



**AUDITED FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**MARCH 31, 2016 AND 2015**

# SOUTH PLAINS FOOD BANK, INC.

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
South Plains Food Bank, Inc.  
Lubbock, Texas

We have audited the accompanying financial statements of South Plains Food Bank, Inc. (the "Organization"), which comprise the statement of financial position as of March 31, 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 in 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 Organization'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 Organization'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.

Board of Directors  
South Plains Food Bank, Inc.  
Lubbock, Texas

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 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.

### Correction of Errors

As discussed in Note K to the financial statements, certain errors resulting in the overstatement of amounts of in-kind contributions and the misclassification of amounts in net assets previously reported as of March 31, 2015, were discovered by management of the Organization in the current year. Accordingly, the amounts for in-kind contributions and net assets have been restated in the 2015 financial statements now presented to correct the errors. Our opinion is not modified with respect to these matters.

### Prior Period Financial Statements

The financial statements as of March 31, 2015, were audited by JW Anderson & Associates, PC, who merged with Blue & Co., LLC as of January 1, 2016, and whose report dated September 8, 2015, expressed an unmodified opinion on those statements.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note K that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 15 and 16 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on page 17 is also presented for purposes of additional analysis and is also 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 October 10, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Blue & Co., LLC*

Lubbock, Texas  
October 10, 2016

## SOUTH PLAINS FOOD BANK, INC.

### STATEMENTS OF FINANCIAL POSITION MARCH 31, 2016 AND 2015

ASSETS	2016	2015
<b>Current assets</b>		
Cash and cash equivalents		
Unrestricted		
Undesignated	\$ 864,508	\$ 1,074,717
Board designated	816,268	1,224,508
Temporarily restricted	1,974,219	2,091,381
Board designated certificates of deposit	1,283,670	862,015
Accounts receivable	210,109	248,460
Current portion of unconditional promises to give	219,162	157,139
Inventories		
Unrestricted	993,991	838,608
Temporarily restricted	241,083	266,842
Prepaid expenses	50,338	53,397
	6,653,348	6,817,067
<b>Total current assets</b>	6,653,348	6,817,067
<b>Noncurrent assets</b>		
Unconditional promises to give, net of current portion	446,762	319,080
Beneficial interest in assets held by others	132,434	136,674
Capital assets, net	13,486,363	7,086,733
	14,065,559	7,542,487
<b>Total noncurrent assets</b>	14,065,559	7,542,487
<b>Total assets</b>	\$ 20,718,907	\$ 14,359,554
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 131,155	493,287
Accrued salaries	21,225	41,898
Other current liabilities	21,636	8,483
Line of credit	1,500,000	-
Deferred revenue	5,293	7,771
	1,679,309	551,439
<b>Total current liabilities</b>	1,679,309	551,439
<b>Net assets</b>		
Unrestricted		
Undesignated	14,895,342	9,612,491
Board designated	1,263,030	1,361,182
Temporarily restricted	2,881,226	2,834,442
	19,039,598	13,808,115
<b>Total net assets</b>	19,039,598	13,808,115
<b>Total liabilities and net assets</b>	\$ 20,718,907	\$ 14,359,554

See accompanying notes to the financial statements.

## SOUTH PLAINS FOOD BANK, INC.

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
<b>UNRESTRICTED NET ASSETS</b>		
<b>Unrestricted revenues and gains</b>		
Contributions	\$ 2,603,603	\$ 2,481,009
Contributions in-kind	7,978,896	6,155,626
Grant revenue	120,720	153,798
Shared maintenance fees	441,980	481,643
Special events fundraising	29,013	8,268
Meal programs	800,491	853,757
Catering	7,009	10,348
Program and rentals	39,205	46,554
Interest income	30,369	69,660
Miscellaneous income	10,332	8,757
Total unrestricted revenues and gains	12,061,618	10,269,420
Net assets released from restrictions		
Satisfaction of program restrictions	6,577,590	4,720,103
Total unrestricted revenues, gains, and other support	18,639,208	14,989,523
<b>Expenses</b>		
Program services	12,036,779	11,515,836
Fundraising	687,379	654,394
Management and general	730,351	619,754
Total expenses	13,454,509	12,789,984
Increase in unrestricted net assets	5,184,699	2,199,539
<b>TEMPORARILY RESTRICTED ASSETS</b>		
USDA commodities received	1,065,934	1,145,308
Restricted grant for product handling	149,622	144,846
Grant and contribution revenue	5,219,113	243,483
Increase in promises to give	189,705	270,864
USDA commodities released for distribution	(1,091,694)	(1,073,087)
Net assets released from restrictions	(5,485,896)	(3,647,016)
(Decrease) in temporarily restricted net assets	46,784	(2,915,602)
Net increase (decrease) in net assets	5,231,483	(716,063)
<b>Net Assets at Beginning of Period</b>	13,808,115	14,524,178
<b>Net Assets at End of Period</b>	\$ 19,039,598	\$ 13,808,115

See accompanying notes to the financial statements.

