

**GLEANERS COMMUNITY FOOD BANK OF
SOUTHEASTERN MICHIGAN**

Detroit, Michigan

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended September 30, 2016 and 2015

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Gleaners Community Food Bank of Southeastern Michigan
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Gleaners Community Food Bank of Southeastern Michigan (the "Organization"), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, cash flows and functional expenses 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 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 audit. We conducted our audit 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 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 Organization as of September 30, 2016, and the changes in its net assets, its cash flows and its functional expenses for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Gleaners Community Food Bank of Southeastern Michigan's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 9, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Report on Supplementary Information (unaudited)

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The nonaccounting information shown on page 17, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The nonaccounting information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on 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 March 15, 2017 on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
March 15, 2017

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

STATEMENT OF FINANCIAL POSITION As of September 30, 2016 and 2015

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,189,071	\$ 3,677,344
Receivables		
Trade receivable, net of allowance	325,041	242,664
Grants receivable	688,164	784,424
Promises to give	110,844	230,031
Promises to give for the use of facilities	141,960	141,960
Food inventories		
Donated inventory	2,403,060	1,434,962
Purchased inventory	267,194	230,359
Prepaid expenses	122,424	219,765
Total Current Assets	8,247,758	6,961,509
PROPERTY AND EQUIPMENT, NET	3,831,513	4,021,195
OTHER ASSETS		
Promises to give for the use of facilities, non-current, net of discount	56,478	198,438
Cash surrender value of life insurance	77,697	87,745
Beneficial interest in charitable remainder unitrust	1,219,285	1,182,462
Beneficial interest in funds held at the Community Foundation for Southeastern Michigan	1,635,210	1,572,645
Total Other Assets	2,988,670	3,041,290
TOTAL ASSETS	\$ 15,067,941	\$ 14,023,994
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 808,900	\$ 780,538
Accrued liabilities	500,320	364,035
Total Current Liabilities	1,309,220	1,144,573
NET ASSETS		
Unrestricted		
Cash and other activities	6,812,076	6,836,513
Noncash food donations/distributions	2,403,060	1,434,962
Total Unrestricted	9,215,136	8,271,475
Temporarily restricted	2,830,678	2,947,556
Permanently restricted	1,712,907	1,660,390
Total Net Assets	13,758,721	12,879,421
TOTAL LIABILITIES AND NET ASSETS	\$ 15,067,941	\$ 14,023,994

See accompanying notes to financial statements.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

STATEMENTS OF ACTIVITIES For the Year Ended September 30, 2016 (with Comparative Totals for the Year Ended September 30, 2015)

	Cash and Other Activities	Noncash Food Donations/ Distributions	Total Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
REVENUE AND OTHER SUPPORT							
Donated food received	\$ -	\$ 57,663,399	\$ 57,663,399	\$ -	\$ -	\$ 57,663,399	\$ 39,958,617
Contributions, grants and other revenue							
Contributions	10,060,222	-	10,060,222	1,893,131	-	11,953,353	12,198,461
Special events, net of direct expenses of \$363,294 and \$320,130 in 2016 and 2015, respectively	117,644	-	117,644	-	-	117,644	48,151
United Way	231,844	-	231,844	-	-	231,844	201,920
Grants and indirect support	2,315,386	-	2,315,386	139,577	-	2,454,963	2,819,912
Purchased food revenue	4,139,923	-	4,139,923	-	-	4,139,923	4,171,829
Agency shared maintenance fee	684,286	-	684,286	-	-	684,286	607,237
Change in beneficial interest in charitable remainder unitrust	-	-	-	36,823	-	36,823	(62,860)
Investment income	169,929	-	169,929	-	-	169,929	168,466
Change in cash surrender value of life insurance	-	-	-	-	(10,048)	(10,048)	(7,511)
Change in beneficial interest in funds held at the Community Foundation for Southeast Michigan	-	-	-	-	62,565	62,565	(175,049)
Other	169,058	-	169,058	-	-	169,058	133,491
Total Contributions, Grants and Other Revenue	<u>17,888,292</u>	<u>-</u>	<u>17,888,292</u>	<u>2,069,531</u>	<u>52,517</u>	<u>20,010,340</u>	<u>20,104,047</u>
Net assets released from restrictions	<u>2,186,409</u>	<u>-</u>	<u>2,186,409</u>	<u>(2,186,409)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Support	<u>20,074,701</u>	<u>57,663,399</u>	<u>77,738,100</u>	<u>(116,878)</u>	<u>52,517</u>	<u>77,673,739</u>	<u>60,062,664</u>
EXPENSES							
Program services - Food Bank							
Personnel expense	4,683,979	-	4,683,979	-	-	4,683,979	4,101,215
Purchased food distributed	4,796,364	-	4,796,364	-	-	4,796,364	5,089,762
Donated food distributed	-	56,695,301	56,695,301	-	-	56,695,301	40,996,984
Transportation expenses	774,264	-	774,264	-	-	774,264	616,502
Occupancy expense	1,616,282	-	1,616,282	-	-	1,616,282	1,537,962
General and administrative expense	4,404,767	-	4,404,767	-	-	4,404,767	3,970,263
Total Program Services - Food Bank	<u>16,275,656</u>	<u>56,695,301</u>	<u>72,970,957</u>	<u>-</u>	<u>-</u>	<u>72,970,957</u>	<u>56,312,688</u>
Supporting services							
Management and general	809,964	-	809,964	-	-	809,964	707,716
Fundraising	3,013,518	-	3,013,518	-	-	3,013,518	2,994,373
Total Supporting Services	<u>3,823,482</u>	<u>-</u>	<u>3,823,482</u>	<u>-</u>	<u>-</u>	<u>3,823,482</u>	<u>3,702,089</u>
Total Expenses	<u>20,099,138</u>	<u>56,695,301</u>	<u>76,794,439</u>	<u>-</u>	<u>-</u>	<u>76,794,439</u>	<u>60,014,777</u>
CHANGE IN NET ASSETS	(24,437)	968,098	943,661	(116,878)	52,517	879,300	47,887
NET ASSETS - Beginning of Year	<u>6,836,513</u>	<u>1,434,962</u>	<u>8,271,475</u>	<u>2,947,556</u>	<u>1,660,390</u>	<u>12,879,421</u>	<u>12,831,534</u>
NET ASSETS - END OF YEAR	<u>\$ 6,812,076</u>	<u>\$ 2,403,060</u>	<u>\$ 9,215,136</u>	<u>\$ 2,830,678</u>	<u>\$ 1,712,907</u>	<u>\$ 13,758,721</u>	<u>\$ 12,879,421</u>

