



BEREA, KENTUCKY

FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

JUNE 30, 2018

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Kentucky Association of Food Banks, Inc.
Berea, Kentucky

We have reviewed the accompanying financial statements of Kentucky Association of Food Banks Inc., (the "Association"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Association's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 7 to the financial statements, during the year ended June 30, 2018, the Association made a change in basis of accounting from the cash basis to the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The 2017 financial statements of Kentucky Association of Food Banks Inc. were reviewed by other accountants whose report dated October 30, 2017, stated that, based on their procedures, they are not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with the cash basis of accounting.

We have also reviewed the adjustments described in Note 7 that were applied to restate the June 30, 2017, statement of financial position balances from the cash basis of accounting to the accrual basis of accounting. Based on our review, we are not aware of any material modifications that should be made to the adjustments described in Note 7 that were applied to restate the June 30, 2017, statement of financial position balances in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Blue & Co., LLC

Lexington, Kentucky

February 15, 2019

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Current assets:

Cash	\$	527,315
Accounts receivable and other current assets		3,756
Grants receivable, current		100,000
Total current assets		<u>631,071</u>
Grants receivable, long-term		200,000
Total assets	\$	<u><u>831,071</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	48,728
Accrued expenses		14,956
Total current liabilities		<u>63,684</u>

Total liabilities		63,684
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Net assets:

Unrestricted restricted		226,664
Temporarily restricted		540,723
Total net assets		<u>767,387</u>

Total liabilities and net assets	\$	<u><u>831,071</u></u>
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See accompanying notes and review report of independent accountants.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
State grant	\$ -0-	\$ 805,899	\$ 805,899
Membership dues	50,052		50,052
Corporate foundation grants	16,536	32,500	49,036
Private foundation grants	20,000	65,648	85,648
Federal grants	-0-	400,000	400,000
Contributions	15,250	8,706	23,956
Other income	19,443		19,443
Interest	903		903
Satisfaction of program restrictions	947,831	(947,831)	-0-
Total revenue and other support	<u>1,070,015</u>	<u>364,922</u>	<u>1,434,937</u>
EXPENSES			
Program services	1,061,348		1,061,348
Supporting services:			
General and administrative	18,712		18,712
Fundraising	14,777		14,777
Total expenses	<u>1,094,837</u>	<u>-0-</u>	<u>1,094,837</u>
Change in net assets	(24,822)	364,922	340,100
Net assets at beginning of year	<u>251,486</u>	<u>175,801</u>	<u>427,287</u>
Net assets at end of year	<u>\$ 226,664</u>	<u>\$ 540,723</u>	<u>\$ 767,387</u>

See accompanying notes and review report of independent accountants.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program	General and Administration	Fundraising	Totals
Food purchases passed through to members	\$ 697,821	\$ -0-	\$ -0-	\$ 697,821
Assistance to members	107,554	-0-	-0-	107,554
Assistance to partners	24,600	-0-	-0-	24,600
Salary	134,572	10,827	9,281	154,680
Payroll taxes	10,665	858	736	12,259
Consulting and outside services	20,250	1,629	1,397	23,276
Employee benefits	18,849	1,517	1,300	21,666
Conference and travel	16,670	-0-	-0-	16,670
Membership and other fees	5,920	477	408	6,805
Other office expenses	1,788	144	123	2,055
Events and meeting supplies	449	-0-	-0-	449
Telephone and internet	2,846	229	196	3,271
Printing and postage	5,404	435	373	6,212
Rent	7,231	582	499	8,312
Office supplies	2,022	163	139	2,324
Insurance	1,810	146	125	2,081
Website and software	2,897	233	200	3,330
Professional development	-0-	1,282	-0-	1,282
Miscellaneous	-0-	190	-0-	190
	<u>\$ 1,061,348</u>	<u>\$ 18,712</u>	<u>\$ 14,777</u>	<u>\$ 1,094,837</u>

See accompanying notes and review report of independent accountants.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	340,100
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Changes in:		
Accounts receivable and other current assets		(2,991)
Grants receivable		(163,000)
Accounts payable		19,318
Accrued expenses		6,118
Net cash flows from operating activities		<u>199,545</u>
Net change in cash		199,545
Cash at beginning of year		<u>327,770</u>
Cash at end of year	\$	<u><u>527,315</u></u>

See accompanying notes and review report of independent accountants.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the Kentucky Association of Food Banks, Inc. (the "Association") is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America, and have been consistently applied in the preparation of the financial statements.

Nature of Activities

The Association, founded in 2001, is a non-profit organization dedicated to providing food and quality services to increase the capacity of Kentucky's Feeding America food banks to end hunger. The Association has seven member food banks, who serve all 120 Kentucky counties and who collaborate with the Association whose mission is to end hunger.

Basis of Accounting

The Association's financial statements are prepared using the accrual method of accounting. In accordance with this method of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

Basis of Presentation

The financial statements of the Association have been prepared following the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-For-Profit-Entities - Presentation of Financial Statements*. Under ASC 958-205, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. A description of the three classes of net asset categories follows:

Unrestricted – Net assets that are not subject to donor restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted – Net assets whose use by the Association is subject to donor-imposed restrictions that can be fulfilled by actions of the Association's pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted – Net assets subject to donor imposed restrictions that must be maintained by the Association in perpetuity. There were no permanently restricted net assets as of June 30, 2018.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Receivables

Receivables at June 30, 2018 are comprised primarily of balances due from grant agreements. Management monitors the balance on an ongoing basis and estimates that all receivables are fully collectible and no allowance for doubtful accounts is considered necessary at June 30, 2018.

