

MONTGOMERY AREA FOOD BANK, INC.
Financial Statements
with
Additional Information
and
Other Required Reports
June 30, 2017 and 2016

Parker, Gill, Eisen
& Stevenson, P.C.
Certified Public Accountants

Independent Auditors' Report

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To the Board of Directors of
Montgomery Area Food Bank, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Montgomery Area Food Bank, Inc., which comprises the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of Montgomery Area Food Bank, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017 on our consideration of Montgomery Area 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 Montgomery Area Food Bank, Inc.'s internal control over financial reporting and compliance.

Montgomery, Alabama
September 21, 2017

Parker, Hill, Bisen

E. Stevenson, P.C.

Montgomery Area Food Bank, Inc.

**Statements of Financial Position
June 30, 2017 and 2016**

	Assets	
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 978,999	\$ 695,141
Accounts receivable, net	66,867	85,996
Food inventory net of reserve for unsalvageable food of \$170,524 and \$116,890, respectively	2,452,573	2,012,550
Prepaid expenses	28,711	25,177
Property, plant and equipment, net	<u>3,872,317</u>	<u>3,905,861</u>
Total assets	<u>\$ 7,399,467</u>	<u>\$ 6,724,725</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 25,823	\$ 27,074
Payroll liabilities and withholdings	4,224	4,014
Deferred revenue	<u>328,175</u>	<u>59,495</u>
Total liabilities	<u>358,222</u>	<u>90,583</u>
Net Assets:		
Unrestricted	<u>7,041,245</u>	<u>6,634,142</u>
Total net assets	<u>7,041,245</u>	<u>6,634,142</u>
Total liabilities and net assets	<u>\$ 7,399,467</u>	<u>\$ 6,724,725</u>

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

Montgomery Area Food Bank, Inc.

Statements of Activities June 30, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains and Other Support:		
Food contributions	\$ 30,345,802	\$ 25,000,917
Rejected food	1,240	1,095
Contributions and grants	996,566	907,969
Fundraising income	600,022	669,951
In-kind services contributions	11,375	13,500
Shared maintenance fees	1,294,963	1,247,218
Delivery fees	6,265	6,295
U.S. Department of Agriculture grant	4,169,346	3,784,685
U.S. Department of Agriculture handling fees	364,555	322,588
Interest income	883	1,203
CFC/SCC funds	56,541	45,803
Miscellaneous income	6,128	3,504
Gain from disposition of assets	1,500	1,247
	<u>37,855,186</u>	<u>32,005,975</u>
Net assets released from restrictions	6,105	4,308
	<u>37,861,291</u>	<u>32,010,283</u>
Expenses:		
Program services	36,878,891	31,624,049
Management and general	211,011	213,945
Fund raising	364,286	301,576
	<u>37,454,188</u>	<u>32,139,570</u>
	<u>407,103</u>	<u>(129,287)</u>
Changes in Temporarily-Restricted Net Assets:		
Government grants	6,105	4,308
Net assets released from restrictions	(6,105)	(4,308)
	<u>-</u>	<u>-</u>
Increase (decrease) in Net Assets	407,103	(129,287)
Net Assets, Beginning of Year	6,634,142	6,763,429
Net Assets, End of Year	\$ 7,041,245	\$ 6,634,142

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

Montgomery Area Food Bank, Inc.