See accompanying notes to financial statements.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

STATEMENTS OF CASH FLOWS For the Year Ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 879,300	\$ 47,887
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	382,491	437,978
Noncash rent expense for use of facilities	141,960	141,961
Bad debt expense	137,975	34,260
Change in donated food inventories	(968,098)	1,038,367
Change in beneficial interest in Community Foundation for Southeast Michigan	(62,565)	62,860
Change in beneficial interest in charitable remainder unitrust	(36,823)	175,049
Change in cash surrender value of life insurance	10,048	7,511
Changes in operating assets and liabilities that provided (used) cash		
Accounts and grants receivable, net	(4,905)	254,305
Purchased inventory	(36,835)	90,290
Prepaid expenses	97,341	(153,743)
Accounts payable	33,532	(359,381)
Accrued liabilities	136,285	118,775
Net cash flows from operating activities	709,706	1,896,119
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(197,979)	(936,627)
Net cash flows from investing activities	(197,979)	(936,627)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	-	(37,033)
Net cash flows from financing activities	-	(37,033)
Net Change in Cash and Cash Equivalents	511,727	922,459
CASH AND CASH EQUIVALENTS - Beginning of Year	3,677,344	2,754,885
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,189,071	\$ 3,677,344
Supplemental cash flow disclosures		
Value of donated food received	\$ 57,663,399	\$ 39,958,617
Value of donated food distributed	56,695,301	40,996,983
Value of noncash rent expense for use of facilities	141,960	141,961
Noncash investing and financing activities		
Purchases of property and equipment in accounts payable	5,170	59,086

See accompanying notes to financial statements.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended September 30, 2016 (with Comparative Totals for the Year Ended September 30, 2015)

	Program Services- Food Bank	Management and General	Fundraising	2016 Total	2015 Total
Personnel expense					
Salaries	\$ 3,760,198	\$ 528,762	\$ 1,163,277	\$ 5,452,237	\$ 4,735,621
Payroll taxes and employee benefits	923,781	135,850	298,870	1,358,501	1,246,169
Total Personnel Expense	<u>4,683,979</u>	<u>664,612</u>	<u>1,462,147</u>	<u>6,810,738</u>	<u>5,981,790</u>
Transportation expense	<u>774,264</u>	-	-	<u>774,264</u>	<u>616,502</u>
Occupancy expense					
Depreciation	382,491	-	-	382,491	437,978
Rent	285,948	-	-	285,948	282,239
Warehouse supplies	207,251	-	-	207,251	153,316
Utilities	254,642	28	5,224	259,894	254,774
Insurance	64,790	13	2,546	67,349	62,435
Repairs and maintenance	256,198	350	-	256,548	227,146
Security	61,171	12	2,186	63,369	70,136
Uniforms	22,270	-	-	22,270	24,769
Other occupancy	81,521	7	1,314	82,842	70,131
Total Occupancy Expense	<u>1,616,282</u>	<u>410</u>	<u>11,270</u>	<u>1,627,962</u>	<u>1,582,924</u>
Other operating expense					
Food bank affiliation requirements	63,334	-	-	63,334	98,326
Telephone	74,598	10,970	24,135	109,703	107,450
Operation Frontline	1,142,362	-	-	1,142,362	1,108,248
Travel and meetings	91,700	13,485	29,668	134,853	109,932
Office supplies and expense	199,773	29,378	64,633	293,784	272,438
On line service	452	66	146	664	547
Solicitation mailings	-	-	904,275	904,275	1,060,364
Public relations	5,110	752	1,653	7,515	12,259
Bank service charges	118,380	17,409	38,300	174,089	160,326
Bad debts	137,975	-	-	137,975	19,395
Agency support	1,490,659	-	-	1,490,659	1,397,462
Professional fees	480,468	70,657	155,446	706,571	463,637
Media and communications	316,945	-	316,945	633,890	583,652
Federal Emergency Management Agency distributed	58,022	-	-	58,022	142,241
Miscellaneous	224,989	2,225	4,900	232,114	210,539
Total Other Operating Expense	<u>4,404,767</u>	<u>144,942</u>	<u>1,540,101</u>	<u>6,089,810</u>	<u>5,746,816</u>
Subtotal	<u>11,479,292</u>	<u>809,964</u>	<u>3,013,518</u>	<u>15,302,774</u>	<u>13,928,032</u>
Purchased food distributed	4,796,364	-	-	4,796,364	5,089,762
Donated food distributed	56,695,301	-	-	56,695,301	40,996,983
Total Expenses	<u>\$ 72,970,957</u>	<u>\$ 809,964</u>	<u>\$ 3,013,518</u>	<u>\$ 76,794,439</u>	<u>\$ 60,014,777</u>

