<u>\$ 4,564,954</u>

The following table summarizes the changes in the fair value of the Organization's Level 3 financial assets and liabilities for the year ended June 30, 2018:

Balance at July 1, 2017	\$ 888,342
Change in value of beneficial interest in perpetual trusts held by others	68,897
Distributions received	-
	<u>\$ 957,239</u>

Net change in beneficial interests in perpetual trust is reflected as net real and unrealized gain in the statements of activities, with distributions received (if any) presented as investment income.

Investment income is composed of the following for the years ended June 30:

	2018	2017
Dividends and interest	\$ 89,536	\$ 91,486
Net realized and unrealized gain	186,695	230,841
	<u>\$ 276,231</u>	<u>\$ 322,327</u>

#### Note 6 – Beneficial Interest in Assets Held by Community Foundation

The Organization is the beneficiary of certain endowment funds at TCF. TCF is a not-for-profit entity that provides for endowed contributions to be pooled to maximize return on investments for the benefit of area not-for-profit organizations. Contributions to the endowment funds are permitted by not-for-profit entities, as well as individual donors in the community who designate the beneficiary of their contributions. The Organization made no contributions to TCF for the years ended June 30, 2018 or 2017. Earnings on these endowed funds are distributed annually in accordance with the terms of the endowment and TCF's spending policies.

Endowed funds contributed by the Organization and the reinvested earnings thereon, net of distributions received, are reflected in the statements of financial position as beneficial interest in assets held by community foundation. The fair value of endowed funds contributed by third-party donors that are held by TCF designated for the benefit of the Organization was \$37,089 and \$34,444 at June 30, 2018 and 2017, respectively. TCF has variance power over contributions it has received from third parties on behalf of the Organization. Accordingly, such endowed funds are not reflected in the Organization's statements of financial position.

## Note 7 – Endowment Funds

The Board of Directors (the Board) interprets Oklahoma law as requiring the preservation of the fair value of the original donor-restricted endowment funds as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result, the Organization 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 Organization in a manner consistent with the standard of prudence prescribed by Oklahoma law and in accordance with original donor stipulations, if any.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold either in perpetuity or for a donor-specified period of time, as well as funds functioning as endowment as designated by the Board. Under this policy, as approved by the Board, the assets are to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions to support the Organization.

Operating endowment funds are held by TCF. Distributions from the operating endowment funds are made in accordance with the spending policy adopted by TCF. TCF has the authority to modify any restriction or condition on distributions from the funds, if in the sole judgment of TCF, the restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs served by TCF.

The Organization's endowment net asset composition, by type, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
June 30, 2018				
Donor-restricted endowment funds	\$ -	\$ -	\$ 61,088	\$ 61,088
Board-designated endowment funds	896,151	-	-	896,151
Total endowment	\$ 896,151	\$ -	\$ 61,088	\$ 957,239
June 30, 2017				
Donor-restricted endowment funds	\$ -	\$ -	\$ 61,088	\$ 61,088
Board-designated endowment funds	827,254	-	-	827,254
Total endowment	\$ 827,254	\$ -	\$ 61,088	\$ 888,342



Changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	\$ 733,101	\$ -	\$ 61,088	\$ 794,189
Investment income, net	94,153	-	-	94,153
Appropriated for expenditure	-	-	-	-
Endowment net assets, July 1, 2017	827,254	-	61,088	888,342
Investment income, net	68,897	-	-	68,897
Appropriated for expenditure	-	-	-	-
Endowment net assets, June 30, 2018	<u>\$ 896,151</u>	<u>\$ -</u>	<u>\$ 61,088</u>	<u>\$ 957,239</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or state law requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies for the years ended June 30, 2018 or 2017.

#### Note 8 – Line of Credit

The Organization had a revolving line of credit with a bank for up to \$500,000 which matured October 2018. Interest was due monthly at 1.5% plus the London Interbank Offered Rate (3.5% as of June 30, 2018). The revolving line of credit is secured by the assets of the Organization. Subsequent to year-end, the line of credit was renewed with an interest rate of 3.8% and matures in October 2019.

#### Note 9 – Restricted Net Assets

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

	2018	2017
Property and equipment purchase and maintenance	\$ 1,799,171	\$ 1,893,864
Facilities maintenance grant	806,058	802,819
Reynolds enrichment grant	336,300	571,300
Food 4 Kids	300,282	279,597
Kaiser Funds for future programs	-	215,000
Senior feeding program	46,047	118,124
McAlester capital campaign	80,973	147,156
Retail store donations program	5,556	14,584
Trucks and trailers	-	18,321
Clinic pantry	54,335	43,138
Other	11,581	98,625
	<u>\$ 3,440,303</u>	<u>\$ 4,202,528</u>

### Note 10 – Funds Released from Restriction

Net assets released from temporary donor restrictions by incurring expenses satisfying the restrictive purpose or by occurrence of events specified by donors were as follows:

	2018	2017
Purpose restrictions:		
McAlester capital campaign	\$ 66,184	\$ -
Property and equipment expenditures	94,693	99,677
Kids programs	89,315	-
Trucks and trailers	18,321	-
Grants for programs and enrichment	305,000	150,000
Senior feeding program	82,077	31,614
Retail store donations program	84,027	75,029
Growtainer	-	192,375
Other	87,045	-
	<u>\$ 826,662</u>	<u>\$ 548,695</u>

### Note 11 – Retirement Plan

The Organization has established a simplified employee pension plan. Any employee who has attained the age of 21 and completed one year of service is eligible to participate. Contributions by the Organization are discretionary. Contributions were approximately \$116,000 and \$110,000 for the years ended June 30, 2018 and 2017, respectively.

