



**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2016**

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*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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MID-SOUTH FOOD BANK, INC.  
GOVERNANCE OFFICIALS  
YEAR ENDED JUNE 30, 2016

BOARD OF DIRECTORS

James R. Huffman, III, Chairman  
Rod Halsell, Secretary  
Bryan T. Foley, Treasurer

Scot Hendricks  
Susan Hunsberger  
LaTina Epps-Thomas  
Diane Fahey  
Florence Hervery

Brooke Balducci  
Rick James  
Matthew L. Barron  
Perre Coleman Magness

Harley Steffens  
Michele Ryland  
Rebecca Z. Yeung  
Nadeem Zafar, MD

ADMINISTRATIVE OFFICIALS

Estella H. Mayhue-Greer, President & Chief Executive Officer  
Doug McDonald, Chief Financial Officer

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Mid-South Food Bank  
Memphis, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Mid-South Food Bank, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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.

### ***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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Mid-South Food Bank, Inc.'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 Mid-South Food Bank, Inc.'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 Mid-South Food Bank, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, 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 December 5, 2016, on our consideration of Mid-South Food Bank Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mid-South Food Bank's internal control over financial reporting and compliance.

*Reynolds, Bone & Griesbeck PLC*

December 5, 2016

## STATEMENT OF FINANCIAL POSITION

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

	Unrestricted	Temporarily Restricted	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 921,368	\$ 425,400	\$ 1,346,768
Certificates of deposit	754,399	-	754,399
Investments, at fair value	1,990,173	300,000	2,290,173
Receivables, net	46,066	137,561	183,627
Pledges receivable, net	-	186,457	186,457
Inventories			
Jumpstart food	137,407	-	137,407
Contributed food	1,272,793	-	1,272,793
Purchased Product	92,568	-	92,568
Undistributed USDA commodities	-	477,406	477,406
Prepaid expenses	67,277	-	67,277
Total current assets	5,282,051	1,526,824	6,808,875
Property and equipment, net	5,506,948	-	5,506,948
Total assets	\$ 10,788,999	\$ 1,526,824	\$ 12,315,823
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable	\$ 94,396	\$ -	\$ 94,396
Accrued expenses	182,858	-	182,858
Note payable	1,507,898	-	1,507,898
Total liabilities	1,785,152	-	1,785,152
Net assets	9,003,847	1,526,824	10,530,671
Total liabilities and net assets	\$ 10,788,999	\$ 1,526,824	\$ 12,315,823

*See notes to financial statements.*

## STATEMENT OF ACTIVITIES

Mid-South Food Bank, Inc.  
Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support:			
Direct contributions:			
Contributions	\$ 2,743,756	\$ 684,016	\$ 3,427,772
	<u>2,743,756</u>	<u>684,016</u>	<u>3,427,772</u>
In-kind contributions:			
USDA commodities	-	5,002,285	5,002,285
Food	15,873,691	-	15,873,691
Other	71,262	-	71,262
	<u>15,944,953</u>	<u>5,002,285</u>	<u>20,947,238</u>
Grants:			
Government	25,000	458,403	483,403
Other	214,125	776,283	990,408
	<u>239,125</u>	<u>1,234,686</u>	<u>1,473,811</u>
Other income (loss):			
Shared maintenance	812,544	-	812,544
Investment income	(69,159)	-	(69,159)
Miscellaneous	22,568	-	22,568
	<u>765,953</u>	<u>-</u>	<u>765,953</u>
Net assets released from restrictions:			
Contributions	507,946	(507,946)	-
USDA commodities	4,655,226	(4,655,226)	-
Grants - Federal and other	988,914	(988,914)	-
	<u>6,152,086</u>	<u>(6,152,086)</u>	<u>-</u>
Total revenue	25,845,873	768,901	26,614,774
Expenses			
Food Bank Warehouse			
Contributed food	15,553,919	-	15,553,919
Contributed food - USDA	4,655,226	-	4,655,226
Operations	4,168,475	-	4,168,475
General and Administration	429,632	-	429,632
Fundraising	728,574	-	728,574
Total expenses	<u>25,535,826</u>	<u>-</u>	<u>25,535,826</u>
Reclassifications	(58,265)	58,265	-
Change in net assets	251,782	827,166	1,078,948
Net assets at beginning of year, restated (Note 6)	<u>8,752,065</u>	<u>699,658</u>	<u>9,451,723</u>
Net assets at end of year	<u>\$ 9,003,847</u>	<u>\$ 1,526,824</u>	<u>\$ 10,530,671</u>

See notes to financial statements.