See accompanying notes to financial statements.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Gleaners Community Food Bank of Southeastern Michigan (the "Organization") is a Michigan non-profit corporation that was formed April 5, 1977. The Organization was established to collect, warehouse, and distribute food to social agencies that feed the needy throughout Southeastern Michigan. The Organization's revenue is derived principally from donations of food and cash contributions, grants, and shared maintenance fees charged to the social agencies.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand and deposits in money market funds with original maturities when purchased of less than three months. The Organization maintains its deposits in two local financial institutions, which at times may exceed the federally insured limits. Management does not believe the Organization is exposed to any significant interest rates or other financial risk as a result of these deposits.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all-significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of fair value measurements, refer to Note 2 to the financial statements.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Trade Receivables

Trade receivables are stated at the amount management expects to collect from outstanding balances. Management provides probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade receivables. The allowance for doubtful accounts was \$10,463 as of September 30, 2016 and 2015.

Grants Receivable

The Organization receives grants from various funding sources. Invoices are issued to the agencies for release of grant money when food is distributed or direct expenses are incurred. Grants receivable are typically awarded under service arrangements whereby revenue is recognized upon the performance of services as outlined in the grant agreement. There was no allowance for doubtful accounts as of September 30, 2016 and 2015.

Promises to Give

The Organization's promises to give are comprised primarily of amounts committed from individuals and corporations for the Organization's activities. Revenue is recognized when an unconditional promise to give is received; in the absence of such promise, revenue is recognized when the promise to give is collected. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The unamortized discount represents the adjustment required to record promises to give expected to be received in future years at their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions over the period of the promise to give. There was no allowance for doubtful accounts as of September 30, 2016 and 2015.

Promises to Give for the Use of Facilities

The Organization leases facilities at the Mercado for \$1 each year for the operation of a pantry and other community related activities. Operations of the pantry are funded through the generous support of a donor. The lease and donor commitment currently expire in March 2018 with optional renewal periods. The Organization has recorded promises to give of \$198,438 and \$340,398 on the statements of financial position for the years ending September 30, 2016 and 2015, respectively.

Inventories

Inventory of purchased food is stated at lower of cost, determined by first-in, first-out ("FIFO") method, or market. Donated food inventory is valued at estimated fair value according to a per pound amount, by food category, determined by utilizing the Agreed Upon Procedures report prepared by KPMG LLP for Feeding America, a national food bank network of which the Organization is a member, using the FIFO method of valuation.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Prepaid Expenses

Payments to vendors for services that will benefit periods beyond the Organization's fiscal year end are recorded as prepaid expenses.

Property, Equipment, and Depreciation

Purchased land, building, vehicles, and equipment are stated at cost. Donated land, building, property and equipment are recorded at approximate fair value at the date of the gift. Major improvements and renewals in excess of \$5,000 are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these assets to determine whether carrying values have been impaired. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, which range from 3-40 years.

Classification of Net Assets

The Organization classifies resources for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three categories follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that are maintained permanently by the Organization.

Revenues are reported as an increase in unrestricted net assets unless one of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets.

Contributions, Grants, and Revenue Recognition

Contributions of cash or other assets including unconditional promises to give in the future are recognized at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows on a recurring basis. Contributions without donor-imposed restrictions are reported as unrestricted support. Other restricted contributions are reported as temporarily or permanently restricted net assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Functional Allocation of Expenses

The costs of providing the program and supporting services have been reported on a functional basis in the statement of activities. Indirect costs have been allocated between the various programs and supporting services based on estimates by management.

