



PHILLIPS, SALMI + ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

MIDWEST FOOD BANK, NFP

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Midwest Food Bank, NFP
Bloomington, Illinois

We have audited the accompanying financial statements of Midwest Food Bank, NFP (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets - modified cash basis as of December 31, 2016, and the related statements of support, revenue, expenses and changes in net assets - modified cash basis, functional expenses - modified cash basis, and cash flows - modified cash basis, for the year 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe 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 assets, liabilities, and net assets of Midwest Food Bank, NFP as of December 31, 2016 and its support, revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Phillips, Salmi & Associates, LLC

Washington, Illinois
June 27, 2017

MIDWEST FOOD BANK, NFP
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS -
MODIFIED CASH BASIS
DECEMBER 31, 2016

ASSETS

| | | |
|-------------------------------------|--------|------------------------------|
| Cash and cash equivalents | \$ | 4,922,446 |
| Inventory | | 11,386,992 |
| Land, buildings and equipment (net) | | <u>12,554,884</u> |
| TOTAL ASSETS | \$ | <u><u>28,864,322</u></u> |

LIABILITIES AND NET ASSETS

| | | |
|--------------------------------------|--------|------------------------------|
| Liabilities | | |
| Lines of credit | \$ | 2,178,489 |
| Real estate tax advances | | 117,493 |
| Other liabilities | | 1,850 |
| Notes payable | | <u>2,516,511</u> |
| TOTAL LIABILITIES | | <u>4,814,343</u> |
| Net Assets | | |
| Unrestricted | | 23,665,555 |
| Temporarily restricted | | <u>384,424</u> |
| TOTAL NET ASSETS | | <u>24,049,979</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ | <u><u>28,864,322</u></u> |

See accompanying notes.

MIDWEST FOOD BANK, NFP
STATEMENT OF SUPPORT, REVENUE, EXPENSES AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Totals</u> |
|---|--------------------------|-----------------------------------|--------------------------|
| PUBLIC SUPPORT AND REVENUE | | | |
| Contributions | | | |
| General public | \$ 6,850,716 | \$ 1,472,728 | \$ 8,323,444 |
| Donated food, vehicles, equipment and services | 131,017,314 | - | 131,017,314 |
| Special events revenue | 700,966 | - | 700,966 |
| Less: costs of direct benefits to donors | <u>(205,483)</u> | <u>-</u> | <u>(205,483)</u> |
| Net revenue from special events | <u>495,483</u> | <u>-</u> | <u>495,483</u> |
| Other income | | | |
| Tender Mercies | 73,396 | - | 73,396 |
| Interest | 346 | - | 346 |
| Rent | 47,800 | - | 47,800 |
| Other | 42,345 | - | 42,345 |
| Net assets released from purpose restrictions | <u>1,291,847</u> | <u>(1,291,847)</u> | <u>-</u> |
| Total Public Support and Revenue | <u>139,819,247</u> | <u>180,881</u> | <u>140,000,128</u> |
| EXPENSES | | | |
| Program services | 133,454,568 | - | 133,454,568 |
| Management and general | 850,732 | - | 850,732 |
| Fundraising | <u>296,726</u> | <u>-</u> | <u>296,726</u> |
| Total Expenses | <u>134,602,026</u> | <u>-</u> | <u>134,602,026</u> |
| CHANGE IN NET ASSETS | 5,217,221 | 180,881 | 5,398,102 |
| NET ASSETS - BEGINNING | <u>18,448,334</u> | <u>203,543</u> | <u>18,651,877</u> |
| NET ASSETS - ENDING | <u>\$ 23,665,555</u> | <u>\$ 384,424</u> | <u>\$ 24,049,979</u> |

See accompanying notes.