## SOUTH PLAINS FOOD BANK, INC.

### STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED MARCH 31, 2016

Expenses	Supporting Services				Total 2016
	Program Services	Fund- Raising	Management and General	Total Supporting Services	
Salaries and wages	\$ 1,204,281	\$ 225,038	\$ 457,790	\$ 682,828	\$ 1,887,109
Contract labor	3,922	-	-	-	3,922
Payroll taxes	90,787	16,965	34,511	51,476	142,263
Employee insurance and benefits	202,698	12,485	34,525	47,010	249,708
Workers' compensation	10,941	2,045	4,159	6,204	17,145
Liability insurance	6,660	-	-	-	6,660
Office expense	41,824	-	62,735	62,735	104,559
Dues	20,588	-	-	-	20,588
Postage and freight	5,198	10,395	5,198	15,593	20,791
Printing	-	1,747	-	1,747	1,747
Telephone	26,409	-	4,660	4,660	31,069
Audit and professional fees	-	-	20,337	20,337	20,337
Volunteer / staff expense	15,338	-	41	41	15,379
Conference and travel	11,969	2,394	9,575	11,969	23,938
Food bank promotion	-	405,909	-	405,909	405,909
Utilities	157,395	-	16,421	16,421	173,816
Warehouse					
Supplies	153,091	-	-	-	153,091
Repairs and maintenance	48,538	-	-	-	48,538
Insurance	53,977	-	-	-	53,977
Security	4,217	-	-	-	4,217
Cost of food distributed	8,882,748	-	-	-	8,882,748
Food transportation	71,056	-	-	-	71,056
Food purchase and handling	485,733	-	-	-	485,733
Miscellaneous programs	79,645	-	-	-	79,645
Vehicles					
Fuel and oil	36,441	-	-	-	36,441
Repairs and maintenance	68,212	-	-	-	68,212
Insurance / registration	23,726	-	-	-	23,726
Leasing expense	11,887	10,401	7,430	17,831	29,718
Miscellaneous	-	-	118	118	118
Farm expense	28,094	-	-	-	28,094
Total expenses before					
Depreciation	11,745,375	687,379	657,500	1,344,879	13,090,254
Depreciation	291,404	-	72,851	72,851	364,255
<b>Total Expenses</b>	<b>\$ 12,036,779</b>	<b>\$ 687,379</b>	<b>\$ 730,351</b>	<b>\$ 1,417,730</b>	<b>\$ 13,454,509</b>

See accompanying notes to the financial statements.

## SOUTH PLAINS FOOD BANK, INC.

### STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED MARCH 31, 2015

	<b>Program Services</b>	<b>Fund- Raising</b>	<b>Management and General</b>	<b>Total Supporting Services</b>	<b>Total 2015</b>
<b>Expenses</b>					
Salaries and wages	\$ 1,276,145	\$ 203,719	\$ 355,053	\$ 558,772	\$ 1,834,917
Contract labor	-	-	2,100	2,100	2,100
Payroll taxes	108,705	15,986	35,169	51,155	159,860
Employee insurance and benefits	198,952	12,250	33,802	46,052	245,004
Workers' compensation	11,907	1,751	3,853	5,604	17,511
Liability insurance	6,284	-	-	-	6,284
Office expense	44,080	-	66,120	66,120	110,200
Dues	23,074	-	-	-	23,074
Postage and freight	4,496	8,993	4,496	13,489	17,985
Printing	-	3,274	-	3,274	3,274
Telephone	26,733	-	4,718	4,718	31,451
Audit and professional fees	-	-	19,183	19,183	19,183
Volunteer / staff expense	12,093	322	-	322	12,415
Travel	19,896	3,979	15,917	19,896	39,792
Food bank promotion	-	392,750	-	392,750	392,750
Utilities	145,612	-	14,213	14,213	159,825
Warehouse					
Supplies	120,598	-	-	-	120,598
Repairs and maintenance	56,731	-	-	-	56,731
Insurance	42,629	-	-	-	42,629
Security	3,981	-	-	-	3,981
Cost of food distributed	8,329,149	-	-	-	8,329,149
Food transportation	47,611	-	-	-	47,611
Food purchase	553,519	-	-	-	553,519
Miscellaneous programs	103,242	-	-	-	103,242
Vehicles					
Fuel and oil	69,953	-	-	-	69,953
Repairs and maintenance	30,194	-	-	-	30,194
Insurance / registration	21,818	-	-	-	21,818
Leasing expense	12,994	11,370	8,122	19,492	32,486
Miscellaneous	-	-	423	423	423
Farm expense	19,099	-	-	-	19,099
Total expenses before Depreciation	11,289,495	654,394	563,169	1,217,563	12,507,058
Depreciation	226,341	-	56,585	56,585	282,926
<b>Total Expenses</b>	<b>\$ 11,515,836</b>	<b>\$ 654,394</b>	<b>\$ 619,754</b>	<b>\$ 1,274,148</b>	<b>\$ 12,789,984</b>