Contributed Services

Contributions of services are recognized when they are received for services that (a) create or enhance nonfinancial assets or (b) require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not donated. No such services were provided for the years ended September 30, 2016 and 2015.

A number of unpaid volunteers have made significant contributions of their time to support the Organization's programs. The value of these contributed services is not reflected in these statements because they did not create or enhance nonfinancial assets or involve specialized services.

Income Taxes

The Organization is a not-for-profit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is exempt from similar state and local taxes. Although the Organization was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to "unrelated business taxable income." Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from contributions. The Organization has been classified as not a private foundation.

The Organization analyzes its income tax filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions, to identify potential uncertain tax positions. The Organization treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its management and general expense.

The Organization has concluded that there are no significant uncertain tax positions requiring recognition in the Organization's financial statements. The organization does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next twelve months. The Organization does not have any amounts accrued for interest and penalties related to UTBs at September 30, 2016 or 2015, and are not aware of any claims for such amounts by federal or state income tax authorities.

Contingencies

Amounts received or expended by the Organization under various federal programs are subject to audit by governmental agencies. In the opinion of management, any such program audits would not have a significant effect on the financial position of the Organization.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Reclassification

Certain amounts as reported in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications have no effect to total net assets or changes in net assets.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2015, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events, or transactions that occurred during the period subsequent to September 30, 2016, the most recent statement of financial position presented herein through March 15, 2017, the issuance date of these financial statements. No such significant events or transactions were identified.

NOTE 2 - Fair Value Measurements

The Organization utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Beneficial interests are recorded at fair value on a recurring basis. Additionally, from time to time, the Organization may be required to record at fair value other assets on a nonrecurring basis, such as property held for sale and other long lived assets. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets recorded at fair value.

Beneficial Interest In Charitable Remainder Unitrust: Fair value measurements of this asset are determined by the underlying investments in the trust which are based upon quoted prices, as well as the present value of future payments to other beneficiaries, changes in actual assumptions, and a rate of return of 4.2% and a discount rate of 3% as of September 30, 2016. The rate of return was 4.3% and the discount rate was 3% as of September 30, 2015.

Beneficial Interest in funds held at Community Foundation for Southeast Michigan (the "Foundation"): The Organization has allocated its portion to the total fair values of the underlying securities held by the Foundation (level 3 inputs).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its 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.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended September 30, 2016 and 2015

NOTE 2 - Fair Value Measurements (cont.)

The following table sets forth, by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring and non-recurring basis:

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Beneficial Interest in Charitable Remainder Unitrust	\$ 1,219,285	\$ -	\$ -	\$ 1,219,285
Beneficial Interest in Community Foundation Endowment Fund	<u>1,635,210</u>	<u>-</u>	<u>-</u>	<u>1,635,210</u>
Total	<u>\$ 2,854,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,854,495</u>
	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Beneficial Interest in Charitable Remainder Unitrust	\$ 1,182,462	\$ -	\$ -	\$ 1,182,462
Beneficial Interest in Community Foundation Endowment Fund	<u>1,572,645</u>	<u>-</u>	<u>-</u>	<u>1,572,645</u>
Total	<u>\$ 2,755,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,755,107</u>

The following table sets forth a summary of the changes in the fair value of the Organization's beneficial interest in the charitable remainder unitrust for the years ended September 30:

	2016	2015
Beginning of year	\$ 1,182,462	\$ 1,245,322
Net investment gain (loss)	<u>36,823</u>	<u>(62,860)</u>
End of Year	<u>\$ 1,219,285</u>	<u>\$ 1,182,462</u>

The following table sets forth a summary of the changes in the fair value of the Organization's beneficial interest in funds held at the Community Foundation for Southeast Michigan for the years ended September 30:

	2016	2015
Beginning of year	\$ 1,572,645	\$ 1,747,694
Change in beneficial interest	(16,956)	(13,462)
Net investment income	159,263	(82,357)
Distributions	<u>(79,742)</u>	<u>(79,230)</u>
End of Year	<u>\$ 1,635,210</u>	<u>\$ 1,572,645</u>

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended September 30, 2016 and 2015

NOTE 3 - Property and Equipment

Property and equipment consist of the following at September 30:

	2016	2015
Land	\$ 125,295	\$ 125,295
Building and building improvements	6,543,881	5,588,274
Warehouse equipment	1,150,272	1,141,692
Furniture and equipment	1,534,481	1,518,516
Vehicles	804,239	776,184
Construction in progress	-	815,719
Total property and equipment	10,158,168	9,965,680
Less: Accumulated depreciation	(6,326,655)	(5,944,485)
Net Property and Equipment	\$ 3,831,513	\$ 4,021,195

Estimated costs to complete construction in progress ("CIP") as of September 30, 2015 was approximately \$40,000. CIP as of September 30, 2015 consisted of various projects to complete an outdoor produce garden, which were placed in service in June 2016. There was no construction in progress as of September 30, 2016.