## STATEMENT OF FUNCTIONAL EXPENSES

*Mid-South Food Bank, Inc.*  
*Year Ended June 30, 2016*

	Food Bank Warehouse	General and Administration	Fundraising	Total
Salaries and wages	\$ 1,184,340	\$ 208,550	\$ 242,381	\$ 1,635,271
Taxes and fringe benefits	250,735	48,886	46,015	345,636
Contract personnel	25,166	-	-	25,166
Professional services	156,219	88,548	402,209	646,976
Travel and meetings	11,770	9,431	5,290	26,491
Personnel expenses	5,772	11,486	-	17,258
Building/equipment maintenance	160,670	1,852	-	162,522
Vehicle maintenance	93,178	-	-	93,178
Fuel and oil	74,960	-	7	74,967
Freight	4,187	-	-	4,187
Utilities	234,871	1,236	1,461	237,568
Taxes and licenses	121,991	2,479	-	124,470
Insurance	99,352	9,810	15,416	124,578
Security	16,677	112	68	16,857
Telephone	27,615	2,238	2,973	32,826
Postage	11,822	1,700	2,672	16,194
Equipment rental	80,970	599	-	81,569
Supplies	68,779	9,426	8,144	86,349
Memberships and subscriptions	-	27,705	527	28,232
Food purchases	1,288,109	-	-	1,288,109
Miscellaneous	10,580	36	48	10,664
In-kind	53,773	5,538	1,363	60,674
Expenses before depreciation	3,981,536	429,632	728,574	5,139,742
Depreciation	186,939	-	-	186,939
Total expenses	4,168,475	429,632	728,574	5,326,681
In-kind food disbursed	15,553,919	-	-	15,553,919
USDA food disbursed	4,655,226	-	-	4,655,226
Total expenses including in-kind	<u>\$24,377,620</u>	<u>\$ 429,632</u>	<u>\$ 728,574</u>	<u>\$25,535,826</u>

*See notes to financial statements.*

## STATEMENT OF CASH FLOWS

*Mid-South Food Bank, Inc.*  
*Year Ended June 30, 2016*

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Operating activities	
Change in net assets	\$ 1,078,948
Adjustments to reconcile the change in net assets to net cash provided by operating activities	
Depreciation	186,939
Donated equipment	(10,558)
Net realized and unrealized loss on investments	100,586
Inventory - contributed food	(319,772)
Inventory - contributed USDA commodities	(347,059)
Changes in operating assets and liabilities:	
Receivables, net	(2,913)
Pledges receivables, net	(184,914)
Inventories	176,617
Prepaid expenses	(2,714)
Accounts payable	4,508
Accrued expenses	27,450
Deferred compensation	(19,723)
Contributions restricted for long-term purposes	
Net change in discount on unconditional promises to give	(1,543)
Net cash provided by operating activities	<u>685,852</u>
Investing activities	
Purchases of property and equipment	(264,304)
Purchase of certificates of deposits and investments	(28,776)
Proceeds from and sales of investments	11,540
Net cash used for investing activities	<u>(281,540)</u>
Financing activities	
Principal payments on long-term debt	<u>(36,822)</u>
Net cash used for financing activities	<u>(36,822)</u>
Net change in cash and cash equivalents	367,490
Cash and cash equivalents at beginning of year	<u>979,278</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,346,768</u></u>
Supplemental cash flow information:	
Interest paid	<u><u>\$ 40,423</u></u>

*See notes to financial statements.*

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *General*

The Mid-South Food Bank, Inc. (the "Food Bank") is a nonprofit Tennessee corporation serving West Tennessee, East Arkansas and North Mississippi. The Food Bank is a member of Feeding America, a national food bank network. The Food Bank operates as a clearinghouse to receive, store and distribute food and non-grocery items. Donors include food manufacturers, wholesalers, brokers, retailers, other food service establishments, local companies, and individuals. The Food Bank distributes food to nonprofit agencies that serve the ill, needy, and infants. For the year ending June 30, 2016, the Food Bank distributed food to approximately 263 charitable programs.

#### *Financial Statements*

The Food Bank prepares its financial statements on the accrual basis of accounting. Balances and transactions are recorded according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of such balances and transactions into three classes of net assets – permanently restricted, temporarily restricted, and unrestricted.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that must be maintained permanently by the Food Bank.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Food Bank or the passage of time.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. During the year ended June 30, 2016, the Food Bank released temporarily restricted net assets for expenses related to the distribution of food. During year ended June 30, 2016, the Food Bank reclassified \$58,265 from unrestricted to temporarily restricted net assets after management assessed the amounts were originally intended to be temporarily restricted.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### *Use of Estimates*

Accounting principles generally accepted in the United States of America (U.S. GAAP) require 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. Significant financial statement estimates are the estimated fair value of the investments and the valuation of inventories (Notes 3 and 6). Management believes that its estimates provided in the financial statements are reasonable. However, actual results could differ from those estimates.

