

Food Bank of South Central Michigan, Inc.

Financial Statements
Years Ended December 31, 2015 and 2014

FISHER SPIEGEL KUNKLE & GERBER, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Food Bank of South Central Michigan, Inc.

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Years Ended December 31, 2015 and 2014

Food Bank of South Central Michigan, Inc.

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FISHER SPIEGEL KUNKLE & GERBER, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

4625 BECKLEY ROAD, BUILDING 400
BATTLE CREEK, MICHIGAN 49015-7945
(269) 979-4102 FAX: (269) 979-1778

350 E. MICHIGAN AVENUE, SUITE 510
KALAMAZOO, MICHIGAN 49007
(269) 353-8000 FAX: (269) 353-8046

Report of Independent Accountants

To the Board of Directors
Food Bank of South Central Michigan, Inc.

We have audited the accompanying financial statements of Food Bank of South Central Michigan, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015 and 2014, 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.

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. 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 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 Food Bank of South Central Michigan, Inc. as of December 31, 2015 and 2014, and the changes in 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 May 19, 2015, on our consideration of Food Bank of South Central Michigan, 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 Food Bank of South Central Michigan, Inc.'s internal control over financial reporting and compliance.



FISHER SPIEGEL KUNKLE & GERBER, P.L.L.C.

Battle Creek, Michigan
July 21, 2016

Food Bank of South Central Michigan, Inc.

Statement of Financial Position

December 31,	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,395,689	\$ 905,018
Certificates of deposit	501,963	1,001,851
Accounts receivable	265,078	260,241
Grant receivable	12,500	4,000
United Way receivable	90,202	171,325
Grants receivable - community foundations	41,335	36,878
Interest receivable	600	600
Beneficial interest in assets held by community foundations (Note 6)	22,047	19,388
Inventory - Donated (Note 3)	499,470	641,101
Inventory - USDA (Note 3)	242,949	238,640
Inventory - Purchased	211,646	172,079
Prepaid expenses	37,069	14,170
Total current assets	3,320,548	3,465,291
United Way receivable - long term	0	96,025
Grant receivable - long term	8,000	8,000
Beneficial interest in assets held by community foundations (Note 6)	65,624	70,664
Investments (Note 2)	817,896	833,969
Fixed assets, net (Note 4)	1,359,633	1,457,773
Total assets	\$ 5,571,701	\$ 5,931,722
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 56,227	\$ 57,221
Accrued vacation	20,859	18,285
Accrued payroll	35,464	43,611
Other accrued expenses	1,275	6,450
Deferred revenue	532,980	409,014
Total current liabilities	646,805	534,581
Net Assets		
Unrestricted	4,541,638	4,842,412
Temporarily restricted (Note 1)	383,258	554,729
Total net assets	4,924,896	5,397,141
Total liabilities and net assets	\$ 5,571,701	\$ 5,931,722

The accompanying notes are an integral part of these financial statements.

Food Bank of South Central Michigan, Inc.

Statement of Activities Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Products donated and distributed:			
USDA	\$ 2,107,744	\$ 0	\$ 2,107,744
In kind contributions (Note 3)	10,134,103	0	10,134,103
Less: value of products distributed:			
USDA	(2,103,436)	0	(2,103,436)
In-kind contributions	(10,275,784)	0	(10,275,784)
Excess of products distributed over products donated	(137,373)	0	(137,373)
Support, revenue, and reclassifications:			
United Way	128,596	0	128,596
Donations and grants	1,403,244	225,055	1,628,299
Food Bank Council of Michigan	190,115	0	190,115
Fund raising	59,899	0	59,899
Program service fees	953,128	0	953,128
Interest/dividend income	42,273	0	42,273
Unrealized gain/(loss) on investments (Note 2)	(50,039)	0	(50,039)
Realized gain/(loss) on investments (Note 2)	(11,083)	0	(11,083)
Change in beneficial interest	(2,381)	0	(2,381)
Miscellaneous	944	0	944
Net assets released from restrictions	396,526	(396,526)	0
Total support, revenue, and reclassifications	3,111,222	(171,471)	2,939,751
Expenses:			
Program operations	2,981,275	0	2,981,275
Management and general	293,348	0	293,348
Total expenses	3,274,623	0	3,274,623
Change in net assets	(300,774)	(171,471)	(472,245)
Net assets, at beginning of year	4,842,412	554,729	5,397,141
Net assets, at end of year	\$ 4,541,638	\$ 383,258	\$ 4,924,896

Food Bank of South Central Michigan, Inc.