**Statement of Functional Expenses
June 30, 2017**

Account Description	Program Services					Fund Raising	Total
	Distribution	Public		Total	Management and General		
		Education	Total				
Salaries	\$ 941,359	\$ 122,857	\$ 1,064,216	\$ 70,499	\$ 136,210	\$ 1,270,925	
Employee benefits	200,915	26,221	227,136	15,048	29,071	271,255	
Payroll taxes	74,924	10,127	85,051	5,061	11,137	101,249	
Total salaries and related expenses	1,217,198	159,205	1,376,403	90,608	176,418	1,643,429	
Building maintenance	23,948	1,331	25,279	1,330	-	26,609	
Conference costs	4,882	814	5,696	2,440	-	8,136	
Food purchases	258,009	-	258,009	-	-	258,009	
Dues and subscriptions	23,632	3,939	27,571	1,403	10,413	39,387	
Equipment repairs and maintenance	114,227	6,346	120,573	6,346	-	126,919	
Food donation to agencies	34,075,125	-	34,075,125	-	-	34,075,125	
USDA handling fees	294,397	-	294,397	-	-	294,397	
Insurance	32,531	3,217	35,748	3,217	-	38,965	
Miscellaneous	-	-	-	-	-	-	
Postage and shipping	106,993	14,149	121,142	14,149	-	135,291	
Printing	8,216	24,646	32,862	8,215	-	41,077	
Professional fees	28,732	3,157	31,889	25,258	177,455	234,602	
Professional training	-	-	-	715	-	715	
Rent	12,000	-	12,000	-	-	12,000	
Supplies	36,904	4,738	41,642	14,216	-	55,858	
Taxes and licenses	-	-	-	-	-	-	
Telephone	10,727	1,788	12,515	5,364	-	17,879	
Travel	65,394	8,174	73,568	8,175	-	81,743	
Utilities	122,922	6,829	129,751	6,829	-	136,580	
Grants	-	-	-	-	-	-	
In-kind expenses	4,000	500	4,500	500	-	5,000	
Total expenses before depreciation	36,439,837	238,833	36,678,670	188,765	364,286	37,231,721	
Depreciation	177,974	22,247	200,221	22,246	-	222,467	
Total expenses	\$ 36,617,811	\$ 261,080	\$ 36,878,891	\$ 211,011	\$ 364,286	\$ 37,454,188	

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

Montgomery Area Food Bank, Inc.

Statement of Functional Expenses
June 30, 2016

Account Description	Program Services				Management and General	Fund Raising	Total
	Distribution	Public Education	Total				
Salaries	\$ 934,547	\$ 90,405	\$ 1,024,952	\$ 73,896	\$ 86,035	\$ 1,184,883	
Employee benefits	194,084	18,775	212,859	15,346	17,867	246,072	
Payroll taxes	76,584	4,694	81,278	4,694	6,582	92,554	
Total salaries and related expenses	1,205,215	113,874	1,319,089	93,936	110,484	1,523,509	
Building maintenance	57,336	3,185	60,521	3,185	-	63,706	
Conference costs	2,492	415	2,907	1,246	-	4,153	
Food purchases	303,783	-	303,783	-	-	303,783	
Dues and subscriptions	22,851	3,809	26,660	1,505	9,921	38,086	
Equipment repairs and maintenance	103,614	5,756	109,370	5,756	-	115,126	
Food donation to agencies	28,861,949	-	28,861,949	-	-	28,861,949	
USDA handling fees to PDO's	213,724	-	213,724	-	-	213,724	
Insurance	33,111	3,368	36,479	3,368	-	39,847	
Miscellaneous	8,868	-	8,868	-	-	8,868	
Postage and shipping	91,993	12,961	104,954	12,961	-	117,915	
Printing	6,247	18,742	24,989	6,247	-	31,236	
Professional fees	35,940	3,450	39,390	27,603	181,171	248,164	
Professional training	-	-	-	602	-	602	
Rent	8,000	-	8,000	-	-	8,000	
Supplies	65,983	4,623	70,606	13,869	-	84,475	
Taxes and licenses	-	-	-	-	-	-	
Telephone	9,558	1,593	11,151	4,779	-	15,930	
Travel	63,305	7,913	71,218	7,913	-	79,131	
Utilities	124,549	6,919	131,468	6,919	-	138,387	
Grants	2,420	-	2,420	-	-	2,420	
In-kind expenses	4,000	500	4,500	500	-	5,000	
Total expenses before depreciation	31,224,938	187,108	31,412,046	190,389	301,576	31,904,011	
Depreciation	188,447	23,556	212,003	23,556	-	235,559	
Total expenses	\$ 31,413,385	\$ 210,664	\$ 31,624,049	\$ 213,945	\$ 301,576	\$ 32,139,570	

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

Montgomery Area Food Bank, Inc.