### *Concentrations of Credit Risk*

Due to the nature of its business and the volume of revenue activity, the Food Bank can accumulate, from time to time, bank balances in excess of the insurance provided by federal deposit insurance authorities. The risk of maintaining deposits in excess of amounts insured by federal deposit insurance authorities is managed by maintaining such deposits in high quality financial institutions.

### *Cash and Cash Equivalents and Certificates of Deposit*

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less. The carrying value of certificates of deposit is equivalent to their fair value.

### *Receivables*

In exchange for the food and grocery items agencies receive, the agencies contribute a per-pound handling fee to the Food Bank, referred to as a shared maintenance fee. This fee ranges from zero to nineteen cents per pound. It is the policy of the Food Bank to reserve the right to suspend the shopping privileges of an agency with past due balances of 60 days or more when an agency remains unresponsive to collection efforts. Collateral is not required to support customer receivables. An allowance for bad debt is established for accounts receivable that are determined to be uncollectible based on a periodic review of the accounts by management. As of June 30, 2016, the allowance for doubtful accounts totaled \$1,000 and there was no bad debt expense for the year then ended.

Also included in receivables are amounts owed to the Food Bank from various granting agencies.

### *Pledges Receivables*

Pledges receivable represent unconditional promises to give that are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods, or restricted by the donor for specific purposes, are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary 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.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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Unconditional promises to give are recorded at the net present value of estimated cash flows, less an allowance for doubtful accounts, on the statement of financial condition. Conditional promises to give are not included as support until the conditions are substantially met.

All pledges receivable are considered to be restricted at June 30, 2016 for the Food Bank's capital campaign.

### *Inventories – Food and Commodities*

Inventories consist of purchased product, jumpstart food, contributed food, and undistributed United States Department of Agriculture (USDA) commodities.

- Purchased Product and Jumpstart Food – This inventory consists of undistributed food purchased by the Food Bank, which is valued at cost using the first-in, first-out method.
- Contributed Food - This inventory consists of contributed food which is valued at an average wholesale market price per pound, as determined by Feeding America.
- Undistributed USDA Commodities - By virtue of a federal non-cash award (grant) program, the Tennessee Department of Agriculture, in accordance with regulations set forth by the USDA, provides commodities to the Food Bank for distribution to charitable agencies that serve meals to the homeless, low-income families, and other needy individuals. The value of the commodities received, is valued at an average wholesale market price as determined by Feeding America. For the year ended June 30, 2016, \$5,002,285 was received in commodities. The value of USDA commodities on hand as of June 30, 2016, was \$477,406.

### *Long-Lived Assets*

Property and equipment purchased by the Food Bank are recorded at cost. The Food Bank follows the practice of capitalizing all expenditures for property and equipment in excess of \$2,500. Donated equipment is recorded at its estimated fair value at the date of donation. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the assets. Upon the disposal of property and equipment, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations. Maintenance, repairs, and renewals that neither materially add to the value of the property and equipment, nor appreciably prolong its life are charged to expense as incurred.

The Food Bank reviews its long-lived assets, including property and equipment, for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. In the event an impairment exists, a loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. No impairment has been recognized in the accompanying statement of activities.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### *Investments*

Investments with readily determinable fair values are reported at their fair values in the statement of financial position. Net realized and unrealized gains and losses are included in the statement of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

### *Income Recognition and Investment Valuation*

Dividend income is recorded on the payable date. Income from other investments is recorded as earned on an accrual basis.

Purchases and sales of securities are recorded on a settlement date basis. Gain or loss on sales of securities is based upon specific identification.

### *In-Kind Contributions*

The Food Bank records various types of in-kind contributions received in the course of daily operations including professional services, supplies, and food. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations (Note 9).

### *Advertising*

The Food Bank charges the costs of advertising to expense as incurred. Advertising expenses totaled \$7,095 for the year ended June 30, 2016.

### *Income Taxes*

The Internal Revenue Service has classified the Food Bank as other than a private foundation which is exempt from federal income taxes on related business income and federal unemployment taxes under Section 501(c)(3) of the United States Internal Revenue Code. The Food Bank is similarly exempted from Tennessee taxes in its related exempt income under provisions of the Tennessee Tax Code. Consequently, no federal or state income taxes have been provided in these statements. The Food Bank does not have any unrelated business income for the year ended June 30, 2016.

In accordance with U.S. GAAP, if applicable, the Food Bank recognizes interest expense and penalties related to uncertain tax positions as interest expense and penalties in operating expenses. No amounts have been recognized in operating expenses for the year ended June 30, 2016. The Food Bank is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### *Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which was clarified in March 2016 by ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. It is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. The new guidance is effective for reporting periods beginning after December 15, 2018. Early application is not permitted; however, both public and nonpublic entities will be permitted to apply the new revenue recognition standard as of the effective date, which are annual periods beginning after December 15, 2016. The effects of adopting ASU No. 2014-09 have not been determined.