### Note 12 – Commitments and Contingencies

The Organization has a contract with the Oklahoma Department of Human Services (ODHS) under which it receives and distributes USDA contributed food and receives reimbursement of related storage and distribution costs. The current contract period runs from October 1, 2017 through September 30, 2018. Subsequent to year-end, this contract was renewed for another fiscal year ending September 2019. The funds available under this contract are restricted to purposes and activities approved by ODHS during the contract period. The Organization recognized revenue and support of approximately \$2,673,000 for contributed food and \$310,000 for reimbursement of costs for the year ended June 30, 2018, under this contract.

A substantial portion of the Organization's support and revenue is derived from various grants and contracts which depend directly or indirectly on continued funding from the federal government. The loss of these funds, or extended delays of the receipt of these funds, could adversely impact the operations and continued existence of the Organization. The grants and contracts are subject to audit by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in reimbursements to these governmental agencies. Management believes that amounts questioned, if any, will be immaterial.

**SUPPLEMENTAL INFORMATION**

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year ended June 30, 2018**

Pass-through Grantor Federal Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>U.S. Department of Agriculture:</u>				
Passed through the Oklahoma Department of Human Services:				
Food Distribution Program Cluster:				
U.S. Department of Agriculture Emergency Food Assistance Program:				
Program Commodities - July 2017 through September 2017 (Note 3)	10.569	72208	\$ 468,974	\$ 468,974
Program Commodities - October 2017 through June 2018 (Note 3)	10.569	72208	2,203,742	2,203,742
Reimbursement of storage and distribution costs October 2017 through June 2018	10.568	72208	-	309,886
Commodity Supplemental Food Program	10.565	70418	-	33,443
Total of Food Distribution Program Cluster			2,672,716	3,016,045
Passed through the Oklahoma State Department of Education:				
Summer Food Service Program for Children	10.559	72N009	-	81,414
Child and Adult Care Food Program	10.558		-	8,425
Total U.S. Department of Agriculture			2,672,716	3,105,884
<u>U.S. Department of Health and Human Services:</u>				
Passed through the Oklahoma Department of Human Services:				
TANF Reimbursement of storage and distribution costs - October 2017 through June 2018	93.558	72208	-	172,500
<u>Corporation for National and Community Service:</u>				
Passed through Red River Community Corps, Inc.:				
Oklahoma in Action AmeriCorps Program	94.006		-	37,800
Total expenditures of federal awards			<u>\$ 2,672,716</u>	<u>\$ 3,316,184</u>

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year ended June 30, 2018**

**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Community Food Bank of Eastern Oklahoma, Inc. (the Organization) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**Note 2 – 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. The Organization has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 – Nonmonetary Assistance**

Nonmonetary assistance is reported in the Schedule based on the amount expended and is valued at amounts established by the United States Department of Agriculture (USDA). At June 30, 2018, the Organization had USDA commodities inventory of \$216,553 based on USDA assessed values as follows:

Inventory at beginning of year	\$ 335,344
Value of commodities received	2,553,925
Value of commodities distributed - July 2017 through September 2017	(569,472)
Value of commodities distributed - October 2017 through June 2018	<u>(2,103,244)</u>
Inventory at end of year	<u><u>\$ 216,553</u></u>

## **OTHER REPORTS**

**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**

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Community Food Bank of Eastern Oklahoma, 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 Community Food Bank of Eastern Oklahoma, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2018, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

A handwritten signature in cursive script that reads "Hogan Taylor LLP".

Tulsa, Oklahoma  
November 14, 2018



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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Community Food Bank of Eastern Oklahoma, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited the Community Food Bank of Eastern Oklahoma, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2018. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## Report on Internal Control Over Compliance

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

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.

*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.

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.

 Hogan Taylor UP

Tulsa, Oklahoma  
November 14, 2018

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year ended June 30, 2018**

**Section I – Summary of Auditor's Results**

Financial statements

Type of Auditor's report issued:	Unmodified		
	<u>Yes</u>	<u>No</u>	<u>None Reported</u>
Internal control over financial reporting:			
• Material weakness(es) identified?		X	
• Significant deficiency(ies) identified that are not considered to be material weaknesses?			X
• Noncompliance material to financial statements noted?		X	

Federal awards

	<u>Yes</u>	<u>No</u>	<u>None Reported</u>
Internal control over major programs:			
• Material weakness(es) identified?		X	
• Significant deficiency(ies) identified that are not considered to be material weaknesses?			X
Type of Auditor's report issued on compliance for major federal programs:	Unmodified		
	<u>Yes</u>	<u>No</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?		X	

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**Year ended June 30, 2018**

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Food Distribution Cluster:
10.569	U.S. Department of Agriculture Emergency Food Assistance Program – Commodities
10.568	U.S. Department of Agriculture Emergency Food Assistance Program – Reimbursement of Storage and Distribution Costs
10.565	U.S. Department of Agriculture Emergency Food Assistance Program – Commodity Supplemental Food Program

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Yes	No
_____	_____

Auditee qualified as low-risk auditee?

X

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**COMMUNITY FOOD BANK OF EASTERN OKLAHOMA, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Year ended June 30, 2018**

**Section II – Financial Statement Findings**

None

**Section III – Federal Awards Findings and Questioned Costs**

None