Statement of Activities Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
Products donated and distributed:			
USDA	\$ 2,311,082	\$ 0	\$ 2,311,082
In kind contributions (Note 3)	11,110,900	0	11,110,900
Less: value of products distributed:			
USDA	(2,279,466)	0	(2,279,466)
In-kind contributions	(11,117,108)	0	(11,117,108)
Excess of products distributed over products donated	25,408	0	25,408
Support, revenue, and reclassifications:			
United Way	152,607	104,000	256,607
Donations and grants	1,365,176	261,903	1,627,079
Food Bank Council of Michigan	206,345	0	206,345
Fund raising	33,969	0	33,969
Program service fees	1,170,867	0	1,170,867
Interest/dividend income	40,325	0	40,325
Unrealized gain/(loss) on investments (Note 2)	31,779	0	31,779
Realized gain/(loss) on investments (Note 2)	(401)	0	(401)
Change in beneficial interest	4,607	0	4,607
Miscellaneous	2,121	0	2,121
Net assets released from restrictions	350,039	(350,039)	0
Total support, revenue, and reclassifications	3,357,434	15,864	3,373,298
Expenses:			
Program operations	3,057,182	0	3,057,182
Management and general	300,647	0	300,647
Total expenses	3,357,829	0	3,357,829
Change in net assets	25,013	15,864	40,877
Net assets, at beginning of year	4,817,399	538,865	5,356,264
Net assets, at end of year	\$ 4,842,412	\$ 554,729	\$ 5,397,141

Food Bank of South Central Michigan, Inc.

Statement of Functional Expenses Year Ended December 31, 2015

	Program Operations	Management and General	Total
Operating expenses			
Salaries	\$ 724,481	\$ 138,556	\$ 863,037
Payroll taxes and benefits (Note 5)	244,076	28,570	272,646
Total payroll related expenses	968,557	167,126	1,135,683
Food - purchased	1,224,191	0	1,224,191
Outside services	50,233	9,159	59,392
Professional fees	0	14,300	14,300
Supplies and office	8,303	18,802	27,105
Telephone and internet	0	9,628	9,628
Postage and shipping	113,531	2,052	115,583
Utilities	62,623	0	62,623
Transportation and travel	191,388	1,448	192,836
Conferences and meetings	9,759	3,829	13,588
Membership dues	31,418	0	31,418
Miscellaneous	1,000	5,909	6,909
Maintenance	84,116	1,453	85,569
Insurance	13,050	0	13,050
Grant expenditures	9,687	7,962	17,649
Fund raising	0	25,015	25,015
Total operating expenses before depreciation	2,767,856	266,683	3,034,539
Depreciation	213,419	26,665	240,084
Total operating expenses	\$ 2,981,275	\$ 293,348	\$3,274,623

Food Bank of South Central Michigan, Inc.

Statement of Functional Expenses Year Ended December 31, 2014

	Program Operations	Management and General	Total
Operating expenses			
Salaries	\$ 757,312	\$ 137,100	\$ 894,412
Payroll taxes and benefits (Note 5)	295,622	22,976	318,598
Total payroll related expenses	1,052,934	160,076	1,213,010
Food - purchased	1,289,434	0	1,289,434
Outside services	45,574	13,629	59,203
Professional fees	0	14,300	14,300
Supplies and office	6,614	14,960	21,574
Telephone and internet	0	10,611	10,611
Postage and shipping	10,058	872	10,930
Utilities	67,993	0	67,993
Transportation and travel	248,924	0	248,924
Conferences and meetings	4,461	2,425	6,886
Membership dues	36,052	0	36,052
Miscellaneous	374	4,865	5,239
Maintenance	76,260	3,247	79,507
Insurance	11,554	0	11,554
Grant expenditures	0	10,381	10,381
Fund raising	0	35,019	35,019
Total operating expenses before depreciation	2,850,232	270,385	3,120,617
Depreciation	206,950	30,262	237,212
Total operating expenses	\$ 3,057,182	\$ 300,647	\$3,357,829

Food Bank of South Central Michigan, Inc.

Statement of Cash Flows

Years ended December 31,	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (472,245)	\$ 40,877
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	240,083	237,212
Loss (gain) on sale of assets	11,083	0
Unrealized (gain) loss on investments	49,796	(31,944)
Realized (gain) loss on investments	0	401
Change in beneficial interest in assets	2,381	(4,607)
(Increase) decrease in:		
Accounts and United Way receivables	172,311	86,425
Grants receivable - community foundations	(4,457)	(4,296)
Grant receivable	(8,500)	1,000
Other receivable	0	876
Inventory	97,755	87,882
Prepaid expenses	(22,899)	(2,785)
Increase (decrease) in:		
Accounts payable	(994)	(50,300)
Accrued vacation	2,574	(8,564)
Accrued payroll	(8,147)	(14,775)
Other accrued expenses	(5,175)	901
Deferred revenue	123,966	59,068
Net cash provided by operating activities	177,532	397,371
Cash flows from investing activities:		
Purchase of fixed assets	(153,026)	(203,713)
Proceeds from sale of investments	0	26,880
Redemption (purchase) of certificates of deposits	499,888	(1,001,851)
Purchase of investments	(33,723)	(59,816)
Net cash provided by (used in) investing activities	313,139	(1,238,500)
Net increase (decrease) in cash and cash equivalents	490,671	(841,129)
Cash and cash equivalents, at beginning of year	905,018	1,746,147
Cash and cash equivalents, at end of year	\$ 1,395,689	\$ 905,018

Food Bank of South Central Michigan, Inc.