Statements of Cash Flows June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 407,103	\$ (129,287)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities -		
Depreciation	224,467	235,559
Gain on disposition of assets	(1,500)	(1,170)
Decrease in accounts receivable	19,129	927
(Increase) decrease in food inventory	(440,023)	76,347
(Increase) decrease in prepaid expenses	(3,534)	2,404
Decrease in accounts payable	(1,251)	(8,903)
Increase in payroll taxes and withholdings	210	442
Increase (decrease) in advance deposits on food	268,680	(26,275)
Net cash provided by operating activities	<u>471,281</u>	<u>150,044</u>
Cash Flows from Investing Activities:		
Proceeds from sale of assets	-	15,300
Purchase of fixed assets	<u>(187,423)</u>	<u>(220,423)</u>
Net cash used by investing activities	<u>(187,423)</u>	<u>(205,123)</u>
Net increase (decrease) in Cash and Cash Equivalents	283,858	(55,079)
Cash and Cash Equivalents, Beginning of Year	<u>695,141</u>	<u>750,220</u>
Cash and Cash Equivalents, End of Year	<u>\$ 978,999</u>	<u>\$ 695,141</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

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

Montgomery Area Food Bank, Inc.

Notes to Financial Statements

1. Organization

Montgomery Area Food Bank, Inc. is a nonprofit organization operating as a central clearinghouse for the collection, sorting, storing and distribution of edible food to qualified member agencies. Any charitable, nonprofit organization within the assigned Feeding America service area may apply to become a member of the Food Bank. As part of the application process, the donee organization must document its exemption with the IRS under Section 501(c)(3). It must also certify that the food will go to only needy individuals at no charge, that the food will be in clean, sanitary, and secure conditions, that the food will not be sold, bartered, swapped, or traded, and that it will maintain records of accountability. After reviewing the application, the Food Bank staff visits the organization to review the program. The staff prepares a report to the Board of Directors which by formal resolution either accepts or rejects the application for membership based upon merit.

The Food Bank operates as a fully certified member of the Feeding America national network of food banks.

The Organization assesses its member agencies a handling fee on a per pound of food issued basis, which it anticipates will defray a substantial portion of the overall expense of operations. The balance of support is expected to come from public contribution, USDA handling administrative income, and from FEMA.

2. Significant Accounting Policies

Financial Statement Presentation

The Organization maintains its accounting records on the accrual basis of accounting and classifies its financial statements based on the existence or absence of donor-imposed restrictions. Accordingly, net assets in the financial statements are reported in three categories, as follows:

- Unrestricted net assets are not restricted by donors, or donor-imposed restrictions have expired. Contributions received are considered available for unrestricted use unless specifically restricted by the donor.
- Temporarily-restricted net assets are subject to donor-imposed restrictions that permit the Organization to use or expend the assets as specified. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily-restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. The restriction is considered to expire upon use of the funds by the program.
- Permanently-restricted net assets are subject to donor-imposed stipulations that principal is maintained in perpetuity and only income is expended for specific purposes.

Montgomery Area Food Bank, Inc.

Notes to Financial Statements

Management 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 for the year then ended. Actual results could differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and short-term investments with original maturities of three months or less. The Organization maintains portions of its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts, and management believes that the Organization is not exposed to any significant credit risk related to cash.

Donated Food

Food contributions received by the Organization are capitalized as food inventory and recorded as unrestricted revenue. Upon distribution, food inventory is recorded as a decrease in unrestricted net assets and is charged to expense as food donations to agencies.

Contributed Merchandise and Other In-Kind Contributions

Contributed merchandise and other in-kind contributions, including equipment, are reflected as contributions at their estimated fair values when received or when an unconditional promise to give has been received by the Organization.

Property and Equipment

Purchased property and equipment are recorded at cost. The Organization capitalizes property and equipment purchased with government grants, where the property is legally owned by the granting agency, if management considers it probable that the Organization will be permitted to keep the property and equipment for the estimated useful lives of the assets.

Depreciation is provided using the straight-line method over the estimated useful lives of 10 to 40 years on the building and improvements, 5 years is used to compute depreciation on warehouse, automotive and office equipment and 7 years is used to compute depreciation on office furniture.

The carrying values of long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amounts of assets may not be recoverable. If the undiscounted future cash flows (without interest charges) are less than the carrying amount of an asset, an impairment loss is recognized to the extent the asset's carrying amount exceeds its fair value. No impairment loss was recognized in 2017 or 2016.

Grant Expenditures

Grant expenditures are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Organization. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Organization does not expect such amounts, if any, to have a material effect on the Organization's financial statements.

Montgomery Area Food Bank, Inc.

Notes to Financial Statements

Deferred Revenue

Deferred revenue represents donations collected in advance that are deferred until the related event is held and services are provided.