See accompanying notes to the financial statements.

## SOUTH PLAINS FOOD BANK, INC.

### STATEMENTS OF CASH FLOWS YEARS ENDED MARCH 31, 2016 AND 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,231,483	\$ (716,063)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	364,255	282,926
Contributions restricted for construction of new facilities	(4,925,306)	
Change in beneficial interest in assets held by others	4,240	(3,735)
<b>Changes in operating assets and liabilities</b>		
Accounts receivable	38,351	(149,440)
Unconditional promises to give	(189,705)	(143,182)
Inventories	(129,624)	1,050,201
Prepaid expenses	3,059	(8,270)
Accounts payable	(362,132)	(29,075)
Accrued salaries	(20,673)	8,198
Other current liabilities	13,153	2,436
Deferred revenue	(2,478)	(21,482)
Net cash flows from operating activities	24,623	272,514
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in board designated certificates of deposit	(421,655)	
Acquisition of property and equipment	(6,763,885)	(3,518,826)
Net cash flows from investing activities	(7,185,540)	(3,518,826)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for construction of new facilities	4,925,306	
Advances on line of credit	1,500,000	-
Net cash flows from financing activities	6,425,306	-
<b>Net decrease in cash and cash equivalents</b>	(735,611)	(3,246,312)
<b>Cash and cash equivalents at beginning of year</b>	4,390,606	7,636,918
<b>Cash and cash equivalents at end of year</b>	\$ 3,654,995	\$ 4,390,606
<b>Cash flow reconciliation to the statement of financial position</b>		
Unrestricted		
Undesignated	\$ 864,508	\$ 1,074,717
Board designated	816,268	1,224,508
Temporarily restricted	1,974,219	2,091,381
<b>Total cash and cash equivalents</b>	\$ 3,654,995	\$ 4,390,606
<b>Supplemental cash flow information:</b>		
In-kind food and service donations	\$ 9,044,830	\$ 7,300,934

See accompanying notes to the financial statements.

# SOUTH PLAINS FOOD BANK, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - South Plains Food Bank, Inc. (hereby referred to as the "Organization"), a non-profit corporation, was established to provide food subsistence to various agencies serving the community. The Organization was incorporated on May 27, 1983, and opened for operation in December of that year.

**Method of accounting** - The Organization prepares its financial statements on the accrual basis of accounting where revenues are recognized when earned and expenditures when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

**Financial statements presentation** - Financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements for Not-for-Profit Organizations. Under this standard, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted net assets - Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Temporarily restricted net assets - Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the statement of activities and changes in net assets by reclassifying the net assets from temporarily restricted to unrestricted net assets.

**Use of estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosures at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Accordingly, actual amounts could differ from those amounts.

**Cash and cash equivalents** - The Organization considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents. Included in cash equivalents are money market deposit funds and short-term certificates of deposit, reported at contract value.

## **SOUTH PLAINS FOOD BANK, INC.**

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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**Restricted cash and cash equivalents** - Restricted cash and cash equivalents are comprised of funds restricted for a specific purpose or time period by the donor or granting agency.

**Beneficial interest in assets held by others** – The Organization has transferred assets to a community foundation which hold funds for its benefit. When a non-profit organization transfers assets to a community foundation in when the resource provider names itself as beneficiary, the economic benefit of the transferred asset remains with the resource provider. The asset received in exchange is a beneficial interest in assets held by others, measured at the fair value of the asset contributed. Changes in the value are recognized in the statements of activities and changes in net assets.