NOTE 4 - Promises to Give for the Use of Facilities

The composition of promises to give for the use of the Mercado Pantry facilities is as follows at September 30:

	2016	2015
Promises to give for the use of facilities	\$ 205,036	\$ 348,985
Less: unamortized discount (to net present value)	6,598	8,587
Promises to Give, Net	\$ 198,438	\$ 340,398

Rent expense for the use of facilities is expected to be recognized in the following years ending September 30:

2017	\$ 141,960
2018	63,076
Total	\$ 205,036

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended September 30, 2016 and 2015

NOTE 5 - Donated Food Received and Distributed

Donated food received and distributed are estimates of the dollar value of the donated food processed by the Organization. The value of donated food received and distributed was recorded as revenue and expense, respectively, based on the weighted average of inventory values (price per pound) at the beginning and end of year.

Pounds of food distributed by the Organization were as follows for the years ended September 30:

	<u>2016</u>	<u>2015</u>
Donated	26,653,156	21,957,454
Purchased	<u>12,281,193</u>	<u>12,578,814</u>
Total	<u><u>38,934,349</u></u>	<u><u>34,536,268</u></u>

NOTE 6 - Line of Credit

The Organization has a line-of-credit agreement with a bank under which the Organization may borrow up to \$1,000,000, due on demand, at the Daily LIBOR Rate plus 2% (effective rate of 2.53% as of September 30, 2016), collateralized by inventory and accounts receivable of the Organization. The line of credit becomes due in August 2017. There were no outstanding borrowings as of September 30, 2016 and 2015.

NOTE 7 - Defined Contribution Plan

Effective July 1, 2008, the Organization began sponsoring a defined contribution retirement plan for its employees who have attained the age of 21 and sixty days of service. Participants may make contributions of their compensation up to the legal limit prescribed by section 401(k) of the Internal Revenue Code. The Organization does not make matching contributions; however, the Organization may make a profit sharing contribution at its discretion, which will be allocated among all eligible employees with a minimum of one year of service, whether or not they make contributions to the Plan. Participants are fully vested in employer match contributions and profit sharing contributions after five years of service. Employer profit sharing expense was \$45,000 for the years ended September 30, 2016 and 2015.

NOTE 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods as of September 30:

	<u>2016</u>	<u>2015</u>
Program services	\$ 833,478	\$ 876,539
Nourishing Hope Breakfast	-	97,315
Client choice pantries	150,000	150,000
Beneficial interest in charitable remainder unitrust	1,219,285	1,182,462
Mercado Pantry	388,477	196,982
Mercado Pantry use of facilities	198,438	340,398
Other time restrictions	41,000	21,520
Eastside Food Pantry	-	82,340
Total	<u><u>\$ 2,830,678</u></u>	<u><u>\$ 2,947,556</u></u>

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended September 30, 2016 and 2015

NOTE 9 - Permanently Restricted Net Assets

Permanently restricted net assets consist of the following components as of September 30:

	<u>2016</u>	<u>2015</u>
Cash surrender value of life insurance (proceeds of policy to be utilized to fund an endowment)	\$ 77,697	\$ 87,745
Beneficial interest in Community Foundation Endowment Fund (see Note 10)	<u>1,635,210</u>	<u>1,572,645</u>
Total Permanently Restricted Net Assets	<u>\$ 1,712,907</u>	<u>\$ 1,660,390</u>

NOTE 10 - Community Foundation Endowment Fund

The Organization has transferred assets to the Community Foundation Endowment Fund for Southeast Michigan (the "Foundation") to establish an endowment fund. The agreement states that the transfer is irrevocable and that the assets will not be returned to the Organization. However, the Foundation will make distributions of income earned on the endowment fund to the Organization, subject to the Foundation's spending policy. Distributions received totaled \$79,742 and \$79,230 during the years ended September 2016 and 2015, respectively. The Organization has recorded a beneficial interest in funds held by the Foundation, totaling \$1,635,210 and \$1,572,645 at September 30, 2016 and 2015, respectively.

In addition, the Foundation has received donations directly from unrelated parties for the benefit of the Organization. The Foundation has retained variance power for these donations. The Organization has not recorded any interest in these assets in the accompanying financial statements. The balance of these invested assets is not recorded in the Organization's financial statements and totaled \$1,826,415 and \$1,756,648 at September 30, 2016 and 2015, respectively.

NOTE 11 - Beneficial Interest in Charitable Remainder Unitrust

The Organization has been named a beneficiary in a charitable remainder unitrust for which a third party serves as trustee. The trust is irrevocable and upon the death of the last remaining recipient, the Organization will receive 20% of the trust net assets. The Organization is not restricted in the use of the trust assets once received. The Organization has recorded a beneficial interest in the charitable remainder unitrust totaling \$1,219,285 and \$1,182,462 at September 30, 2016 and 2015, respectively.

