

The Foodbank, Inc.

Financial Statements and Accompanying Information

June 30, 2016 and 2015

with Independent Auditors' Report



CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Foodbank, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Foodbank, Inc. (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Foodbank, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Other Information**

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of The Foodbank, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 The Foodbank, Inc.'s internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Dayton, Ohio
September 28, 2016

The Foodbank, Inc.
Statements of Financial Position
June 30, 2016 and 2015

Assets	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 1,222,961	1,412,272
Accounts receivable	61,665	49,621
Inventory	402,997	367,348
Prepaid expenses	<u>-</u>	<u>9,348</u>
	<u>1,687,623</u>	<u>1,838,589</u>
Property and equipment:		
Land	217,386	208,844
Buildings and improvements	1,717,783	1,707,566
Furniture, fixtures and equipment	552,919	486,939
Vehicles	472,743	472,743
Software	<u>17,959</u>	<u>17,959</u>
	2,978,790	2,894,051
Less accumulated depreciation	<u>604,012</u>	<u>416,162</u>
	<u>2,374,778</u>	<u>2,477,889</u>
Beneficial interest in endowment funds held by the Dayton Foundation	<u>1,772,765</u>	<u>1,255,918</u>
Total assets	\$ <u>5,835,166</u>	<u>5,572,396</u>
Liabilities and net assets		
Current liabilities:		
Current maturities of capital lease obligations	\$ 16,636	47,401
Accounts payable	347	70,753
Accrued expenses	<u>30,053</u>	<u>47,489</u>
	<u>47,036</u>	<u>165,643</u>
Non-current portion of capital lease obligations	<u>35,547</u>	<u>52,183</u>
	<u>82,583</u>	<u>217,826</u>
Net assets:		
Unrestricted	5,423,802	5,003,336
Temporarily restricted	<u>328,781</u>	<u>351,234</u>
	<u>5,752,583</u>	<u>5,354,570</u>
Total liabilities and net assets	\$ <u>5,835,166</u>	<u>5,572,396</u>

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Activities
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Public support:			
Governmental grants	\$ 602,870	-	602,870
United Way allocation	104,430	-	104,430
Contributions	<u>1,684,679</u>	<u>-</u>	<u>1,684,679</u>
	<u>2,391,979</u>	<u>-</u>	<u>2,391,979</u>
Revenues:			
Member agency fees	275,275	-	275,275
Donated food and products	9,936,056	-	9,936,056
Interest income	105	-	105
Change in value of beneficial interest in endowment funds	24,372	(7,525)	16,847
Other revenue	19,511	-	19,511
Net assets released from restriction	<u>14,928</u>	<u>(14,928)</u>	<u>-</u>
	<u>10,270,247</u>	<u>(22,453)</u>	<u>10,247,794</u>
	<u>12,662,226</u>	<u>(22,453)</u>	<u>12,639,773</u>
Expenses:			
Program services	11,676,521	-	11,676,521
Management and general	340,893	-	340,893
Fundraising	<u>224,346</u>	<u>-</u>	<u>224,346</u>
	<u>12,241,760</u>	<u>-</u>	<u>12,241,760</u>
Change in net assets	420,466	(22,453)	398,013
Net assets at beginning of year	<u>5,003,336</u>	<u>351,234</u>	<u>5,354,570</u>
Net assets at end of year	\$ <u>5,423,802</u>	<u>328,781</u>	<u>5,752,583</u>