MIDWEST FOOD BANK, NFP
STATEMENT OF FUNCTIONAL EXPENSES -
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2016

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Expense</u> |
|--|-------------------------------------|-----------------------------------|---------------------------------|-------------------------------------|
| Wages | \$ 451,743 | \$ 425,166 | \$ 180,139 | \$ 1,057,048 |
| Payroll taxes | 35,357 | 33,220 | 14,155 | 82,732 |
| Total payroll costs | 487,100 | 458,386 | 194,294 | 1,139,780 |
| Donated food and supplies | 129,836,248 | - | - | 129,836,248 |
| Contributed management salaries | 15,000 | 97,500 | 37,500 | 150,000 |
| Contributed professional truck driver services | 106,646 | - | - | 106,646 |
| Purchased food | 396,393 | - | - | 396,393 |
| Fuel | 231,212 | - | - | 231,212 |
| Professional fees | - | 36,168 | - | 36,168 |
| Supplies | 105,712 | 56,124 | - | 161,836 |
| Telephone and internet | 53,209 | 13,386 | 11,831 | 78,426 |
| Shipping | 574,053 | - | - | 574,053 |
| Occupancy | 26,336 | - | - | 26,336 |
| Equipment rental and maintenance | 329,858 | - | - | 329,858 |
| Interest | 56,428 | 2,970 | - | 59,398 |
| Insurance | 148,474 | 7,814 | - | 156,288 |
| Utilities | 229,968 | 12,104 | - | 242,072 |
| Advertising/promotional/events | - | 32,859 | 32,859 | 65,718 |
| Purchased services | 100,314 | 31,465 | 499 | 132,278 |
| Travel | 23,611 | 7,870 | - | 31,481 |
| Miscellaneous | 12,586 | 56,248 | 19,743 | 88,577 |
| Total expenses before depreciation | 132,733,148 | 812,894 | 296,726 | 133,842,768 |
| Depreciation | 721,420 | 37,838 | - | 759,258 |
| TOTAL EXPENSES | <u><u>\$ 133,454,568</u></u> | <u><u>\$ 850,732</u></u> | <u><u>\$ 296,726</u></u> | <u><u>\$ 134,602,026</u></u> |

See accompanying notes.

MIDWEST FOOD BANK, NFP
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2016

| | |
|--|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 5,398,102 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | |
| Depreciation | 759,258 |
| Non-cash donation of equipment | (48,358) |
| Non-cash donation of capitalized services | (15,983) |
| Gain on disposal of equipment | (6,000) |
| Contributions restricted for long-term investment | (1,167,077) |
| Increase in operating assets | |
| Inventory | (824,591) |
| | <u>4,095,351</u> |
| Net cash provided by operating activities | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sale of equipment | 6,000 |
| Acquisitions of property and equipment | (5,273,456) |
| | <u>(5,267,456)</u> |
| Net cash used in investing activities | |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from contributions restricted for investment in land, buildings and equipment | 1,167,077 |
| New borrowings | |
| Line of credit | 1,630,025 |
| Notes payable | 2,085,000 |
| Debt reduction | |
| Line of credit | (350,000) |
| Notes payable | (136,288) |
| | <u>4,395,814</u> |
| Net cash provided by financing activities | |
| INCREASE IN CASH AND CASH EQUIVALENTS | 3,223,709 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>1,698,737</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>\$ 4,922,446</u></u> |
| SUPPLEMENTAL DATA | |
| Cash paid for interest | <u><u>\$ 59,398</u></u> |

See accompanying notes.

MIDWEST FOOD BANK, NFP
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Organization and Reporting Entity

Midwest Food Bank, NFP (Organization) is a nonprofit organization, which bestows food and supplies to individuals and organizations in ten states and East Africa as well as providing disaster relief across the United States for those areas impacted by natural disasters. The Organization has warehouse facilities in Illinois, Indiana, Florida, Georgia and Arizona.

B) Basis of Accounting

The Organization's records are maintained and the financial statements are prepared on the modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America, which require that revenues be recognized when earned and expenses be recognized when an obligation is incurred, regardless of when cash is received or disbursed.

The modifications from cash basis are capitalizing land, buildings and equipment and depreciating over their estimated useful lives and presenting loan agreements.

C) Basis of Presentation

The Organization 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. These net assets classifications are described as follows:

Unrestricted Net Assets – not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

Temporarily Restricted Net Assets – subject to donor-imposed stipulations that may be fulfilled by actions of the Organization to meet the stipulations or become unrestricted at the date specified by the donor. Restricted assets that satisfy the stipulation in the same year in which they are received are classified as unrestricted net assets.

Permanently Restricted Net Assets – subject to donor-imposed stipulations that they be retained and invest permanently by the Organization. The Organization has no permanently restricted net assets.

MIDWEST FOOD BANK, NFP
NOTES TO FINANCIAL STATEMENTS – Continued

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D) Accounting Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of estimates based on management’s knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

E) Cash and Currency Exchange

The functional currency of the Organization is U.S. dollars. East African transactions and balances were converted to U.S. dollars using a monthly average conversion rate. Building and equipment purchases were converted at the exchange rate on the date of purchase. Ending cash balances were converted at the exchange rate at December 31, 2016.

F) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The approximate credit risk in excess of federal insured limits at December 31, 2016 was \$3,060,000.