**Accounts receivable** - Shared maintenance revenue is recognized as a receivable from a participating agency when food is distributed to the agency on account. The Organization provides allowances for doubtful receivables equal to the estimated collection losses that will be included in collection of all receivables. The estimated losses are based on historical collection experience coupled with review of the current status of existing receivables. As of March 31, 2016 and 2015, the gross account receivable balance is representative of the net realizable value of the receivables.

**Promises to Give** – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Food inventory** - The Organization is a member of Feeding America, formerly known as America's Second Harvest, which is a national food bank network. Its principal business activity is the collection of food and merchandise from a variety of sources, and distributing them to member agencies. Inventories are valued using a poundage valuation issued annually by Feeding America and are determined on the first-in, first-out method.

The donated food received by the Organization and distributed to charitable beneficiaries is reflected as donations, cost of food distributed and inventory. The value of the donated food including the USDA commodities received during the fiscal years ended March 31, 2016 and 2015 was \$9,012,371 and \$7,244,328. The amount of food distributed during 2016 had an estimated value of \$8,882,748 and \$8,329,149 for 2015.

**Capital assets** - Property and equipment are recorded at cost for purchased items or at fair market value at the date of acquisition for donated items. Items under certain amounts are recorded as expenses rather than as fixed assets. When retired or otherwise disposed of, the related carrying value and allowance for depreciation is cleared from the respective accounts and the net difference, less any amount realized on disposition, is reflected in operations.

## **SOUTH PLAINS FOOD BANK, INC.**

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. The cost of maintenance and repairs is expensed as incurred, whereas significant betterments and improvements are capitalized.

**Donated services** - The Organization receives a substantial amount of services donated by citizens interested in the Organization's program. Board members, warehouse volunteers, and volunteers for various food drives donate their time. The value assigned to these services is based on the number of full-time employees which would be necessary to maintain the current level of operation if the services were not donated, at a wage rate commensurate with the skill required. Certain professional services were donated to the Organization, and were recorded at estimated market value. The amounts recorded for professional services for the years ended March 31, 2016 and 2015 were \$32,459 and \$56,607, respectively.

**Revenue recognition** - Revenue funded by grants and contracts is recognized as the Organization performs the contracted services or incurs eligible expenses under the grant agreements. Activities and expenses allocated to grants and contracts are subject to audit and acceptance by the awarding agency and, as a result of such audit, adjustments could be required.

**Restricted and unrestricted revenue** - Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending upon the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

**Shared maintenance revenue** - The Organization charges recipient agencies approximately 6 cents per pound relative to the receipt and distribution of donated food. The shared maintenance fee is to offset a portion of the costs associated with the donated food including the receiving, storage, and distribution costs incurred by the Organization.

**Functional allocation of expenses** - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Although the methods used were appropriate, other methods could produce different results.

**Reclassifications** - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. These reclassifications have no effect on the previously reported change in net assets.

**Freight costs** - Freight costs, the costs associated with having donated and purchased food delivered to its warehouse, are expenses by the Organization as incurred.

## **SOUTH PLAINS FOOD BANK, INC.**

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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**Income taxes** – The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. As such, the Organization is generally exempt from income taxes. However, the Organization is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of March 31, 2016 and 2015, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. The Organization is subject to routine audits by taxing jurisdictions. The Organization's 2012 through 2015 tax years remain open. However, as of the date the financial statements were issued, there were no audits for any tax periods in progress.

**Subsequent events** – The financial statements and related disclosures include evaluation of events up through and including October 10, 2016, which is the date the financial statements are available to be issued.

#### **NOTE B - CASH AND CASH EQUIVALENTS**

Included in the cash and cash equivalents are certificates of deposit totaling \$816,268 and \$1,224,508 as of March 31, 2016 and 2015, respectively, designated by the Board of Directors for emergency funds usage in the event inventory and operations cash flow decreases. The certificates bear various interest rates, with penalties for early withdrawal normally waived due to the Organization's nonprofit status. In addition, these funds are held to meet contractual requirements with Feeding America.

The Organization maintains cash accounts which are temporarily restricted in nature, due to restrictions being placed on the funds by external sources. The amount of temporarily restricted cash totaled \$1,974,219 and \$2,091,381 at the end of 2016 and 2015, respectively.

**Custodial credit risk** – The Organization maintains cash balances at several financial institutions located in Lubbock, Texas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has not experienced any losses in such accounts. The Organization believes that it is not exposed to any significant credit risk on cash and cash equivalents.