Contributed Services

Unpaid volunteers assist in the warehousing, boxing, weighing and carrying of food for agencies. The value of these contributed services is not reflected in the accompanying financial statements, as the services provided do not meet the criteria for recognition according to accounting principles generally accepted in the United States of America.

Shared Maintenance Fees

The Organization distributes food to 320 agencies that are charged for products on a per pound basis, not to exceed eighteen cents per pound. Also, subsidiary distribution organizations are charged for products on a per pound basis, not to exceed eight cents per pound. These charges are reflected as shared maintenance fees in the accompanying financial statements.

Allocation of Functional Expenses

Certain costs of the Organization are detailed in the accompanying statement of functional expenses. These costs have been allocated among program services, management and general, and fund raising expense classifications based on management's estimates of resources consumed by these functions.

Tax Status

The Organization is a nonprofit organization exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Organization has been classified as an organization that is not a private foundation. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Accounts Receivable

Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment 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 accounts receivable. \$5,000 has been accrued for allowance for doubtful accounts at June 30, 2017 and 2016, respectively. Changes in the valuation allowance have not been material to the financial statements.

Montgomery Area Food Bank, Inc.

Notes to Financial Statements

3. Food Inventory

The following summarizes food inventory transactions:

	June 30, 2017		June 30, 2016	
	Pounds	Value	Pounds	Value
Balance, beginning of year	1,428,623	\$ 2,129,440	1,384,213	\$ 2,264,944
Food contributions and purchases	23,951,890	34,739,994	21,197,081	29,059,865
Food distributions	(23,385,161)	(33,919,172)	(21,101,415)	(30,052,334)
valuation adjustments	(315,090)	(327,165)	(51,256)	856,965
Balance, end of year	1,680,262	2,623,097	1,428,623	2,129,440
Allowance for unsalvageable food	(98,569)	(170,524)	(69,994)	(116,890)
Net food inventory	1,581,693	\$ 2,452,573	1,358,629	\$ 2,012,550

At June 30, 2017 and 2016, food inventory was valued at \$1.73 and \$1.67 per pound, respectively, for all food on hand from sources other than the United States Department of Agriculture (USDA). This value was based on the results of a product valuation survey provided by Feeding America. For food received from the USDA, a weighted average per pound was used based on the USDA's estimate of the average wholesale value per pound of food.

4. Property and Equipment

Property and equipment consisted of the following:

	June 30, 2017	June 30, 2016
Land	\$ 328,234	\$ 328,234
Building	4,294,682	4,294,682
Equipment and vehicles	1,828,624	1,709,143
Office furniture	21,972	21,510
Leasehold improvements	5,825	5,825
	6,479,337	6,359,394
Accumulated depreciation	2,607,020	2,453,533
	\$ 3,872,317	\$ 3,905,861

Montgomery Area Food Bank, Inc.

Notes to Financial Statements

5. Retirement Plan

The Organization maintains a SIMPLE employee pension plan to which the Organization contributes monthly amounts based on the employees' current salaries. Employees that have reached twenty-one years of age and completed six months of full-time employment are eligible to participate in the plan. For the years ended June 30, 2017 and 2016, five percent of all eligible employees' salaries were contributed to the plan. Employees do not have to contribute to the pension plan and employer contributions vest immediately. The related pension expense was \$56,324 and \$55,575 for the years ended June 30, 2017 and 2016, respectively.

6. Operating Lease Commitment

The Organization entered into an operating lease for copiers in 2014 requiring lease payments of \$15,924 annually. The Organization also entered a 63 month lease for a postage meter in January 2016 with monthly payments of \$364. Lease expense for the years ended June 30, 2017 and 2016 were \$20,292 and \$18,108, respectively. Future minimum lease payments are as follows:

2018	\$	20,292
2019		20,292
2020		11,003
2021		<u>2,184</u>
	\$	<u>53,771</u>

7. Related Party

The Organization purchased insurance through a company owned by one of its board members during the years ended June 30, 2017 and 2016, which totaled \$50,146 and \$43,182, respectively.

The Organization had cash on deposit with a financial institution in which board members are management during the years June 30, 2017 and 2016, which totaled \$252,947 and \$252,165, respectively.

The Organization purchased advertising through a company operated by one of its board members during the year ended June 30, 2017 which totaled \$32,000.

Montgomery Area Food Bank, Inc.