G) Land, Building and Equipment

Land, buildings and equipment are stated at cost or if donated, at the fair value at the date of donation. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Land, building and equipment expenditures of \$1,000 or less are charged to expense when incurred. Depreciation expense for year ended December 31, 2016 totaled \$759,258. Depreciation is computed on the straight line basis of depreciation over the estimated useful lives of the assets as follows:

| | |
|------------------------------------|------------|
| Building | 40 years |
| Building improvements | 7-15 years |
| Warehouse equipment | 5-10 years |
| Trucks and trailers | 5-7 years |
| Freezers | 7 years |
| Office and miscellaneous equipment | 5-15 years |

MIDWEST FOOD BANK, NFP
NOTES TO FINANCIAL STATEMENTS – Continued

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H) Donations-In-Kind

Contributed food and supplies received by the Organization are recorded as income along with a corresponding charge to expense or inventory. Donations-in-kind of food and supplies recognized in the financial statements for the year ended December 31, 2016 were \$129,836,248.

Contributed vehicles and equipment received by the Organization and to be used by the Organization are recorded as income along with a corresponding charge to equipment. Donations-in-kind of vehicles and equipment recognized in the financial statements for the year ended December 31, 2016 were \$48,358.

Contributed services of professional truck drivers, accounting, and executive management are recognized as in-kind revenues at the estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated; these amounted to \$256,646 for the year ended December 31, 2016.

Over 16,950 people participated in the Organization's volunteer program during the year ended December 31, 2016. Community members volunteered in many capacities. A dollar valuation of their efforts is not included in the financial statements because it does not meet the criteria for recognition. However, volunteer hours for the year ended December 31, 2016 were approximately 168,000.

I) Inventory

Inventory is stated at an estimated fair market value based upon published prices, vendors, donors and other sources. Generally, inventory on hand is tracked and valued based on value per case depending upon the specific food or supply item. The method is applied consistently. The per-case valuation is reassessed quarterly utilizing the most relevant cost information available.

J) Income Taxes

Midwest Food Bank is a not-for-profit corporation and claims exemption from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of State tax codes. 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).

The Organization believes there are no significant uncertain tax positions resulting in liabilities that would have been required to be recorded for the year ended December 31, 2016.

MIDWEST FOOD BANK, NFP
NOTES TO FINANCIAL STATEMENTS – Continued

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The Organization conducts business in the U.S. and, as a result, files income tax informational returns for the U.S. and Illinois. In the normal course of business, the Organization is subject to examination by taxing authorities. The Organization's income informational returns for years subsequent to December 31, 2013 are open, by statute, for review by authorities. However, at present, there are no ongoing income tax audits or unresolved disputes with the various tax authorities that Midwest Food Bank currently files or has filed with.

K) Economic Dependence

Contributed Food and Supplies Donors

In 2016, the largest food and supplies donor accounted for about 26% of the food and supplies donations received by the Organization.

L) Subsequent Events

Subsequent events are events or transactions that occur after the statement of assets, liabilities and net assets – modified cash basis date but before financial statements were issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of assets, liabilities, and net assets – modified cash basis, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of assets, liabilities, and net assets – modified cash basis but arose after that date (that is, non-recognized subsequent events).

The Organization has evaluated subsequent events through June 27, 2017, which was the date the financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

M) Functionalization of Expenses

The costs of providing the various programs and supporting series are summarized on a functional basis in the statement of support, revenue, and expenses and changes in net assets – modified cash basis. Accordingly, specific expenses are charged directly to the related programs and general expenses are allocated to the various programs and supporting services based on employee time studies.

MIDWEST FOOD BANK, NFP
 NOTES TO FINANCIAL STATEMENTS – Continued

2) LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment consist of:

| | | |
|------------------------------------|----|-------------------|
| Land | \$ | 1,587,941 |
| Buildings and improvements | | 10,578,168 |
| Warehouse equipment | | 807,807 |
| Trucks and trailers | | 2,820,624 |
| Freezers | | 745,756 |
| Office and miscellaneous equipment | | 164,001 |
| Construction in process | | 627,128 |
| | | <hr/> |
| | | 17,331,425 |
| Less accumulated depreciation | | 4,776,541 |
| | | <hr/> |
| Land, buildings and equipment, net | \$ | <u>12,554,884</u> |

3) DEBT

LINES OF CREDIT

| | | |
|---|----|------------------|
| \$1,000,000, interest due quarterly at 3.25%, secured by real property in McLean County, Illinois, Maturity date of July 8, 2019 | \$ | 648,489 |
| \$1,530,000, interest due quarterly at 3.00%, secured by real property in McLean County, Illinois, maturity date of November 23, 2021 | | 1,530,000 |
| | | <hr/> |
| Total | \$ | <u>2,178,489</u> |