Notes to Financial Statements

1. Nature of Entity and Significant Accounting Policies

Statement of Purpose - Food Bank of South Central Michigan, Inc. (the "Organization") purpose is to glean, collect, warehouse and facilitate the distribution of food, to have the right to receive donations for the purpose of adequately conducting and maintaining such facilities and to purchase, manage, own, lease or rent facilities that may be necessary or convenient for the purpose of operation as a community food bank. The Organization charges a shared maintenance fee for food distributed to other non-profit agencies within south central Michigan. Shared maintenance fees are based on the operating costs of the food bank and are charged on a per pound basis.

The Organization does not require any collateral on its accounts receivable from member agencies throughout south central Michigan.

Use of Estimates - The Organization uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported support, revenue and expenses. Actual results could differ from those estimates.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents - The Organization considers its investments in money market funds and certificates of deposit to be cash equivalents.

Accounts Receivable - Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Fixed Assets - Fixed assets are recorded at cost or at the value at the time of donation, less accumulated depreciation, which is computed using the straight-line method over the following estimated useful lives:

Vehicles	5-7 years
Furniture and equipment	3-10 years
Building	31.5 years
Land improvements	15 years

Food Bank of South Central Michigan, Inc.

Notes to Financial Statements

1. Nature of Entity and Significant Accounting Policies - Continued

Costs of maintenance and repairs are charged to expense when incurred; renewals and improvements greater than \$300 are capitalized. The cost and related accumulated depreciation of equipment sold or otherwise retired are removed from the accounts and related gains or losses are reflected in income.

Tax Status - The Organization is exempt from federal income taxes as a non-profit organization under the Internal Revenue Code Section 501(c)(3) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Tax returns remain statutorily open for review by tax authorities.

Donated Services - No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, volunteers donated many hours of service during the years ended December 31, 2015 and 2014 to the operation of the Organization including organizational mailings, packing of groceries, and other miscellaneous services.

Affiliated Organizations - The Organization is a certified affiliate of Feeding America, a national network of food banks throughout the country, and is affiliated with the Food Bank Council of Michigan, an organization that supports member food banks through funding and food allocation. The Organization receives a substantial amount of its food from Feeding America (40% and 36% in 2015 and 2014, respectively) and Food Bank Council of Michigan (14% and 14% in 2015 and 2014, respectively), at minimal cost which is distributed to other organizations for a service fee. Additionally, the Organization receives substantial support from various United Ways.

As an affiliate of Feeding America, the Organization is required to maintain a reserve fund equal to or greater than 25% of annual operating expenses.

Uninsured Cash Balances - The Organization has bank deposits in excess of the limits insured through the Federal Depository Insurance Company of \$394,527 and \$419,425 at December 31, 2015 and 2014, respectively.

Deferred Revenue - Deferred revenue consists of funds received by the Organization for future food distributions for specific member agencies.

Reclassification - Certain assets included in the 2014 financial statements have been changed to be in conformity with the 2015 financial statement presentation.

Food Bank of South Central Michigan, Inc.

Notes to Financial Statements

1. Nature of Entity and Significant Accounting Policies - Continued

Temporarily Restricted Net Assets - Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The temporarily restricted net assets are restricted as follows:

December 31,	2015	2014
Childhood Hunger and backpack program	\$ 121,003	\$ 158,234
Giving Garden	2,858	3,277
Fresh food initiative	29,800	25,868
Food purchases	17,857	0
Warehouse improvements and transportation	49,827	100,000
For subsequent years' operating/program expenses	90,202	267,350
MI-BAN	71,711	0
	<u>\$ 383,258</u>	<u>\$ 554,729</u>

Subsequent Events - Subsequent events have been evaluated through July 21, 2016, which is the date the financial statements were available to be issued.

2. Investments

Investments - Investments are valued at market as determined by stock market quotations and by savings bond redemption values at December 31, 2015 and 2014. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Food Bank of South Central Michigan, Inc.