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Activities
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support:			
Governmental grants	\$ 494,650	-	494,650
United Way allocation	110,508	-	110,508
Contributions	<u>1,447,940</u>	<u>-</u>	<u>1,447,940</u>
	<u>2,053,098</u>	<u>-</u>	<u>2,053,098</u>
Revenues:			
Member agency fees	255,272	-	255,272
Donated food and products	9,450,819	-	9,450,819
Interest income	272	-	272
Change in value of beneficial interest in endowment funds	(16,945)	5,304	(11,641)
Other revenue	19,525	-	19,525
Net assets released from restriction	<u>14,927</u>	<u>(14,927)</u>	<u>-</u>
	<u>9,723,870</u>	<u>(9,623)</u>	<u>9,714,247</u>
	<u>11,776,968</u>	<u>(9,623)</u>	<u>11,767,345</u>
Expenses:			
Program services	11,209,803	-	11,209,803
Management and general	330,627	-	330,627
Fundraising	<u>226,737</u>	<u>-</u>	<u>226,737</u>
	<u>11,767,167</u>	<u>-</u>	<u>11,767,167</u>
Change in net assets	9,801	(9,623)	178
Net assets at beginning of year	<u>4,993,535</u>	<u>360,857</u>	<u>5,354,392</u>
Net assets at end of year	\$ <u>5,003,336</u>	<u>351,234</u>	<u>5,354,570</u>

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Functional Expenses
Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Goods distributed - in-kind	\$ 9,497,182	-	-	9,497,182
Goods distributed - purchased inventory	500,596	-	-	500,596
Salaries and wages	707,945	127,242	103,857	939,044
Payroll taxes	91,692	16,480	13,452	121,624
Employee benefits	104,563	18,793	15,340	138,696
Insurance	13,196	4,399	-	17,595
Professional services	6,450	53,453	3,224	63,127
Membership fees	21,545	-	-	21,545
Interest expense	3,672	-	-	3,672
Dues and subscriptions	-	431	-	431
Equipment rent	1,116	837	837	2,790
Vehicle expense	53,273	-	-	53,273
Repairs and maintenance	46,754	8,952	-	55,706
Utilities	36,988	12,329	-	49,317
Telephone and internet	5,409	4,315	3,797	13,521
Office and warehouse	45,100	17,281	11,172	73,553
Printing and postage	15,009	7,541	44,513	67,063
Special events	9,548	829	25,889	36,266
Security	4,478	1,493	-	5,971
Conferences and training	9,516	3,301	1,167	13,984
Miscellaneous	33,747	8,505	1,098	43,350
Freight out	15,661	-	-	15,661
Inventory spoilage	319,943	-	-	319,943
Total expenses before depreciation	11,543,383	286,181	224,346	12,053,910
Depreciation	133,138	54,712	-	187,850
Total expenses	\$ 11,676,521	340,893	224,346	12,241,760

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statement of Functional Expenses
Year Ended June 30, 2015

	Program Services	Management and General	Fundraising	Total
Goods distributed - in-kind	\$ 9,030,291	-	-	9,030,291
Goods distributed - purchased inventory	438,755	-	-	438,755
Salaries and wages	527,296	122,168	98,052	747,516
Payroll taxes	53,514	12,398	9,951	75,863
Employee benefits	86,260	19,985	16,040	122,285
Temporary hire	5,878	1,362	1,093	8,333
Insurance	13,927	4,643	-	18,570
Professional services	6,010	53,373	3,004	62,387
Membership fees	22,027	-	-	22,027
Interest expense	7,668	-	-	7,668
Dues and subscriptions	-	981	-	981
Equipment rent	1,122	840	840	2,802
Vehicle expense	54,625	-	-	54,625
Repairs and maintenance	39,385	6,106	-	45,491
Utilities	38,111	12,704	-	50,815
Telephone and internet	5,554	4,418	3,912	13,884
Office and warehouse	26,993	13,314	7,339	47,646
Printing and postage	12,932	8,073	54,803	75,808
Special events	4,588	-	17,292	21,880
Security	2,445	815	-	3,260
Conferences and training	3,953	5,091	11,975	21,019
Miscellaneous	15,974	9,644	983	26,601
Freight out	53,316	-	1,453	54,769
Inventory spoilage	606,340	-	-	606,340
 Total expenses before depreciation	 11,056,964	 275,915	 226,737	 11,559,616
Depreciation	152,839	54,712	-	207,551
 Total expenses	 \$ 11,209,803	 330,627	 226,737	 11,767,167

See accompanying notes to the financial statements.