In August 2016, the FASB issued ASU No. 2016-14: *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. It is intended to simplify and improve how a not-for-profit entity classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application is permitted. The Food Bank has elected not to early implement ASU 2016-14 at this time. The effects of adopting ASU 2016-14 have not been determined.

### *Functional Allocation of Expenses*

The cost of providing the program, fund-raising and general and administrative activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program, fund-raising, and general and administrative activities benefited.

### *Subsequent Events*

Management has reviewed events occurring through December 5, 2016, the date the financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure, other than noted in Note 14.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### 2. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

The Food Bank has a beneficial interest in certain funds, which are held by the Community Foundation of Greater Memphis (“CFGM”). These investments are governed by an agreement between the Food Bank and CFGM. The Food Bank may, at any time, without premium or penalty, request that all or part of the unrestricted assets constituting the fund be granted to the Food Bank.

Fees related to the management of these funds were \$11,540 for the year ended June 30, 2016.

### 3. FAIR VALUE OF INVESTMENTS

U.S. GAAP defines fair value and establishes a framework for measuring fair value. Fair value measurements apply to financial assets and liabilities, as well as non-financial assets and liabilities which are re-measured at least annually.

U.S. GAAP establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable market data, when available, and minimizes the use of unobservable inputs when determining fair value. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Food Bank’s assumptions about the assumptions market participants would use in pricing an asset or liability based on the best information available in the circumstances.

The Food Bank groups its assets and liabilities measured at fair value in three levels based on the reliability of valuation inputs used to determine fair value. The proper level of fair value measurement is determined based on the lowest level of significant input. The levels are as follows:

- ◆ Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities.
- ◆ Level 2 valuations are based on inputs other than quoted prices included in Level 1 that are observable for assets or liabilities, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. markets in which there are few transactions for the assets or liabilities, the prices are not current, or price quotes vary substantially either over time or among market makers), and modeling techniques based on inputs that are observable for the assets or liabilities.
- ◆ Level 3 valuations are based on modeling techniques using significant assumptions that are not observable in the market. The assumptions reflect the Food Bank’s own assumptions that market participants would use in pricing the assets or liabilities.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

The availability of observable inputs varies from product to product and is affected by a variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Food Bank in determining fair value is greatest for instruments categorized in Level 3.

The fair value of the pooled funds below as of June 30, 2016, was estimated by CFGM based primarily on the fair market value of the underlying investments. Because the fair value is based on unobservable inputs, the account is classified within Level 3 valuation hierarchy. Disclosure of unobservable inputs to fair value measurement has not been included for the pooled investments because quantitative unobservable inputs are not developed by the Food Bank when measuring fair value and have not been made available to the Food Bank by CFGM.

Financial assets measured at fair value on a recurring basis include the following:

*CFGM balanced pool:* Invested in equities, fixed income securities, cash equivalents, alternative investments and real assets.

*CFGM equity pool:* Invested in large-cap U.S. equities, small-and mid-cap U.S. equities, international equities and hedged equities.

*CFGM money market pool:* Invested in money market funds.

Information pertaining to investments measured at fair value on a recurring basis aggregated by valuation input level follows:

	Assets at Fair Value as of June 30, 2016			
	Total Carrying Value	Value Using Level 1	Value Using Level 2	Value Using Level 3
CFGM Balanced Pool	\$ 1,024,638	\$ -	\$ -	\$ 1,024,638
CFGM Equity Pool	1,018,185	-	-	1,018,185
CFGM Money Market Pool	247,350	-	-	247,350
Total	<u>\$ 2,290,173</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,290,173</u>

*Continued*

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## NOTES TO FINANCIAL STATEMENTS

Mid-South Food Bank, Inc.  
June 30, 2016

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### Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The following details the activity for the year ended June 30, 2016 for financial instruments valued by the Food Bank using the Level 3 of the valuation hierarchy for assets measured at fair value on a recurring basis. When a determination is made to classify a financial instrument as Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

Fair value at July 1, 2015	\$ 2,377,171
Interest and dividend income	25,128
Realized gains	68,097
Unrealized loss	(168,683)
Fees and charges	(11,540)
	<hr/>
Fair value at June 30, 2016	<u>\$ 2,290,173</u>

#### 4. RECEIVABLES, NET

Accounts receivable at June 30, 2016, consist of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Shared maintenance, net	\$ 29,783	\$ -	\$ 29,783
Grants	-	137,561	137,561
Other	16,283	-	16,283
	<hr/>	<hr/>	<hr/>
Total receivables	<u>\$ 46,066</u>	<u>\$ 137,561</u>	<u>\$ 183,627</u>