#### **NOTE C - TEMPORARILY RESTRICTED NET ASSETS**

**Temporarily restricted cash** - Temporarily restricted cash relates to donations and funds received that are restricted for various purposes.

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## SOUTH PLAINS FOOD BANK, INC.

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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**Temporarily restricted unconditional promises to give** – Unconditional promises to give are included in temporarily restricted net assets.

**Temporarily restricted inventories** - Temporarily restricted inventories are food commodities received under an agreement with the U.S. Department of Agriculture. These food items are restricted as to their distribution under the terms of this agreement.

Whenever the Organization incurs an expense for which it may use either temporarily restricted or unrestricted assets, restricted assets are used first to satisfy the restrictions of the funds. Generally, restricted cash and non-cash contributions received, including long-lived assets, whose restrictions are met in the same reporting period are classified as unrestricted support in the accompanying financial statements.

#### **NOTE D – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

The Organization began participating in the Lubbock Area Foundation, Inc. Community Endowment Challenge during the year ended March 31, 2001 (currently The Community Foundation of West Texas). The Organization was required to invest \$100,000 in cash or readily marketable securities to The Community Foundation of West Texas (CFWT) by December 31, 2001 to be eligible to receive the earnings from \$50,000 matching grant to CFWT. Any funds contributed to the endowment will remain restricted, as well as any changes in market value. Earnings generated by the endowment and issued by The Community Foundation of West Texas are considered unrestricted funds. As of March 31, 2016 and 2015, the Organization has contributed \$100,000. The market value of the Organization's portion of the endowment was \$132,434 and \$136,674 as of March 31, 2016 and 2015, respectively. The matching contribution from CFWTs is not considered an asset of the Organization. Distributions of income from the trust are reported as investment income. Gains and losses, which are not distributed by CFWT, are reflected as the change in value of beneficial interest in assets held by others in the statements of activities and changes in net assets. The investment activities of the beneficial interest in assets held by others is determined by CFWT rather than the Organization.

Activity related to the beneficial interest in assets held by others is shown in the following schedule:

	<b>2016</b>	<b>2015</b>
Beginning balance	\$ 136,674	\$ 133,089
Interest income	3,540	3,357
Realized gain on sale of investments	4,825	5,522
Unrealized (loss) on investments	(12,605)	(5,294)
Ending balance	<u>\$ 132,434</u>	<u>\$ 136,674</u>

# SOUTH PLAINS FOOD BANK, INC.

## NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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### NOTE E - UNCONDITIONAL PROMISES TO GIVE

The Organization has promises to give from various individuals and organizations. The \$665,924 and \$476,219 in promises to give as of March 31, 2016 and 2015, respectively, are unconditional and due within one to five years. Uncollectible promises are expected to be insignificant; therefore, no allowance has been established. The unconditional promises to give have not been adjusted for the immaterial difference in present value. The following is a schedule by year of unconditional promises to give as of March 31, 2016:

Year Ending March 31,	
2017	\$ 219,161
2018	169,238
2019	118,777
2020	98,468
2021	40,580
Thereafter	<u>19,700</u>
Totals	<u>\$ 665,924</u>

### NOTE F - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are described below:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

**Level 2** - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**SOUTH PLAINS FOOD BANK, INC.**

NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015

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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2016.

*Beneficial interest in assets held by others:* Valued at fair value as reported by CFWT which represents the Organization's *pro rata* interest in the net assets of the fund substantially all of which are valued on a mark-to-mark basis.

	<b>Carrying Amount</b>	<b>Fair Value Level 1</b>	<b>Fair Value Level 2</b>	<b>Fair Value Level 3</b>
<b>2016</b>				
Beneficial interest in assets held by others	\$ 132,434	\$ -	\$ -	\$ 132,434
<b>2015</b>				
Beneficial interest in assets held by others	\$ 136,674	\$ -	\$ -	\$ 136,674

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2016 and 2015.

**NOTE G - CAPITAL ASSETS**

At March 31, 2016 and 2015, major classifications of capital assets are summarized below:

## SOUTH PLAINS FOOD BANK, INC.

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
Land and Improvements	\$ 1,471,096	\$ 455,311
Farm Buildings	366,357	366,357
Warehouse Buildings	10,138,311	2,913,670
Vehicles	1,010,770	985,073
Furniture and Equipment	3,451,365	759,415
Kitchen of Hope Building and Equipment	880,318	880,318
Construction in Progress	-	4,194,187
	<u>17,318,217</u>	<u>10,554,331</u>
Less: Allowance for Depreciation	(3,831,854)	(3,467,598)
Capital Assets, Net	<u>\$ 13,486,363</u>	<u>\$ 7,086,733</u>

Depreciation expense of \$364,255 and \$282,926 was recorded for the years ended March 31, 2016 and 2015, respectively.