NOTE 12 - Leases

The Organization has a three year operating lease for a warehouse and distribution facility in Howell, Michigan. Monthly payments are required through July 2017. The Organization has a three year operating lease for a warehouse and distribution facility in Taylor, Michigan. Monthly payments are required through September 2018. The Organization also operates warehouse and distribution facilities in Warren, Michigan under a five year operating lease agreement. Monthly payments are required through March 2021. The Organization also leases vehicles under terms of various operating leases. Monthly payments are required through November 2023.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO FINANCIAL STATEMENTS As of and for the Year Ended September 30, 2016 and 2015

NOTE 12 - Leases (cont.)

Total rent expense for vehicles, equipment and facilities was \$729,071 and \$647,021 for the years ended September 30, 2016 and 2015, respectively, and comprised of the following for the year ended September 30:

	<u>2016</u>	<u>2015</u>
Building and warehouse equipment (included in Rent)	\$ 285,948	\$ 282,239
Vehicle (included in Transportation)	391,257	318,628
Office equipment (included in Office Supplies)	51,866	46,154
Total rent expense	<u>\$ 729,071</u>	<u>\$ 647,021</u>

The following is a schedule of annual future minimum lease payments required under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2016:

2017	\$ 511,222
2018	394,946
2019	252,210
2020	215,430
2021	114,807
Thereafter	<u>130,218</u>
	<u>\$ 1,618,833</u>

SUPPLEMENTAL INFORMATION (UNAUDITED)

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SCHEDULE OF OPERATING HIGHLIGHTS (UNAUDITED) For the Year Ended September 30, 2016

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Pounds of food distributed	38,934,349	34,536,268	34,033,691	41,601,477	46,735,853
Pounds of donated food in ending inventory	1,164,827	791,385	1,554,000	902,000	606,000
Weighted average cost per pound	\$ 2.08	\$ 1.81	\$ 1.77	\$ 1.87	\$ 1.54
Pounds of purchased food in ending inventory	575,717	544,800	553,000	473,000	761,000
Cost per pound	\$ 0.46	\$ 0.42	\$ 0.49	\$ 0.48	\$ 0.37
Inventory turnover	28.4	20.7	25.5	24.7	13.6

OTHER INDEPENDENT AUDITORS' REPORTS

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Gleaners Community Food Bank of Southeastern Michigan
Detroit, Michigan

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 Gleaners Community Food Bank of Southeastern Michigan (the "Organization"), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
March 15, 2017

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE

INDEPENDENT AUDITORS' REPORT

Board of Directors
Gleaners Community Food Bank of Southeastern Michigan
Detroit, Michigan

Report on Compliance for Each Major Federal Program

We have audited Gleaners Community Food Bank of Southeastern Michigan's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2016. The Organization'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 Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
March 15, 2017

OTHER INFORMATION

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
U.S DEPARTMENT OF AGRICULTURE			
Food Distribution Cluster			
Passed through the Michigan Department of Education			
Passed through the Food Bank Council of Michigan		not	
Emergency Food Assistance (Administrative Costs)	10.568	available	\$ 92,811
Emergency Food Assistance (Food Commodities)	10.569	not available	<u>2,716,008</u>
Total Food Distribution Cluster			<u>2,808,819</u>
Child Nutrition Cluster			
Passed through the Michigan Department of Education			
Summer Food Service Program for Children	10.559	82SF13000	<u>500,107</u>
Total Child Nutrition Cluster			<u>500,107</u>
Passed through the Michigan Department of Education			
Passed through the Food Bank Council of Michigan			
Child and Adult Care Food Program	10.558	82SF13000	<u>369,440</u>
Supplemental Nutrition Assistance Program Cluster			
State Administrative Matching Grants for the Supplemental Nutrition			
Program			
Passed through the Michigan Department of Health			
and Human Services			
Passed through the Michigan Fitness Foundation		FY 15	
Cooking Matters - Nutrition Program	10.561	GCFB	<u>393,725</u>
Total Supplemental Nutrition Assistance Program Cluster			393,725
TOTAL U.S DEPARTMENT OF AGRICULTURE			<u>4,072,091</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 4,072,091</u>

See accompanying notes to schedule of expenditures of federal awards

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended September 30, 2016

NOTE 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal grant activity of the Organization under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

NOTE 2 - Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended September 30, 2016

Section I: Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Internal control over financial reporting:

Material weakness(es) identified?

Unmodified

<u> X </u> yes		<u> </u> no		<u> </u> none
<u> X </u> yes		<u> </u> reported		

Significant deficiency(ies) identified not considered to be material weaknesses?

Noncompliance material to financial statements noted?

<u> </u> yes		<u> X </u> no
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Federal Awards

Internal control over the major federal programs:

Material weakness(es) identified?

<u> </u> yes		<u> X </u> no		<u> </u> none
<u> </u> yes		<u> X </u> reported		

Significant deficiency(ies) identified not considered to be material weaknesses?