Continued

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## NOTES TO FINANCIAL STATEMENTS

Mid-South Food Bank, Inc.  
June 30, 2016

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Grants receivable at June 30, 2016, consist of the following:

Tennessee Department of Agriculture	\$ 128,611
City of Memphis	8,950
	<u>\$ 137,561</u>

### 5. PLEDGES RECEIVABLE, NET

Pledges receivable, net at June 30, 2016 consists of the following:

Temporarily restricted pledges	\$ 188,000
Less unamortized present value discount	<u>(1,543)</u>
Net pledges receivable	<u>\$ 186,457</u>
Amount due in:	
Less than one year	\$ 62,500
One to five years	<u>125,500</u>
	<u>\$ 188,000</u>

### 6. USDA INVENTORY – CHANGE IN ACCOUNTING PRINCIPLE

The Food Bank also receives and distributes commodities (food) it receives from the USDA under The Emergency Food Assistance Program (TEFAP). This federal program is administered at the state level by the Tennessee Department of Agriculture Division of Food Distribution (Division). The USDA commodities are actually passed-through to the Food Bank by the Division to be distributed to the intended ultimate recipients.

The following table presents a summary of an estimate of the number of pounds of USDA commodities received and distributed during the year ended June 30, 2016:

	<u>Pounds</u>	<u>Value</u>
Received	2,996,758	\$ 5,002,285
Distributed	2,787,561	\$ 4,655,226

Continued

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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For the years ended June 30, 2015 and prior, revenue from USDA commodities received, as well as the related value of the USDA commodities distributed and the value of the undistributed USDA commodities inventory as of year-end, valued the food products individually at amounts established by the USDA and the Division (as the sponsoring state agency). Effective July 1, 2015, management elected to change its method of valuing the amounts associated with USDA commodities based on the amounts established by the USDA and the Division to estimating such amounts by valuing the respective number of pounds at the Feeding America per pound value. Accordingly, revenue from USDA commodities received, as well as the related value of USDA commodities distributed and the value of undistributed USDA commodities inventory as of June 30, 2016, are estimated by valuing the respective number of pounds at the Feeding America per pound value. Management believed this change was justified on the basis of preference within the food bank industry. Had this change to the estimated values relative to USDA commodities been applied to the related amounts as of and for the year ended June 30, 2015, management concluded that such a change would have resulted in a net valuation adjustment of USDA commodities (increase in inventory and temporarily restricted net assets) totaling \$95,934. This net valuation adjustment of USDA commodities is reflected on the accompanying statement of activities for the year ended June 30, 2015 as a change in beginning temporarily restricted net assets. Total net assets as of June 30, 2015 were previously reported as \$9,355,789 and are now reported as \$9,451,723.

The food received under the grant is designated for non-profit agencies serving low-income individuals and families through their emergency meal and pantry programs. Each month (generally) the Division reimburses the Food Bank costs (not to exceed the total amount of costs under each program approved for a two-year period to the extent funds are available at the state level) associated with storing, transporting, and distributing these products based on the number of pounds of food distributed.

### 7. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2016 follows:

Land and improvements	\$ 238,490
Building and improvements	6,628,602
Furniture and equipment	754,042
Automotive equipment	999,554
	<u>8,620,688</u>
Accumulated depreciation and amortization	<u>(3,113,740)</u>
Total property and equipment, net	<u>\$ 5,506,948</u>

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### 8. ACCRUED EXPENSES

Accrued expenses consist of the following:

Salaries and payroll tax payable	\$	53,132
Vacation payable		22,859
401(k) payable		31,449
Shared maintenance - credit balance		43,467
Other		31,951
	\$	<u>182,858</u>

### 9. IN-KIND CONTRIBUTED FOOD AND SERVICES

Contributions of food donated by the general public to the Food Bank and food purchased with contributed funds and distributed to charitable agencies is classified in the statement of activities under support and revenue and a corresponding expense is recognized under program services as contributed food is disbursed. Feeding America valued such food at an average of \$1.67 per pound for the year ended June 30, 2016.

The value of the USDA commodities received and distributed is included in the statement of activities as USDA commodities and an offsetting expense is recognized under Food Bank warehouse program services as USDA commodities distributed. The value of commodities received but not distributed has been recorded on the statement of financial position as undistributed USDA commodities and as temporarily restricted net assets. It is also valued at \$1.67 per pound for the year ended June 30, 2016 (Note 6).

Development and special events coordinators manage the Food Bank's fundraising activities, with significant participation by members of the Board of Directors. The fundraising expenses in the accompanying financial statements reflect the expenses of staff members, but do not reflect the value of the volunteer fundraising effort by the Board of Directors.