The Foodbank, Inc.
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 398,013	178
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	187,850	207,551
Change in value of beneficial interest in endowment funds	(16,847)	11,641
In-kind donation of food	(9,936,056)	(9,450,819)
In-kind goods distributed and inventory spoilage	9,817,125	9,636,631
Effects of change in operating assets and liabilities:		
Accounts receivable	(12,044)	(6,020)
Purchased inventory	83,282	(70,957)
Prepaid expenses	9,348	(2,301)
Accounts payable	(70,406)	25,825
Accrued expenses	(17,436)	(4,825)
Net cash provided by operating activities	<u>442,829</u>	<u>346,904</u>
Cash flows from investing activities:		
Transfer of cash to endowment fund held by the Dayton Foundation	(500,000)	(750,000)
Purchases of property and equipment	<u>(84,739)</u>	<u>(20,744)</u>
Net cash used by investing activities	<u>(584,739)</u>	<u>(770,744)</u>
Cash flows from financing activities:		
Payments on capital lease obligations	<u>(47,401)</u>	<u>(43,992)</u>
Decrease in cash and cash equivalents	(189,311)	(467,832)
Cash and cash equivalents, beginning of the year	<u>1,412,272</u>	<u>1,880,104</u>
Cash and cash equivalents, end of the year	\$ <u>1,222,961</u>	<u>1,412,272</u>
Supplemental disclosures:		
Interest paid	\$ <u>3,672</u>	<u>7,668</u>

See accompanying notes to the financial statements.

1. NATURE OF THE ORGANIZATION:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restrictions; temporarily restricted net assets which have donor-imposed restrictions that will likely expire in the future; and permanently restricted net assets which have donor-imposed restrictions which do not expire. The Organization has no permanently restricted net assets as of June 30, 2016 and 2015.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. 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.

Donated commodities are recorded at prices established by the U.S. Department of Agriculture. All donated food is recorded at estimated fair value.

Cash and cash equivalents

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

Minimum cash requirement

In accordance with the terms of a grantor, the Organization is required to maintain unrestricted cash reserves equal to or greater than the average quarter's cash operating expenses, excluding donated food, for the previous fiscal year. Minimum unrestricted cash reserves of the fiscal years ended June 30, 2016 and 2015 were \$684,219 and \$627,849, respectively.

Accounts receivable

Accounts receivable balances have been adjusted for all known uncollectible accounts. Initial and ongoing credit evaluations are performed, at management's discretion, in order to minimize credit risk, and account balances are reviewed on a regular basis. Organizations not making payments in accordance with terms offered or historical practices are determined to be past due. Accounts are written off when management determines that probability of collection is remote. Therefore, no allowance for doubtful accounts was considered necessary at June 30, 2016 and 2015.

Inventory

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

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

The Organization carries all Feeding America and other donated inventory at \$1.66 per pound, the approximate average wholesale value of one pound of donated product at the national level as outlined in the Product Valuation Survey Methodology prepared for Feeding America. Management believes the estimate to be an accurate measure of the inventory cost.

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

Donated materials and services

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

Donated services are recorded as public support only if they create or enhance non-financial assets or require specialized services. A number of volunteers have made significant contributions of time to the Organization's policy-making, program and support functions. The value of this contributed time does not meet the criteria existing in accounting standards for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

Property and equipment

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

Member agency fees

Member agency fees represent fees paid by agencies for food handling charges and are recognized when orders of food are distributed to the agencies.

Concentrations

Donated food from Shared Harvest and the USDA accounted for 79% and 84% of all donated food for the years ended June 30, 2016 and 2015, respectively.

Use of estimates in financial statements

In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities

and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional expense allocation

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

Income taxes

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

Uncertain income tax positions

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would fail to be sustained upon examination by the Internal Revenue Service. As discussed above, the Organization is exempt from federal income taxes and management believes the Organization has not engaged in any activities that would disqualify it from tax-exempt status or incur a tax obligation for the years ended June 30, 2016 and 2015. The Organization believes their estimates are appropriate based on current facts and circumstances. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for years ended prior to June 30, 2012. The Organization's policy with regard to interest and penalties, if incurred, is to recognize interest through interest expense and penalties through other expenses.

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to current year presentation.

Subsequent events

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through September 28, 2016, the date on which the financial statements were available to be issued.