#### **NOTE H - EMPLOYEE RETIREMENT BENEFITS**

In September 1999, the Organization began a 403(b) savings plan covering substantially all employees. The Organization will match employee contributions to their 403(b) savings plan up to a maximum of 5% of their total salary or wages based on the following schedule:

0 – 2 years of full time continuous employment:	0%
2 – 3 years of full time continuous employment:	3%
3 – 4 years of full time continuous employment:	4%
4 or more years of full time continuous employment:	5%

All full time employees may begin making voluntary contributions to the Organization's 403(b) plan 90 days after they are hired, and part-time employees may contribute after completing 1,000 hours of service. The plan match expenses incurred by the Organization during 2016 and 2015 were \$28,229 and \$27,406, respectively.

#### **NOTE I - COMMITMENTS**

**Leases** - The Organization leases equipment under operating lease agreements expiring at various dates. Total rental expense in 2016 and 2015 for operating leases was approximately \$29,718 and \$32,486, respectively.

## SOUTH PLAINS FOOD BANK, INC.

### NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2016 AND 2015

The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2016 that have initial or remaining terms in excess of one year:

Year Ending March 31,		
2017	\$	19,506
2018		19,506
2019		18,465
2020		1,498
		1,498
Totals	\$	58,975

#### **NOTE J - LINE OF CREDIT**

The Organization entered into an unsecured line of credit with the J.T. and Margaret Talkington Charitable Foundation, Inc. for \$2,500,000 with \$1,500,000 balance outstanding. The line of credit carries a 4% interest rate and matures the earlier of January 1, 2018 or 30 days after the sale of unused warehouses and offices. Interest on the outstanding principal is payable in arrears on the maturation date.

#### **NOTE K – RECLASSIFICATION OF 2015 BALANCES FOR CORRECTION OF ERRORS**

During 2016, certain errors were discovered in the 2015 financial statements. The Organization reclassified previously reported permanently restricted net assets to board designated assets. In-kind contributions for voluntary labor were removed. There was no impact on the statement of cash flows. The unconditional promises to give were reclassified to restricted net assets. The table below summarizes the reclassifications.

	As previously reported at March 31, 2015	Reclassification / Error Correction	As restated
Statement of Financial Position:			
Net assets			
Unrestricted	\$ 11,313,219	\$ (11,313,219)	\$ -
Undesignated	-	9,612,491	9,612,491
Board designated	-	1,361,182	1,361,182
Temporarily restrict	2,358,223	476,219	2,834,442
Permanently restricted	136,673	(136,673)	-
	\$ 13,808,115	\$ -	\$ 13,808,115

**SOUTH PLAINS FOOD BANK, INC.**

NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2016 AND 2015

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Statement of Activity and Changes in Net Assets:

Unrestricted Revenues and gains

Contributions	\$ 2,751,873	\$ (270,864)	\$ 2,481,009
Contributions in-kind	7,016,746	(861,120)	6,155,626
Interest income	66,075	3,585	69,660
Miscellaneous income	8,607	150	8,757
Gain on disposition of assets	150	(150)	-

Expenses

Program services	12,376,956	(861,120)	11,515,836
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Temporarily restricted assets

Increase in promises to give	-	270,864	270,864
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Permanently restricted assets

Interest income	3,357	(3,357)	-
Realized gain on sale of investments	5,522	(5,522)	-
Unrealized gain on investments	996	(996)	-
Endowment expenses	(6,290)	6,290	-

	\$ (2,529,920)	\$ -	\$ (2,529,920)
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Statement of Functional Expenses

In-kind labor	\$ 861,120	\$ (861,120)	\$ -
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## **SUPPLEMENTARY INFORMATION**