Additionally, the Food Bank received a significant amount of contributed time from general volunteers and various donated supplies, which do not meet the recognition criteria. Accordingly, the value of this contributed time and donated supplies has not been determined and is not reflected in the accompanying financial statements.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

The Food Bank recognized in-kind contributions, changes in inventory, and expenses for the year ended June 30, 2016 as follows:

	Contribution	Change in Inventory	Expense
Contributed Food	\$ 15,873,691	\$ 319,772	\$ 15,553,919
Contributed Food - USDA	5,002,285	347,059	4,655,226
Donated equipment	10,558	-	10,558
Goods	15,906	-	15,906
Services	10,905	-	10,905
Transportation	33,863	-	33,863
	<u>\$ 20,947,208</u>	<u>\$ 666,831</u>	<u>\$ 20,280,377</u>

### 10. GRANT INCOME

Grants, excluding USDA commodities, consist of the following for the year ended June 30, 2016:

	Unrestricted Support	Temporarily Restricted Support	Total Support	Net Assets Released from Restrictions
<b>Government Grants:</b>				
TN Dept of Agriculture - Cash Assistance	\$ -	\$ 310,903	\$ 310,903	\$ 182,292
City of Memphis, TN:				
Perishable Food Program	-	60,000	60,000	53,600
Backpack Program	-	25,000	25,000	22,450
<b>State Grants:</b>				
TN Dept of HS	-	62,500	62,500	62,500
<b>County Grants:</b>				
Shelby County	25,000	-	25,000	-
Total government grants	<u>25,000</u>	<u>458,403</u>	<u>483,403</u>	<u>320,842</u>

*Continued*

## NOTES TO FINANCIAL STATEMENTS

Mid-South Food Bank, Inc.  
June 30, 2016

	Unrestricted Support	Temporarily Restricted Support	Total Support	Net Assets Released from Restrictions
<b>Other Grants:</b>				
Unrestricted	\$ 214,125	\$ -	\$ 214,125	\$ -
Other Restricted	-	207,315	207,315	137,926
Mobile Pantry	-	98,250	98,250	45,227
Food Purchase	-	187,750	187,750	98,424
Feeding Children	-	98,460	98,460	42,222
Feeding Seniors	-	167,508	167,508	167,508
Other Feeding Programs	-	17,000	17,000	3,555
	<u>214,125</u>	<u>776,283</u>	<u>990,408</u>	<u>494,862</u>
Total other grants	<u>214,125</u>	<u>776,283</u>	<u>990,408</u>	<u>494,862</u>
Total grants	<u>\$ 239,125</u>	<u>\$ 1,234,686</u>	<u>\$ 1,473,811</u>	815,704
Release of grant revenue received in prior years				<u>173,210</u>
				<u>\$ 988,914</u>

### 11. DEFINED CONTRIBUTION RETIREMENT PLAN

The Food Bank has a 401(k) defined contribution retirement plan that covers all eligible employees. All employees at least twenty and one-half years of age with a minimum of twelve months of service are eligible to participate. Participants may contribute up to the annual limit as established by the tax laws. For the year ended June 30, 2016, the employer made a 3% Safe Harbor non-elective contribution and a 2% discretionary contribution. All employer contributions are allocated to the plan participants proportionate to their salary. Benefits vest in accordance with the terms contained within the plan.

Employer contributions for the year ended June 30, 2016 totaled \$59,592, which is included in taxes and fringe benefits. The employer's liability under the plan is limited to the amounts contributed, as defined in the plan documents.

### 12. RELATED PARTY TRANSACTIONS

In the normal course of business, the Food Bank purchases food from local grocers who have representatives on the Food Bank's Board of Directors. The amount purchased from these grocers during the year ended June 30, 2016 totaled \$1,943. The Food Bank also purchased graphic services from a local artist, who is also the spouse of one of the Food Bank's employees, totaling \$2,535, as well as auto parts totaling \$258 from an entity where a board member is employed for the year ended June 30, 2016.

## NOTES TO FINANCIAL STATEMENTS

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### 13. TEMPORARILY RESTRICTED NET ASSETS

Net assets temporarily restricted for time and purpose are detailed as follows:

USDA commodities to distribute	\$ 477,406
Capital Campaign for renovation of new building	325,286
Assisi Foundation Food Assurance Fund	300,000
USDA Grant	128,611
Food Purchase	112,656
Backpack	54,152
Mobile Pantry	53,023
Kids Café	25,676
Other Restricted	23,719
Other Feeding Programs	17,345
City of Memphis - PFRP	6,400
City of Memphis - Backpack	2,550
	<u>\$ 1,526,824</u>

### 14. LONG-TERM DEBT

In November 2013, the Food Bank obtained a note payable due to bank to purchase a building to be used as its new facility. The note payable is due in monthly installments of \$6,437 including interest at 2.6% with a balloon payment due at the maturity date of December 23, 2016 of approximately \$1,500,000. The loan balance as of June 30, 2016 was \$1,507,898.