3. BENEFICIAL INTEREST IN ENDOWMENT FUNDS:

The Organization has a beneficial interest in The Lester L. Haubach Fund for The Foodbank, Inc. (the "Fund"), which is held by The Dayton Foundation under the terms of a fund agreement. In accordance with the agreement, the Organization has the right to receive income earned on the endowment assets. The Fund principal has been classified as a temporarily restricted net asset, with adjustments to the value of the asset recorded as changes in temporarily restricted net assets. When income from the fund is appropriated for expenditure, it is released to unrestricted net assets. The fair value of the Fund was \$265,338 and \$272,863 at June 30, 2016 and 2015, respectively.

During 2014, the Organization established The Foodbank Endowment Fund, a charitable endowment fund, with The Dayton Foundation, of which the Organization is the named beneficiary. The beneficial interest in endowment fund was \$1,507,427 and \$983,055, at June 30, 2016 and 2015, respectively, and represents amounts contributed by the Organization, plus any net subsequent earnings retained in this fund. Net investment earnings of the endowment fund are included in the statement of activities as a change in unrestricted net assets.

4. ENDOWMENT FUNDS:

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

Strategies employed for achieving objectives

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

Spending policy and how the investment objectives relate to spending policy

The Organization has adopted investment and spending policies for endowment assets held by The Dayton Foundation, a community foundation.

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

The Dayton Foundation spending policy calculates the amount of money annually distributed from the funds.

The changes in endowment net assets are as follows for the years ended June 30, 2016 and 2015:

	Unrestricted	Temporarily Restricted	Total
Endowment net assets, July 1, 2014	\$ 250,000	267,559	517,559
Change in value of beneficial interest in endowment funds held by The Dayton Foundation	(16,945)	5,304	(11,641)
Transfer of cash to board-designated endowment fund	<u>750,000</u>	<u>-</u>	<u>750,000</u>
Endowment net assets, June 30, 2015	\$ 983,055	272,863	1,255,918
Change in value of beneficial interest in endowment funds held by The Dayton Foundation	24,372	(7,525)	16,847
Transfer of cash to board-designated endowment fund	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Endowment net assets, June 30, 2016	\$ <u>1,507,427</u>	<u>265,338</u>	<u>1,772,765</u>

5. FAIR VALUE:

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

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

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

Beneficial interest in endowment funds held by The Dayton Foundation: The Organization maintains units of participation in pooled investment fund accounts held at a local community foundation. The investment pool maintains an asset allocation that distributes the pools investments into a variety of classes including equity securities, fixed income securities, and mutual funds. The fair value as reported by The Dayton Foundation is based on the fair value of the individual securities within the pooled account as determined by the custodian using quoted market prices and other techniques, without adjustment by management.

The methods previously described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management believes that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2016 and 2015.

The following table presents the Organization's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2016.

Fair Value Measurements at Reporting Date Using:				
	Total	Level 1	Level 2	Level 3
Beneficial interest in endowment funds held by The Dayton Foundation	\$ 1,772,765	-	-	1,772,765

The following table presents the Organization's fair value hierarchy for assets measured at fair value on a recurring basis as of June 30, 2015.

Fair Value Measurements at Reporting Date Using:				
	Total	Level 1	Level 2	Level 3
Beneficial interest in endowment funds held by The Dayton Foundation	\$ 1,255,918	-	-	1,255,918

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

			Beneficial interest in assets held by others	
			2016	2015
Balance, beginning of year	\$	1,255,918	517,559	
Contributions		500,000	750,000	
Change in value of beneficial interest in endowment funds, held at end of year		16,847	(11,641)	
Balance, end of year	\$	1,772,765	1,255,918	

6. CAPITAL LEASE OBLIGATIONS:

The Organization financed the purchase of three vehicles through capital leases. Capital lease obligations consisted of the following at June 30:

Capital lease obligation, monthly payments of \$1,425 each, due through June 2016, collateralized by equipment	\$ -	16,520
Capital lease obligation, monthly payments of \$1,330 each, due through June 2016, collateralized by equipment	-	14,960
Capital lease obligation, monthly payments of \$1,550 each, due through June 2019, collateralized by equipment	<u>52,183</u>	<u>68,104</u>
	\$ <u>52,183</u>	<u>99,584</u>

The vehicles had a cost basis of \$267,201 at June 30, 2016 and 2015 and a net book value of \$123,662 and \$150,382 at June 30, 2016 and 2015, respectively.