Notes to Financial Statements

8. Expense Measurements

Program expenses, management and general and fundraising expenses make up the following percentages of total expenses without and with inventory valuations as follows:

	<u>2017</u>		<u>2016</u>	
Program expenses without inventory valuations	\$ 2,803,766	83%	\$ 2,762,100	84%
Management and general	211,011	6%	213,945	7%
Fund raising	364,286	11%	301,576	9%
	<u>\$ 3,379,063</u>	<u>100%</u>	<u>\$ 3,277,621</u>	<u>100%</u>

	<u>2017</u>		<u>2016</u>	
Program expenses with inventory valuations	\$ 36,878,891	98%	\$ 31,624,049	98%
Management and general	211,011	1%	213,945	1%
Fund raising	364,286	1%	301,576	1%
	<u>\$ 37,454,188</u>	<u>100%</u>	<u>\$ 32,139,570</u>	<u>100%</u>

9. Other Commitments

At June 30, 2017, the Organization had an unused line of credit with a financial institution in the amount of \$500,000. This letter of credit expires on May 28, 2018.

10. Accounts Receivable

Accounts receivable are shown, net of allowance for doubtful accounts, from the following sources:

Pledges	\$ 10,266
Other	61,601
	<u>71,867</u>
Less allowance for doubtful accounts	<u>(5,000)</u>
	<u>\$ 66,867</u>

Montgomery Area Food Bank, Inc.

Notes to Financial Statements

During 2012, the Organization started a capital campaign drive and received pledges during the year ended June 30, 2014 in the amount of \$597,372. Of this amount, \$14,000 and \$10,000 were collected during the years ended June 30, 2017 and June 30, 2016, respectively. Pledges are to be collected over a one to five year time period. A discounted rate of 3.25% was used in computing the present value of the estimated future cash flows. The amounts of the pledges are as follows:

<u>Actual</u>	<u>Present Value</u>
\$ 11,600	\$ 10,266

11. Subsequent Events

Management has considered subsequent events through September 21, 2017, the financial statement reporting date.

12. Concentration of Credit Risk

At June 30, 2017, the Organization had a total of \$561,177 in excess of the insured Federal Deposit Insurance Corporation (FDIC) limit on deposit with two institutions.

Additional Information

Parker, Gill, Eisen
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**Independent Auditors' Report
on Additional Information**

To the Board of Directors of
Montgomery Area Food Bank, Inc.

We have audited the financial statements of the Montgomery Area Food Bank, Inc. as of and for the years ended June 30, 2017 and 2016 and have issued our report thereon dated September 21, 2017, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of financial position and activities without inventory valuations, schedule of expenditures of federal awards, schedule of findings and questioned cost, and the summary of prior audit findings are presented for the 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 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.

Parker, Gill, Eisen
& Stevenson, P.C.

Montgomery, Alabama
September 21, 2017

Montgomery Area Food Bank, Inc.

Statements of Financial Position without Inventory
June 30, 2017 and 2016

	Assets	
	2017	2016
Cash and cash equivalents - unrestricted	\$ 978,999	\$ 695,141
Accounts receivable, net	66,867	85,996
Prepaid expenses	28,711	25,177
Property, plant and equipment, net	<u>3,872,317</u>	<u>3,905,861</u>
Total assets	\$ 4,946,894	\$ 4,712,175
	Liabilities and Net Assets	
Liabilities:		
Accounts payable	\$ 25,823	\$ 27,074
Payroll liabilities and withholdings	4,224	4,014
Deferred revenue - advanced deposits on food	<u>328,175</u>	<u>59,495</u>
	<u>358,222</u>	<u>90,583</u>
Net Assets:		
Unrestricted	<u>4,588,672</u>	<u>4,621,592</u>
	<u>4,588,672</u>	<u>4,621,592</u>
Total liabilities and net assets	\$ 4,946,894	\$ 4,712,175

See Independent Auditors' Report on Additional Information

Montgomery Area Food Bank, Inc.