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

<u> </u> yes		<u> X </u> no
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Identification of major federal programs:

CFDA Number(s)

10.568

10.569

10.559

Name of Federal Program or Cluster

Food Distribution Cluster

Food Distribution Cluster

Summer Food Service Program for Children

Dollar threshold used to distinguish between federal Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee?

<u> </u> yes		<u> X </u> no
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GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT.) For the Year Ended September 30, 2016

Section II: Financial Statement Findings

2015-001

Statement of Condition: During the audit, we evaluated the effectiveness of the controls over various transaction cycles. As a result of these procedures, we found various internal control weaknesses relating to segregation of duties. The following are areas where your control over transactions could be improved:

Controls over Journal Entries:

An employee that has the ability to make journal entries to the financial records of the Organization should be reviewed or approved by a person other than the preparer. This employee should also refrain from opening the mail to separate custody of checks and invoices.

Controls over Accounts Payable/Disbursements:

The responsibilities of opening the mail, generating checks, authorizing payment/positive pay, and posting disbursement transactions should be separated.

Controls Over Payroll:

The responsibilities of establishing new employees within the Organization's payroll system and processing payroll should be separated. The personnel responsible for sorting mail, which includes payroll checks should be separate from those who record and approve. In addition, the process of reviewing the reconciliation of the third party payroll report to the general ledger should be performed by someone other than the person performing the reconciliation.

Controls over Accounts Receivable/Receipts:

The responsibilities for opening the mail, preparing the deposit, recording the transaction, and reviewing the deposit against the general ledger should be separated.

Controls over Bank Reconciliations:

The responsibilities for preparing the bank reconciliation, preparing/performing the cash deposit should be separated. Documentation of the bank reconciliation reviewed by someone other than the person performing the reconciliation should be retained.

Criteria: AU-C Section 265, Communicating Internal Control Related Matters Identified in an Audit, requires auditors to communicate circumstances that were evaluated to be material weaknesses in the Organization's structure of internal control.

Cause: The Organization currently operates with a small accounting staff and has not evaluated how segregated duties could be spread to those outside the department.

Effect: Errors or irregularities could occur in your processes that may not be discovered by the Organization's personnel.

Recommendation: We recommend a designated person review the recommendations contained in the conditions above and make suggestions as to the Organization's ability and cost to implement these recommendations. Additionally, the Organization may consider implementing a detective control where a knowledgeable person would review all entries and supporting documentation posted during the period by the Controller to determine that those entries were appropriate.

Management's Response: With the oversight of senior management of the Organization and the Audit Committee, subsequent to September 30, 2016, we have begun to develop plans to remediate the underlying causes of the material weaknesses related the specific segregation of duties. The Organization will improve the design and operating effectiveness of our segregation of duties controls by disseminating the noted tasks and associated excessive responsibilities among multiple experienced individuals to prevent fraud and error. We are committed to maintaining a strong internal control environment and will make remediation efforts to improve our controls. However, some of these remediation efforts will take time to be fully integrated and confirmed to be effective and sustainable. Additional controls may also be required over time. Until remediation steps are fully implemented and tested, the material weaknesses described above will continue to exist.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT.) For the Year Ended September 30, 2016

2015-003

Statement of Condition: During the audit, we evaluated the effectiveness of the controls over various transaction cycles. As a result of these procedures, we found various internal control deficiencies in the design of policies. The following are areas where your control over transactions could be improved:

Controls over Vendor Management:

There is neither a control designed to manage the creation of new vendors nor is there a control designed to manage inactive or old vendors.

Controls over third party payroll system access:

The individual who submits payroll should be separate from those who have access to add/delete employees and rates in the payroll system. Access to the third party system should be limited to active employees.

Criteria: AU-C Section 265, Communicating Internal Control Related Matters Identified in an Audit, requires auditors to communicate circumstances that were evaluated to be significant deficiencies in the Organization's structure of internal control.

Cause: Management has not designed and implemented policies over vendor management and third party payroll system user access.

Effect: Without proper controls and processes designed and implemented around vendor management and third party payroll administrator access, misstatements relating to disbursements could go undetected.

Recommendation: We recommend that management design and implement controls to address these deficiencies. This could include creating a vendor acceptance policy, reviewing the vendor list biannually for duplicates, along with removing or disabling vendors that have not had activity within the last year. Also, we recommend that management limit access to third party payroll vendors and review who has given levels of access annually.

Management's Response: With the oversight of senior management of the Organization and the Audit Committee, subsequent to September 30, 2016, we have begun to develop plans to remediate the underlying causes of the material weaknesses related the specific segregation of duties. The Organization will improve the design and operating effectiveness of our segregation of duties controls by disseminating the noted tasks and associated excessive responsibilities among multiple experienced individuals to prevent fraud and error. We are committed to maintaining a strong internal control environment and will make remediation efforts to improve our controls. However, some of these remediation efforts will take time to be fully integrated and confirmed to be effective and sustainable. Additional controls may also be required over time. Until remediation steps are fully implemented and tested, the material weaknesses described above will continue to exist.