In September 2016, the Food Bank entered into a new agreement with the bank to refinance the note payable. As part of the new agreement, the Food Bank entered into an interest rate swap agreement to effectively fix the interest rate until September 9, 2021. The note payable is due in escalating monthly installments ranging from \$6,502 through \$6,900 including interest at a fixed rate of 2.96% with a balloon payment due at the maturity date of August 9, 2021 of approximately \$1,309,000.

The amount of interest capitalized during the year ended June 30, 2016 was \$40,423 as the building is under renovations and has not been placed in service as of June 30, 2016.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**

*Mid-South Food Bank, Inc.  
Year Ended June 30, 2016*

<b>Grantor</b>	<b>CFDA Number</b>	<b>Contract Number</b>	<b>Total Federal Expenditures</b>	<b>Expenditures to Subrecipients</b>
<b>MAJOR FEDERAL PROGRAMS:</b>				
U.S. Department of Agriculture				
Pass-through from the TN Department of Agriculture				
Food Distribution Cluster:				
Emergency Food Assistance Program - cash assistance	10.568	45868	\$ 53,197	\$ -
Emergency Food Assistance Program - cash assistance	10.568	54373	226,610	-
Emergency Food Assistance Program - cash assistance	10.568	53928	31,096	-
Program 10.568 Subtotal			310,903	-
Emergency Food Assistant Program - commodities	10.569	N/A	4,655,226	4,655,226
<b>Total Food Distribution Cluster</b>			4,966,129	4,655,226
<b>OTHER FEDERAL PROGRAMS:</b>				
U.S. Department of Housing and Urban Development				
Community Development Block				
Grants/Entitlement Grants Cluster				
Pass-through from the City of Memphis, TN - Housing and Community Development				
Perishable Food Recovery Program	14.218	32812	60,000	-
Backpack Program	14.218	32701	25,000	-
<b>Total Community Development Block Grants/Entitlement Grants Cluster</b>			85,000	-
<b>TOTAL FEDERAL AWARDS</b>			5,051,129	4,655,226
<b>STATE FINANCIAL ASSISTANCE:</b>				
State of Tennessee Department of Human Services				
Pass-through from Second Harvest Food Bank of Middle Tennessee, Inc.		99-UNKNOWN	62,500	-
<b>TOTAL STATE AWARDS:</b>			62,500	-
<b>TOTAL FEDERAL AND STATE AWARDS:</b>			\$ 5,113,629	\$ 4,655,226

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**

*Mid-South Food Bank, Inc.*  
*June 30, 2016*

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### **NOTE 1 - BASIS OF PRESENTATION**

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

### **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 cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

### **NOTE 3 - FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule of expenditures of government awards as determined by the Tennessee Department of Agriculture. During the year ended June 30, 2016, the Food Bank received USDA commodities totaling \$5,002,285 and disbursed USDA commodities totaling \$4,655,226.

### **NOTE 4 – SUB-RECIPIENTS**

All of the commodities distributed were done so to eligible recipient agencies considered to be sub-recipients of the Food Bank.

### **NOTE 5 – DE MINIMIS INDIRECT COST RATE**

The organization did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

### **NOTE 6 – ADMINISTRATIVE REIMBURSEMENT**

Mid-South Food Bank, Inc. receives reimbursement of claims from USDA as a sub-grantee. The program's objective is to provide administrative funds for the distribution of available commodities to agencies serving needy individuals.

**Independent Auditor's 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***

Board of Directors  
Mid-South Food Bank, Inc.  
Memphis, Tennessee

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 Mid-South Food Bank, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2016.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mid-South Food Bank, Inc.'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*.

**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 Mid-South Food Bank, Inc.'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 Mid-South Food Bank, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Reynolds, Bone & Griesbeck PLC*

December 5, 2016

**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control  
over Compliance Required by the Uniform Guidance**

Board of Directors  
Mid-South Food Bank, Inc.  
Memphis, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited Mid-South Food Bank, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mid-South Food Bank, Inc.'s major federal programs for the year ended June 30, 2016. Mid-South Food Bank, Inc.'s major federal programs are identified in the summary of auditor's 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Mid-South Food Bank, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 Mid-South Food Bank, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

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

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

Mid-South Food Bank, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Mid-South Food Bank, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

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

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

**REYNOLDS  
BONE &  
GRIESBECK PLC**  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

Mid-South Food Bank, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Mid-South Food Bank, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*Reynolds, Bone & Griesbeck PLC*

December 5, 2016

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

*Mid-South Food Bank, Inc.*  
*Year Ended June 30, 2016*

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### Part I - Summary of Audit Results