Income Taxes

The Association is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(5) of the Internal Revenue Code. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Association, and has concluded that as of June 30, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

The Association has filed its federal and state income tax returns for periods through June 30, 2017 and is subject to routine audits by taxing jurisdictions. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Revenue

Membership dues are recognized as revenue in the applicable membership period. Contributions are recognized in the period received and recorded as unrestricted, temporarily restricted or permanently restricted support based on the existence and nature of any donor restrictions. Grants are recognized as revenue in the period when the award is made by the grantor and are recorded as unrestricted or temporarily restricted support based on the existence and nature of any grantor restrictions.

All other revenues are recognized when earned.

Functional Allocation of Expenses

The cost of providing the various programs, support and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Association. Although the methods used were appropriate, alternative methods may provide different results.

Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period one year from the date the financial statements are available to be issued.

Agency Relationships

The Association acts in an agency capacity for its members and certain unaffiliated partner organizations. This includes the collection of cash, payment of expenses and the record keeping for fundraising events that are held during the year. In connection with these events, the Association receives cash donations designated by the donors to be passed-through to member food banks and unaffiliated partner organizations. Monies are transferred upon the completion of such events. Any amounts that have not yet been passed through are recorded on the statement of financial position as a liability. As of June 30, 2018, the amount not yet passed through totaled \$120.

Recently Issued Accounting Standards

On May 28, 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date

See review report of independent accountants.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

for all entities by one year. These new standards, which the Association is not required to adopt until its year ended June 30, 2020, deal with the timing of reporting revenues from grant agreements, and disclosures related thereto.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which the Association is not required to adopt until its year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

On August 18, 2016, the FASB issued an ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which the Association is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two-phase project to amend not-for-profit financial reporting requirements.

On June 21, 2018, the FASB issued ASU No. 2018-08, *Accounting for Contributions Received and Contributions Made*. This new standard, which the Association is not required to adopt until its year ending June 30, 2020, is intended to clarify and improve the scope and the accounting guidance for contributions received and made by not-for-profit organizations. This new standard provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

The Association is presently evaluating the effects that these ASU's will have on its future financial statements, including related disclosures.

Subsequent Events

The Association evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through February 15, 2019, which is the date the financial statements are available to be issued.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2018:

Kentucky Kids Eat	\$	1,099
Farms to Food Banks		354,624
KY-Grown Vegetable Incentive Program		185,000
	\$	<u>540,723</u>

Kentucky Kids Eat: represents donor restricted net assets to provide funds for the Kentucky Kids Eat program, which addresses issues as it relates to childhood hunger through a statewide cross-sector collaboration.

Farms to Food Banks: represents donor restricted net assets to provide funds for the Farms to Food Banks program, which reduces losses for farmers by purchasing at just below wholesale prices, and distributing it at no cost to struggling Kentuckians through the food bank network.

KY-Grown Vegetable Incentive Program (K-VIP): represents donor restricted net assets to provide funds for the K-VIP program, which is an incentive to help cover some of the costs of procuring fresh produce from Kentucky farmers.

3. CONCENTRATIONS

During 2018, the Association received 87% of its grant revenues from two grantees. Receivables due from these grantees represent approximately 100% of the Association's grants receivables at June 30, 2018.

The Association maintains its cash at financial institutions. The cash balance in the account may, at times, exceed federally insured limits. At June 30, 2018, the Association's uninsured balance totaled approximately \$326,000.

4. RETIREMENT PLAN

The Association sponsors a simplified employee pension plan (the "Plan") covering all eligible employees. Each year, the Association contributes an amount equal to 5% of each employee's annual salary. The Association contributed approximately \$6,200 to the Plan during 2018.

5. LEASE AGREEMENT

On June 1, 2017, the Association signed a three-year lease agreement for office space calling for monthly payments for \$750 ending May 31, 2020. Rent expense for the year ended June 30, 2018, totaled \$8,312. Subsequently, on October 2018, the Association agreed to a month-to-month lease arrangement.

See review report of independent accountants.

KENTUCKY ASSOCIATION OF FOOD BANKS, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

6. RELATED-PARTY TRANSACTIONS

The Association collaborates with seven Feeding America food banks that pay member dues to the Association. Membership dues are based on a \$2,500 base amount and the Feeding America goal factor (poverty and unemployment rates) for counties served in Kentucky. The Association received \$50,052 in membership dues during the fiscal year ended June 30, 2018. Food purchased for direct delivery to members totaled \$697,821 in 2018. Direct financial assistance paid to members in 2018 totaled \$107,554.

7. CHANGE IN BASIS OF ACCOUNTING

During 2018, the Association made a change for external financial reporting from the cash basis of accounting to the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. As a result, the following adjustments were made to the statement of financial position balances previously reported as of June 30, 2017:

	Cash Basis as previously reported on June 30, 2017	Adjustments	Accrual Basis as adjusted on June 30, 2017
Statement of Financial Position:			
Current assets			
Cash	\$ 327,770	\$ -0-	\$ 327,770
Accounts receivable and other current assets	-0-	765	765
Grants receivable	137,000	137,000	137,000
Total assets	\$ 327,770	\$ 137,765	\$ 465,535
Current liabilities:			
Accounts payable	\$ -0-	\$ 29,410	\$ 29,410
Accrued expenses		8,943	8,943
Total liabilities	\$ -0-	\$ 38,353	\$ 38,353
Net assets:			
Unrestricted	\$ 231,250	\$ 20,236	\$ 251,486
Temporarily restricted	96,520	79,281	175,801
Total net assets	\$ 327,770	\$ 99,517	\$ 427,287

See review report of independent accountants.