Statements of Activities without Inventory Valuations June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues, Gains and Support:		
Contributions and grants	\$ 996,566	\$ 907,969
Rejected food	1,240	1,095
Special events-fundraising	600,022	669,951
Shared maintenance fees	1,294,963	1,247,218
U.S. Department of Agriculture handling fee	364,555	322,588
FEMA grant	6,105	4,308
Delivery fees	6,265	6,295
Interest income	883	1,203
In-kind services contribution	11,375	13,500
CFC/SCC funds	56,541	45,803
Miscellaneous income	6,128	3,504
Gain from disposition of assets	1,500	1,247
	<u>3,346,143</u>	<u>3,224,681</u>
Total revenues, gains and other support		
	<u>3,346,143</u>	<u>3,224,681</u>
Expenses:		
Program services	2,803,766	2,762,100
Management and general	211,011	213,945
Fund raising	364,286	301,576
	<u>3,379,063</u>	<u>3,277,621</u>
Total expenses		
	<u>3,379,063</u>	<u>3,277,621</u>
Decrease in Net Assets	(32,920)	(52,940)
Net Assets, Beginning of Year	<u>4,621,592</u>	<u>4,674,532</u>
Net Assets, End of Year	<u>\$ 4,588,672</u>	<u>\$ 4,621,592</u>

See Independent Auditors' Report on Additional Information

Montgomery Area Food Bank, Inc.

Schedule of Expenditures of Federal Awards
June 30, 2017

Grantor/Pass Through Grantors Program Title	Federal CFDA #	Program Award Amount	Federal Expenditures	Pass Through Grantor #
FEMA	97.024	\$ 6,105	\$ 6,105	Emergency Food & Shelter Program 31-0080-00 003 E9
Cluster - USDA Emergency Food Assistance Program				
USDA, FNS The Emergency Food Assistance Program Administrative Costs	10.568	364,555	364,555	State Department of Education 12-3507-01-605
USDA, FNS The Emergency Food Assistance Program - Food Commodities	10.569	4,169,346	4,131,976	State Department of Education 12-3505-0-1-605
		<u>4,533,901</u>	<u>4,496,531</u>	
		<u>\$ 4,540,006</u>	<u>\$ 4,502,636</u>	

Note: The accrual basis of accounting has been used to prepare this schedule.

Montgomery Area Food Bank, Inc.

Schedule of Findings and Questioned Costs
June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No

Type of auditor's report issued on compliance of major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.569 and 10.568	USDA, FNS Emergency Food Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs; \$ 750,000

Auditee qualified as low-risk auditee? Yes No

Montgomery Area Food Bank, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2017**

Section III - Federal Award Findings and Questioned Costs

**USDA, FNS The Emergency Food
Assistance Program - Commodities**

Finding: 17-01

**Emergency Food Assistance Program
Commodities, CFDA 10.569**

Grant Award Number::

Potentially affects all grant awards included under CFDA 10.569 on the Schedule of Expenditures of Federal Awards.

Criteria and Condition:

The Montgomery Area Food Bank, Inc. distributes commodities to communities throughout the state of Alabama. This is done primarily through member agencies. These agencies go through an application process that requires certain organizational and responsible party education and commitment documentation. The agency also goes through an initial site visit which is used to ensure the agency meets proper food handling as well as requirements for participating in the USDA commodities grant. This information is accumulated in agency folders and is approved by the executive director and the board of directors.

During testing of subrecipient monitoring, it was noted that a member agency's file folder was missing a signed USDA Commodities Agreement.

Questioned Costs:

None.

Context:

Was unable to verify that the commodities agreement from a member agency was obtained.

Effect:

Possibility that subrecipient does not understand qualification of federal award as subrecipient.

Cause:

The Organization needs to verify that all required documentation to participate in the USDA Commodities Emergency Food Program is present in all agencies file folders during monitoring process.

Montgomery Area Food Bank, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2017**

Section III - Federal Award Findings and Questioned Costs

Recommendation:

We recommend that the Montgomery Area Food Bank, Inc. review required documentation again from member agency and acquire a signed USDA contract for the agency's file.

Management's Response:

See management's response on page 22.



Feeding Hope
Across
Alabama

Montgomery Area Food Bank

521 Trade Center Street • Montgomery, AL 36108-2107 • (334) 263-3784 • Fax (334) 262-6854
www.montgomeryareafoodbank.org

Board of Directors

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Tony Baggiano, Community Leader

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Garieta Galbreath, Community Leader

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Alabama Credit Union Admin.

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Capell & Howard, P.C.