Section III: Federal Findings and Questioned Costs

There were no federal award findings or questioned costs for the year ended September 30, 2016.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended September 30, 2016

2015-001

This finding is repeated in 2016 as finding 2015- 001.

2015-002

Statement of Condition: The Schedule of Expenditures of Federal Awards ("SEFA") provided by management required material adjustment between reported CFDA numbers and removal of non-federal expenditures in order to be in accordance with federal requirements.

Criteria: The Organization should have internal controls in place to track and monitor federal awards to verify the accuracy of required data elements presented.

Cause: Management did not design and implement an effective control to verify the accuracy of the awards expended by CFDA number category and source identification of funding.

Effect: Without the proper controls over accuracy of the SEFA, the Organization reported inaccurate information which could lead to inaccurate major program determination.

Recommendation: We recommend that management revisit their process and controls surrounding the accuracy of required data elements required to be reported on the SEFA.

Management's Response: Management understands the significance of accurate tracking, monitoring and reporting of federal awards. Management will review its processes and controls and will engage additional reviewers to ensure accuracy. In addition, management will contact all funders to ensure proper classification on the SEFA.

Update: Corrective action was taken.

2015-003

This finding is repeated in 2016 as finding 2015- 003.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended September 30, 2016

2015-004

Agency: United States Department of Agriculture

CFDA Number and Program Name: 10.558 - Child and Adult Care Food Program

Statement of Condition: We noted that management did not have adequate and effective internal controls over compliance as it relates to cash management and reporting. We also noted no documentation of second review to verify accuracy of reporting or cash management.

Criteria: The A-102 Common Rule requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. OMB Circular A-133 further requires auditors to obtain an understanding of the non-federal entity's internal control over federal programs. To minimize the risk of errors, internal controls should be in place for all program compliance requirements, including the preparation and submission of reimbursement requests which should be reviewed and approved by a responsible party other than the original preparer.

Questioned Costs: We tested a sample of four requests and noted two of the four overcharged the grant by \$483. One of the four requests undercharged the grant by \$48. We projected the error onto the population and the error was deemed immaterial.

Context: A sample of four different requests were tested and none had a documented review and approval by someone other than the original preparer.

Effect: Reimbursement requests were submitted with inaccurate meal counts which could result in noncompliance with grant requirements or that such noncompliance could go undetected due to a documented lack of controls over compliance relating to cash management and reporting.

Cause: Management has relied on the knowledge and experience of key program employees to perform the compliance requirements and therefore did not institute a requirement to have a documented second review performed for cash management and reporting.

Recommendation: We recommend management review their current documented processes and controls surrounding cash management and reporting to ensure they are in compliance with OMB Circular A-133. Training around these processes and controls would be advisable.

Management's Response: Management acknowledges the importance of having strong processes and controls in place to maintain compliance with all requirements related to the administration of federal awards. Management will review current processes and all documents are currently reviewed and approved by another level of management prior to submission for reimbursement. Management will review the feasibility of additional training for those responsible for cash management and reporting.

Update: Corrective action was taken.

GLEANERS COMMUNITY FOOD BANK OF SOUTHEASTERN MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended September 30, 2016

2015-005

Agency: United States Department of Agriculture

CFDA Number and Program Name: 10.559 - Summer Food Service Program for Children

Statement of Condition: We noted that management did not have adequate and effective controls over compliance as it relates to cash management and reporting. We noted there is no documented review.

Criteria: The A-102 Common Rule requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. OMB A-133 further requires auditors to obtain an understanding of the non-federal entity's internal control over federal programs. To minimize the risk of errors, internal controls should be in place for all program compliance requirements, including the preparation and submission of reimbursement requests, which should be reviewed and approved by a responsible party other than the original preparer.

Questioned Costs: The amount of questioned costs cannot be determined.

Context: A sample of reimbursement requests was tested for review and approval by someone other than the original preparer. Specifically, two different reimbursement requests were tested and neither had evidence of review and approval by someone other than the original preparer. While there were no compliance issues noted while reviewing the accuracy of the reimbursement requests, it is important that the Organization implement effective controls over the submission process to minimize the risk of incorrect reporting.

Effect: The possibility exists that noncompliance with grant requirements will go undetected due to a lack of controls over compliance relating to cash management and reporting.

Cause: Management has relied on the knowledge and experience of key program employees to perform the compliance requirements and therefore did not institute a requirement to have a documented second review performed for cash management and reporting.

Recommendation: We recommend management review their current documented processes and controls surrounding cash management and reporting to ensure they are in compliance with OMB Circular A-133. Training around these processes and controls would be advisable.

Management's Response: Management acknowledges the importance of having strong processes and controls in place to maintain compliance with all requirements related to the administration of federal awards. Management will review current processes and all documents are currently reviewed and approved by another level of management prior to submission for reimbursement. Management will review the feasibility of additional training for those responsible for cash management and reporting.

Update: Corrective action was taken.