Notes to Financial Statements

2. Investments - Continued

The major types of investments are as follows:

December 31, 2015	Market Value	Cost
United States Savings		
Bonds, Series EE	\$2,000	\$2,000
Mutual funds	815,896	612,311
	<u>\$817,896</u>	<u>\$614,311</u>
December 31, 2014	Market Value	Cost
United States Savings		
Bonds, Series EE	\$2,000	\$2,000
Mutual funds	831,969	578,588
	<u>\$833,969</u>	<u>\$580,588</u>

All investments are considered long term and are held to earn investment income. All investment income, realized and unrealized gains (losses) are shown as unrestricted in the Statement of Activities as all investments are unrestricted.

3. Inventory

Inventory includes food items that were purchased at cost and donated product valued at a per pound rate as determined by Feeding America at the national level on a first-in first-out (FIFO) basis.

Donated product and inventory are valued in accordance with FASB Accounting Standard Codification 958, NPO Entities. In kind contributions includes donated product in the amount of \$10,134,103 and \$11,110,900 for 2015 and 2014, based primarily on \$1.70 and \$1.72 per pound value, respectively. Donated USDA product is valued at published values per pound. At December 31, 2015 and 2014, donated inventory values are \$499,470 and \$641,101, and was primarily valued at \$1.70 and \$1.72 per pound, respectively. Increases and decreases in inventory levels may have a significant impact on the net increase (decrease) of the Organization's net assets.

Food Bank of South Central Michigan, Inc.

Notes to Financial Statements

4. Fixed Assets

Fixed assets are comprised of the following:

December 31,	2015	2014
Land	\$ 10,000	\$ 10,000
Land improvements	72,630	72,630
Building	1,625,108	1,543,177
Furniture and equipment	890,323	890,667
Vehicles	817,307	809,700
	3,415,368	3,326,174
Less - accumulated depreciation	(2,055,735)	(1,868,401)
	<u>\$ 1,359,633</u>	<u>\$ 1,457,773</u>

5. Defined Contribution Plan

The Organization has a defined contribution 403(b) plan covering full time employees over age 21 who have attained 1,000 hours of service within a twelve month period. Contributions are made at a percent determined annually by the Board of each employee's gross annual pay. For the years ended December 31, 2015 and 2014, the Organization's contribution rate was 4%. For 2015 and 2014, the board approved a match of 100% for those employees deferring up to 6% of their wages. Contributions totaled \$38,461 and \$51,510 for the years ended December 31, 2015 and 2014, respectively.

6. Beneficial Interest in Assets Held by Community Foundations

Beneficial interest in assets represents pooled fund investments with community foundations. The pooled funds consist of mutual funds, corporate stocks and bonds, U.S. government securities, and other investments.

Beneficial interest results when a nonprofit organization establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund. The foundation maintains unilateral variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets and offsetting liabilities of the foundation. Funds are distributed based on spending rate policies. In accordance with FASB Accounting Standards Codification 958-605, Transfers of Assets to a NPO or Charitable Trust that Raises or Holds Contributions for Others, an asset has been established for the fair market value of the funds, which is generally equivalent to the present value of future payments expected to be received by the Organization. Beneficial interest in assets is comprised of the following:

Food Bank of South Central Michigan, Inc.

Notes to Financial Statements

6. Beneficial Interest in Assets Held by Community Foundations - Continued

December 31,	2015	2014
Funds held at Battle Creek Community Foundation	\$32,095	\$32,694
Funds held at Kalamazoo Community Foundation	47,000	48,327
Funds held at Jackson Community Foundation	8,576	9,031
	\$87,671	\$90,052
December 31,	2015	2014
Beginning of year balance	\$90,052	\$85,445
Contributions	0	0
Net investment earnings, gains, and losses	(1,667)	5,197
Grants or scholarships	0	0
Administrative expenses	(714)	(590)
	\$87,671	\$90,052

7. Endowment Funds

The Organization has endowment funds administered by various community foundations. These funds are irrevocably invested and are managed by the foundations for a fee. The principal balances, including accumulated earnings of these funds at December 31, 2015 and 2014 amounted to \$83,002 and \$86,434, respectively. The foundations have variance power over the donor designated funds and may, at their discretion vary the purpose, use or method of administration of the funds. Earnings on these funds, as determined by the foundations, are available annually for distribution to the Organization for operations, at the discretion of the foundations, and therefore are not reflected in the Organization's financial statements until available for distribution.

8. Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2015 and 2014 are as follows:

December 31, 2015	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)
U.S. Savings Bonds, Series EE	\$ 2,000	\$ 2,000
Mutual funds	815,896	815,896
Total	\$ 817,896	\$ 817,896
December 31, 2014		
U.S. Savings Bonds, Series EE	\$ 2,000	\$ 2,000
Mutual funds	831,969	831,969
Total	\$ 833,969	\$ 833,969

Fair values for short-term investments are determined by reference to quoted market prices and other relevant information generated by market transactions.