MIDWEST FOOD BANK, NFP
 NOTES TO FINANCIAL STATEMENTS – Continued

3) DEBT – Continued

NOTES PAYABLE

| | |
|---|---------------------|
| TERM NOTE \$600,000, interest at 2.75%, 59 monthly installments of \$5,736, including interest, with a final balloon payment due on October 26, 2017. Secured by real property in Tazewell County, Illinois | \$ 363,718 |
| TERM NOTE \$200,000, interest at 3.0%, 60 monthly installments of \$3,598, including interest, with a final payment due on July 15, 2019. | 107,052 |
| TERM NOTE \$300,000, interest at 2.25%, 59 monthly installments of \$2,798, including interest, with a final balloon payment due on February 15, 2021. Secured by real property in McLean County, Illinois. | 277,520 |
| TERM NOTE \$1,785,000, interest at 3.00%, 19 quarterly installments of \$29,869, including interest, with a final balloon payment due on September 8, 2021. Secured by real property in Maricopa County, Arizona. | <u>1,768,221</u> |
| Total | <u>\$ 2,516,511</u> |

On November 22, 2016, the Organization entered into a construction loan agreement with a maximum borrowing limit of \$750,000. The loan bears interest on each advance from the date of the advance at a rate of 3.15%. The interest will be payable monthly. The maturity date of this loan is November 22, 2018. The loan is secured by real property in Peachtree City, Georgia. At December 31, 2016, the Organization had not taken an advance on the loan.

The future minimum payments on the above notes payable are as follows:

| | |
|-------|---------------------|
| 2017 | \$ 498,169 |
| 2018 | 138,378 |
| 2019 | 124,249 |
| 2020 | 102,097 |
| 2021 | <u>1,653,618</u> |
| Total | <u>\$ 2,516,511</u> |

MIDWEST FOOD BANK, NFP
 NOTES TO FINANCIAL STATEMENTS – Continued

3) RESTRICTIONS ON NET ASSETS

Donations totaling \$1,472,728 were received during 2016 restricted for food distribution, Tender Mercies program, facility purchase and expansion, and purchase of trailers. At the end of the year remaining temporarily restricted net assets consisted of \$104,274 for food distribution, \$11,075 for Tender Mercies, \$42,104 for purchase of trailers, \$29,887 for disaster relief and \$197,084 for facility purchase and expansion.

4) RELATED PARTY TRANSACTIONS

Midwest Food Bank may purchase goods or services from companies that are affiliated with or owned by Board members directly or indirectly. Generally, items and services are purchased using a competitive process. Insurance coverage was brokered through an agency owned by a Board member during the year ended December 31, 2016. The related commissions, if any, are immaterial to the financial statements. The Organization also borrows money from a bank where a Board member is a stockholder and director. The interest expense from these loans is \$38,922 for the year ended December 31, 2016.

5) LEASING ACTIVITIES

The Organization leases a portion of their commercial buildings to third parties. The rental income was \$47,800 at December 31, 2016.

The future minimum rental income is as follows:

| | | |
|-------|----|---------------|
| 2017 | \$ | 27,000 |
| 2018 | | 27,000 |
| 2019 | | 6,750 |
| | | <hr/> |
| Total | \$ | <u>60,750</u> |

During 2014, the Organization entered into a lease for use of a warehouse facility for food storage at the Bloomington location. Under the terms of the lease, the Organization was required to make a set monthly payment through June 30, 2016. The lease was not renewed in 2016.

During 2014, the Organization entered into a land lease agreement at the East Africa location. Under the terms of the lease, the Organization is required to make a fixed annual payment of 1,000 Kenyan Shillings through October 31, 2034. At the end of the lease period, the ownership of the building built on the leased land shall be transferred to the lessor for 20,000 Kenyan Shillings. During 2016, the Organization prepaid the annual payment for the duration of the lease.

During the year ended December 31, 2016, the total lease expense was \$26,336.

MIDWEST FOOD BANK, NFP
NOTES TO FINANCIAL STATEMENTS – Continued

6) COMMITMENTS

At December 31, 2016, the Organization has construction contracts relating to the Georgia expansion project which have an estimated combined commitment of approximately \$982,000. The Organization has recorded construction in progress related to these contracts totaling \$277,514 at December 31, 2016.

At December 31, 2016, the Organization has construction contracts relating to the Bloomington project which have an estimated combined commitment of approximately \$462,963. The Organization has recorded construction in progress related to these contracts totaling \$200,000 at December 31, 2016.