Interest expense on the capital leases was \$4,259 and \$7,668 for the years ended June 30, 2016 and 2015, respectively.

Minimum future lease payments under the capital lease as of June 30, 2016, were as follows:

2017	\$ 18,600
2018	18,600
2019	<u>18,600</u>
Total future minimum payments	55,800
Less amounts representing interest	<u>(3,617)</u>
Present value of net minimum lease payments	52,183
Less current maturities	<u>(16,636)</u>
	\$ <u>35,547</u>

7. TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2016</u>	<u>2015</u>
Program specific:		
Equipment - donated	\$ 63,443	78,371
The Lester Haubach Fund for The Foodbank, Inc.	<u>265,338</u>	<u>272,863</u>
	<u>\$ 328,781</u>	<u>351,234</u>

8. EMPLOYEE BENEFITS:

The Organization offers retirement benefits for all of its eligible full-time employees. The defined contribution plan meets the requirements of Internal Revenue Code Section 403(b) and is funded by contributions from the Organization and employees. Contributions are paid as accrued. Employees vest over five years in employer contributions. Organization contributions were \$21,977 and \$12,046 for the years ended June 30, 2016 and 2015, respectively.

The Foodbank, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Entity/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>		
<i>Passed through Shared Harvest Foodbank:</i>		
Food Distribution Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	\$ 133,347
Emergency Food Assistance Program (Commodities)	10.569	1,615,598
		<u>1,748,945</u>
<i>Passed through Ohio Department of Job and Family Services:</i>		
Commodity Supplemental Food Program	10.565	<u>7,231</u>
Total U.S. Department of Agriculture		<u>1,756,176</u>
<u>U.S. Department of Health and Human Services:</u>		
<i>Passed through Ohio Association of Foodbanks:</i>		
Social Services Block Grant	93.667	110,263
Temporary Assistance for Needy Families	93.558	950,681
Total U.S. Department of Health and Human Services		<u>1,060,944</u>
<u>U.S. Department of Homeland Security</u>		
<i>Passed through the United Way:</i>		
Emergency Food and Shelter National Board Program	97.024	<u>60,000</u>
Total U.S. Department of Homeland Security		<u>60,000</u>
Total expenditures of federal awards		\$ <u>2,877,120</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Foodbank, Inc. under programs of the federal government for the year ended June 30, 2016 presented on the accrual basis of accounting. This 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). The Organization has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note B - Donated Commodities

The amounts reported as federal expenditures for certain federal programs represents federal commodities distributed to pantries and other qualified agencies during the fiscal year at U.S. Department of Agriculture prices. The value of federal commodities on hand at June 30, 2016 was:

CFDA No. 10.569 \$62,868
CFDA No. 93.667 \$11,393
CFDA No. 93.558 \$98,232

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

The Board of Directors
The Foodbank, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Foodbank, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Foodbank, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws,

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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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Dayton, Ohio
September 28, 2016

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

The Board of Directors
The Foodbank, Inc.

Report on Compliance for Each Major Federal Program

We have audited The Foodbank, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of The Foodbank, Inc.'s major federal programs for the year ended June 30, 2016. The Foodbank, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, The Foodbank, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with the Uniform Guidance?	none
Identification of major programs:	
Food Distribution Cluster:	
CFDA 10.568 Emergency Food Assistance Program (Administrative Costs)	
CFDA 10.569 Emergency Food Assistance Program (Commodities)	
Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

The Foodbank, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

There were no findings noted in the prior audit that were required to be reported in accordance with *Government Auditing Standards*.

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no significant deficiencies or material weaknesses with respect to internal controls over compliance with requirements that could have a direct and material effect on a major federal program were reported in the prior year.