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PR Alabama Assoc. of School Boards

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Richard Deem, Director
Etmore County Food Pantry

Dr. Skip Dotherow, Executive Director
Civil Air Patrol Foundation

Eric Duncan, VP/General Manager
WSFA 12

Steven Hansen, Warehouse Manager
US Foods

Caryn Hughes, Senior VP/US AmeriBank
Alabama Commercial Lending Executive

Dr. Melodie A. Jones, DMD

Tenesia Jones, Community Leader
Alabama Community Programs

Bill Kelley, Director of Benefits
The Retirement System of Alabama (RSA)

Katrina Spooney-Martin, Supervisor
Life Policy Owner Services-AI.FA

Olivia Martin, Asst.
Attorney General

L. Daniel Morris, Jr.
Community Leader

Chuck Nath, Community Leader

Lawrence Oakley, Senior Vice President
Wealth Management, Morgan Stanley

Kimberly E. Ramsey, Director
Women's Leadership Division
Alabama Farmers Federation

Ron Simmons, VP Business Development
Montgomery Area Chamber of Commerce

Craig Stapley, Director, Production
Hyundai MMA

Bill Stevenson, President
Stevenson Consulting, LLC.

Jimmy Taylor, Community Leader

George Thompson, Owner
Thompson Insurance

Dr. Bob Wildzunas, Q.A./Systems Ops
Walmart Logistics/DC

Bryan Wilson, BOD President
WELCOME

EX OFFICIO MEMBERS

Clynt Hart, CPA
Warren Averett, LLC.

Warren Marshall, Business Development
Marshall Design-Build, LLC

Corrective Action Plan

Federal Audit Clearinghouse

Dear Sir or Madam:

Enclosed you will find a copy of our June 30, 2017 audited financial statements as required by OMB's Uniform Guidance, under Subpart F. Our auditors, Parker, Gill, Eisen & Stevenson, P.C. noted one significant deficiency while performing our audit. The following is the significant deficiency, our response, and our plan to correct this deficiency and ensure it does not happen again.

Reportable Condition 17-01:

To establish an agency as an allowable distributor of food bank product, a file folder is prepared for each agency. The file folder includes the application, approval by the CEO and board of directors; monitoring process, orientation of shoppers, the agency's corporate documents, exempt status, list of agency's responsible parties and documentation that commodities are only to be distributed to qualifying individuals set forth by the USDA commodities contract.

During testing, it was noted that one agency's USDA commodities contract was missing from their file.

We know the contract was completed because it was presented to and approved by the Board of Directors on November 15, 2007; however, because it could not be located for testing at a later date, a new contract with the required signatures has been obtained.

To avoid this problem in the future, we will require a complete review of all active agencies files to ensure all required documentation is present. Further, we will reiterate the importance of 100% of our new agency files containing the correct, requirement documents. An additional reviewer will be added to ensure this does not happen again.

Respectfully,

Richard A. Deem
CEO

September 21, 2017

Other Required Reports

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Board of Directors of
Montgomery Area Food Bank, Inc.
Montgomery, Alabama

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 Montgomery Area Food Bank, Inc., which comprise the statement of financial position as of June 30, 2017, 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 September 21, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Montgomery Area Food Bank, Inc.'s internal control over financial reporting 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 Montgomery Area 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery Area 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 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.

Parker, Hill, Lisen
Er Stevenson, P.C.

Montgomery, Alabama
September 21, 2017

**Independent Auditors' Report on
Compliance For Each Major Federal Program; and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

The Board of Directors of
Montgomery Area Food Bank, Inc.
Montgomery, Alabama

Report on Compliance for Each Major Federal Program

We have audited Montgomery Area Food Bank, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct material effect on each of Montgomery Area Food Bank, Inc.'s major federal programs for the year ended June 30, 2017. The Organization'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 statues, 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 Montgomery Area 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 Uniform Guide 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 Montgomery Area Food Bank, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Montgomery Area 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, 2017.

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 are described in the accompanying schedule of findings and questioned costs as item 17-01. Our opinion on each major federal program is not modified with respect to this matter.

Montgomery Area Food Bank's response to the noncompliance finding identified in our audit are described in the accompanying corrective action plan. Montgomery Area Food Bank'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 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 Montgomery Area 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was 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 have not been 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 item 17-01, that we consider to be significant deficiencies.

Montgomery Area Food Bank's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The Organization'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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Montgomery, Alabama
September 21, 2017

Parker, Hill, Eisen
Er Stevenson, P.C.