## SOUTH PLAINS FOOD BANK, INC.

### SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS – COLUMNAR FORMAT YEAR ENDED MARCH 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>
<b>INCOME</b>			
Support from the Public			
Received directly			
Grants	\$ 120,720	\$ 5,219,113	\$ 5,339,833
Commodities handling fees	-	149,622	149,622
Contributions	2,603,603	189,705	2,793,308
In-kind donations	7,978,896	-	7,978,896
Received indirectly			
USDA commodities	-	1,065,934	1,065,934
Total support from the public	10,703,219	6,624,374	17,327,593
Other Revenue			
Shared maintenance fees	441,980	-	441,980
Meal programs	800,491	-	800,491
Catering	7,009	-	7,009
Programs and rentals	39,205	-	39,205
Investment income	30,369	-	30,369
Special event fundraising	29,013	-	29,013
Miscellaneous income	10,332	-	10,332
Total other income	1,358,399	-	1,358,399
Net assets released from restrictions			
USDA commodities released for distribution	1,091,694	(1,091,694)	-
Satisfaction of program restrictions	5,485,896	(5,485,896)	-
Total net assets			
Released from restrictions	6,577,590	(6,577,590)	-
Total support and revenue	18,639,208	46,784	18,685,992
<b>EXPENSES</b>			
Program services	12,036,779	-	12,036,779
Fundraising	687,379	-	687,379
Management and general	730,351	-	730,351
Total expenses	13,454,509	-	13,454,509
Change in net assets	5,184,699	46,784	5,231,483
<b>Net assets at beginning of year</b>	<u>11,179,028</u>	<u>2,629,087</u>	<u>13,808,115</u>
<b>Net assets at end of year</b>	<u>\$ 16,363,727</u>	<u>\$ 2,675,871</u>	<u>\$ 19,039,598</u>

See report of independent auditors on pages 1 - 3.

## SOUTH PLAINS FOOD BANK, INC.

### SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS – COLUMNAR FORMAT YEAR ENDED MARCH 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015</u>
<b>INCOME</b>			
Support from the Public			
Received directly			
Grants	\$ 153,798	\$ 243,483	\$ 397,281
Commodities handling fees	-	144,846	144,846
Contributions	2,481,009	270,864	2,751,873
In-kind donations	6,155,626	-	6,155,626
Received indirectly			
USDA commodities	-	1,145,308	1,145,308
Net support from special events	8,268	-	8,268
<b>Total support from the public</b>	<b>8,798,701</b>	<b>1,804,501</b>	<b>10,603,202</b>
Other Revenue			
Shared maintenance fees	481,643	-	481,643
Meal programs	853,757	-	853,757
Catering	10,348	-	10,348
Programs and rentals	46,554	-	46,554
Investment income	69,660	-	69,660
Miscellaneous income	8,757	-	8,757
<b>Total other income</b>	<b>1,470,719</b>	<b>-</b>	<b>1,470,719</b>
Net assets released from restrictions			
USDA commodities shipped	1,073,087	(1,073,087)	-
Satisfaction of program restrictions	3,647,016	(3,647,016)	-
<b>Total net assets Released from restrictions</b>	<b>4,720,103</b>	<b>(4,720,103)</b>	<b>-</b>
<b>Total support and revenue</b>	<b>14,989,523</b>	<b>(2,915,602)</b>	<b>12,073,921</b>
<b>EXPENSES</b>			
Program services	11,515,836	-	11,515,836
Fundraising	654,394	-	654,394
Management and general	619,754	-	619,754
<b>Total expenses</b>	<b>12,789,984</b>	<b>-</b>	<b>12,789,984</b>
Change in net assets	2,199,539	(2,915,602)	(716,063)
<b>Net assets at beginning of year</b>	<b>8,979,489</b>	<b>5,544,689</b>	<b>14,524,178</b>
<b>Net assets at end of year</b>	<b>\$ 11,179,028</b>	<b>\$ 2,629,087</b>	<b>\$ 13,808,115</b>

See report of independent auditors on pages 1 - 3.

# SOUTH PLAINS FOOD BANK, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED MARCH 31, 2016

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor Number	Federal Expenditures
Major program:			
US Department of Agriculture Passed through the Texas Department of Agriculture Texas Commodity Assistance Program (Commodities)	10.569	01535	\$ 980,442
Total major program			980,442
Non-major programs:			
US Department of Agriculture Passed through the Texas Department of Agriculture Texas Commodity Assistance Program (Administrative Costs)	10.568	01535	149,622
Summer Food Service Program	10.559	01535	259,575
Child Care Center (Kid's Café)	10.558	01535	324,576
Farmers Market Nutrition Program	10.572	01535	79,985
Passed through the Texas Department of Health and Human Services Nutrition Education Program	10.561	529-006-0002-0003	69,008
Total non-major programs			882,766
Total expenditures of federal awards			<u>\$ 1,863,208</u>

### Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization for the year ended March 31, 2016, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The basic financial statements classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Non-Cash Awards

The value of United States Department of Agriculture ("USDA") commodities received during the year and reported in the accompanying statement of activities and changes in net assets was estimated by the USDA. The value of USDA commodities distributed during the year, including amounts held in inventory at the beginning of the year, and reported in the accompanying statement of functional expenses was from the Commodity Supplemental Food Program. The federal expenditures were made to subrecipients under sub-agreements.