1. The independent auditor's report expresses an unmodified opinion on the financial statements of Mid-South Food Bank, Inc. (the "Food Bank") in accordance with U.S. GAAP.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's 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*.
3. No instances of noncompliance considered material to the financial statements of the Food Bank were disclosed during the audit during the financial statements reported in the Independent Auditor's Report on Internal Control Over Financial Reporting on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
4. No material weaknesses relating to the audit of the major federal award programs is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. Two significant deficiencies relating the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
6. The Independent Auditor's Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance expressed an unmodified opinion.
7. Audit findings relative to the major federal awards program that are required to be reported under CFR Section 200.516(a) in accordance with Uniform Guidance are reported in this schedule.
8. The Food Bank's major programs are:

<u>CFDA Number</u>	<u>Name of Major Federal Program or Cluster</u>
10.568	Emergency Food Assistance Program - Cash Assistance
10.569	Emergency Food Assistance Program - Commodities

9. The dollar threshold for distinguishing between Types A and B programs was \$750,000.
10. The Food Bank qualifies as a low-risk auditee as that term is defined in the Uniform Guidance.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

*Mid-South Food Bank, Inc.*  
*Year Ended June 30, 2016*

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### **Part II – Financial Statement Findings**

None noted.

### **Part III – Federal Award Findings and Questioned Costs**

#### **2016 – 001: Significant Deficiency – Special Tests and Provisions relating to the Emergency Food Assistance Program – Commodities (10.569)**

*Criteria:* The Food Bank must maintain accurate and complete records with respect to the receipt, distribution/use, and inventory of USDA foods.

*Condition:* Each agency that gets USDA food submits a Monthly Distribution Report (“Report”). This Report shows the number of meals and snacks served or households fed, and number of adults and children that were included. The agency cannot get more food from the Food Bank until the Report has been submitted. Out of a sample of 40, The Food Bank could not provide the Reports for two sites that had received USDA food.

*Cause:* This condition appears to be due to a lack of oversight by the Food Bank agency monitors, due to employee turnover in this area.

*Effect:* The Food Bank is not in compliance with this requirement if it lacks accurate and complete records.

*Questioned Costs:* None

*Recommendation:* We recommend that the Food Bank establish procedures to ensure all required reports are on file.

*Client Response:* All partner agencies have been contacted regarding the status of all monthly distribution and USDA reports. Agencies that are not in compliance have been suspended from receiving USDA products. The process for tracking the monthly distribution and USDA reports has been recorded as a standard operating procedure, which includes screenshots of how to update Ceres 4 with the status of the monthly reports for each agency. The physical filing system for the monthly distribution and USDA reports has also been updated. Each agency now has a labeled file that contains the monthly reports for the agency.

#### **2016 – 002: Significant Deficiency – Special Tests and Provisions Subrecipient Monitoring relating to the Emergency Food Assistance Program – Commodities (10.569)**

*Criteria:* The Food Bank must maintain accurate and complete records with respect to the receipt, distribution/use, and inventory of USDA foods.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

*Mid-South Food Bank, Inc.*  
*Year Ended June 30, 2016*

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*Condition:* Out of a sample of 40 sites, site visit monitoring results could not be located for eight sites. Furthermore, out of these 40 sites, 21 had not had a site visit within a 12 month period.

*Cause:* During the year ended June 30, 2016, the Food Bank had significant turnover in its agency relations department and could not keep up with the annual visits. Furthermore, as to the eight sites which the monitoring report could not be located, during the year ended June 30, 2016, the Food Bank changed its methodology from storing this information from manual files to storing it on an electronic tablet. During our audit, we discovered that the information on the tablet could not be recovered due to a software malfunction and the Food Bank failed to back-up the information due to employee turnover. Although there is not a State of Tennessee Department of Agriculture requirement that the Food Bank monitor sites annually the Food Bank developed this internal control to assist with monitoring and reporting.

*Effect:* The Food Bank is not in compliance with this requirement if it does not monitor its sites timely or provide evidence of monitoring sites.

*Questioned Costs:* None

*Recommendation:* We recommend the Food Bank enhance controls related to sub-recipient agency monitoring and storing of information by having someone in management review compliance with monitoring and storing of the related information on a regular basis.

*Client Response:* All partner agencies have been reviewed to acknowledge the last documented inspection date. All agencies that do not have documented inspections within the last 12 months have been scheduled for an inspection within the next 120 days. Inspections that were completed but cannot be verified due to the loss of electronic data were rescheduled to be properly documented. Inspections will be completed in paper form to be filed both electronically on the shared drive in the assigned agency folders and in the physical files.

## **SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS**

*Mid-South Food Bank, Inc.*  
*Year Ended June 30, 2016*

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### **Financial Statement Findings**

None noted.

### **Federal Award Findings and Questioned Costs**

None noted.