As of March 31, 2016, the Organization had an inventory of USDA food commodities of \$241,083 included in the accompanying statement of financial position.

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See report of independent auditors on pages 1 - 3.



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**REPORT OF INDEPENDENT AUDITORS 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  
South Plains Food Bank, Inc.  
Lubbock, Texas

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 South Plains Food Bank, Inc. (the Organization), which comprise the statement of financial position as of March 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2016. Our report contained an emphasis-of-matter paragraph on the correction of errors in the previous year's financial statements.

Internal Control Over Financial Reporting

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

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 Organization'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. deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency as described in the following paragraph.

The Organization prepares their financial statements in accordance with accounting principles generally accepted in the United States of America. In prior years the Organization recorded the value of the in-kind

Board of Directors  
South Plains Food Bank, Inc.  
Lubbock, Texas

labor and reported unconditional promises to give as unrestricted net assets. This resulted in the overstatement of in-kind contribution and overstated the donated services. Also the balance for unrestricted net assets was overstated. The overstatements were a result of the Organization and the prior auditor's misinterpretation of accounting principles generally accepted in the United States of America. A prior period adjustment has been recorded to properly present the in-kind services for the year ended March 31, 2015 and the unrestricted net assets balance as of March 31, 2015.

The Organization's personnel responsible for financial reporting should periodically seek additional training and/or put adequate processes in place to recognize and implement changing accounting principles.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

#### The Organization's Response to Findings

The Organization will strive to have all financial reporting personnel current in their knowledge of accounting principles generally accepted in the United States of America.

The Organization's response to the finding of a significant deficiency as identified above was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### Purpose of this Report

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

**Blue & Co., LLC**

Lubbock, Texas  
October 10, 2016



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

Board of Directors  
South Plains Food Bank, Inc.  
Lubbock, Texas

### Report on Compliance for Each Major Federal Program

We have audited South Plains Food Bank, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2016. 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 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 the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Board of Directors  
South Plains Food Bank, Inc.  
Lubbock, Texas

#### Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2016.

#### Report on Internal Control Over Compliance

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

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

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

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

**Blue & Co., LLC**

Lubbock, Texas  
October 10, 2016

**SOUTH PLAINS FOOD BANK, INC.**

**SCHEDULES OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED MARCH 31, 2016**

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**Section I - Summary of audit results:**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?        yes   X   none reported

Significant deficiency(s) identified that are not considered to be material weakness(es)?   X   yes        none reported

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal controls over major programs:

Material weakness(es) identified?        yes   X   none reported

Significant deficiency(s) identified that are not considered to be material weakness(es)?        yes   X   none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?        yes   X   no

Identification of major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.569	Texas Commodity Assistance Program (Commodities)

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee?   X   yes        no

**Section II - Findings related to financial statements reported in accordance with Government Auditing Standards:**

SIGNIFICANT DEFICIENCIES

2016-001

*Condition:* The Organization prepares their financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In prior years the Organization recorded the value of the in-kind labor and reported unconditional promises to give as unrestricted net assets.

*Criteria:* Internal controls should be in place that provide reasonable assurance that financial statements are prepared in accordance with GAAP.

*Cause:* There are no procedures in place to monitor the type of continuing education obtained by the financial reporting staff.

*Effect:* The overstatements were a result of the Organization and the prior auditor's misinterpretation of GAAP. A prior period adjustment has been recorded to properly present the in-kind services for the year ended March 31, 2015 and the unrestricted net assets balance as of March 31, 2015.

*Recommendation:* The organization's personnel responsible for financial reporting should periodically seek additional training and/or put adequate processes in place to recognize and implement changing accounting principles.

*Views of Responsible Officials and Planned Corrective Actions:* The Organization will strive to have all financial reporting personnel current in their knowledge of accounting principles generally accepted in the United States of America.

**Section III - Findings and questioned costs relating to Federal awards:**

No matters reported

**Section IV - Summary schedule of prior audit findings:**

Not applicable