

Financial Statements
and
Independent Auditor's
Report

FOOD BANK OF THE RIO GRANDE VALLEY, INC.
AND SUBSIDIARIES

June 30, 2010

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FOOD BANK OF THE RIO GRANDE VALLEY, INC.
AND SUBSIDIARIES
Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

Board of Directors Food Bank of the Rio Grande Valley, Inc. and Subsidiaries

We have audited the accompanying consolidated statement of financial position of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries (a nonprofit organization) as of June 30, 2010, and the related consolidated statement of activities and cash flows for the nine-month period then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries as of June 30, 2010, and the changes in its net assets and its cash flows for the nine-month period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2011 on our consideration of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries taken as a whole. The accompanying schedule of functional expenses 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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
March 22, 2011

FINANCIAL STATEMENTS

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 332,079	\$ -	\$ 332,079
Investments	9,429	-	9,429
Unconditional promises to give, net			
Restricted for capital campaign	-	24,534	24,534
Accounts receivable			
Shared maintenance	48,382	-	48,382
Federal programs	658,984	-	658,984
State programs	101,942	-	101,942
Other	1,832	-	1,832
Inventories	1,947,999	-	1,947,999
Prepaid expenses	24,671	-	24,671
Total Current Assets	<u>3,125,318</u>	<u>24,534</u>	<u>3,149,852</u>
Property and Equipment, Net	2,301,444	-	2,301,444
Other Assets			
Restricted cash for building construction	-	660,833	660,833
Total Assets	<u>\$ 5,426,762</u>	<u>\$ 685,367</u>	<u>\$ 6,112,129</u>
Liabilities and Net Assets			
Current Liabilities			
Current portion of long-term debt	\$ 28,981	\$ -	\$ 28,981
Accounts payable	50,182	-	50,182
Accrued expenses	3,122	-	3,122
Accrued payroll	30,676	-	30,676
Due to other food banks	22,243	-	22,243
Unearned revenue	179,818	-	179,818
Total Current Liabilities	<u>315,022</u>	<u>-</u>	<u>315,022</u>
Long-Term Debt, Less Current Portion	829,582	-	829,582
Total Liabilities	<u>1,144,604</u>	<u>-</u>	<u>1,144,604</u>
Net Assets			
Unrestricted	4,282,158	-	4,282,158
Temporarily restricted	-	685,367	685,367
Total Net Assets	<u>4,282,158</u>	<u>685,367</u>	<u>4,967,525</u>
Total Net Assets and Liabilities	<u>\$ 5,426,762</u>	<u>\$ 685,367</u>	<u>\$ 6,112,129</u>

The accompanying notes are an integral part of this statement.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Nine Months Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Monetary Transactions			
Support and Revenue			
Contributions			
Capital campaign	\$ -	\$ 1,942	\$ 1,942
Other	698,742	-	698,742
Federal financial assistance	1,447,347	-	1,447,347
State financial assistance	117,774	-	117,774
Program service fees			
Shared maintenance and delivery fees	633,155	-	633,155
Other	51,803	-	51,803
Interest income	2,715	-	2,715
Special event revenue	50,327	-	50,327
Other income	5,805	-	5,805
Total Revenues and Support	3,007,668	1,942	3,009,609
Expenses and Losses			
Food distribution	1,528,061	-	1,528,061
Management and general	389,029	-	389,029
Fundraising	359,310	-	359,310
Total Expenses	2,276,400	-	2,276,400
Bad debt expense on promises to give	-	17,007	17,007
Total Expenses and Losses	2,276,400	17,007	2,293,406
Change in Net Assets, Monetary	731,268	(15,065)	716,203
In-Kind Transactions			
Support and Revenue			
Contributions			
Food and other items	5,494,955	-	5,494,955
Federal financial assistance			
Commodities	4,692,537	-	4,692,537
Total Revenues and Support	10,187,492	-	10,187,492
Expenses			
Food distribution	9,537,406	-	9,537,406
Total Expenses	9,537,406	-	9,537,406
Change in Net Assets, In-Kind	650,086	-	650,086
Total Change in Net Assets	1,381,354	(15,065)	1,366,289
Net Assets at Beginning of Year	2,776,743	700,432	3,477,175
Prior Period Adjustment	124,061	-	124,061
Net Assets at End of Year	\$ 4,282,158	\$ 685,367	\$ 4,967,525

The accompanying notes are an integral part of this statement.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Nine Months Ended June 30, 2010

Cash flows from operating activities	
Increase in net assets	\$ 1,366,289
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	76,911
Gain on investments	(96)
Bad debt on promises to give	17,007
Contributions in the form of food and other commodities	(10,187,492)
Distributions in the form of food and other commodities	9,637,776
Amortization of promises to give	(773)
Net change in:	
Accounts receivable	(130,901)
Promises to give	17,702
Prepaid expenses	(2,642)
Inventories	(332,802)
Accounts payable	(276,311)
Accrued expenses	(12,670)
Unearned revenue	150,583
Net cash provided by operating activities	<u>322,581</u>
Cash flows from investing activities	
Acquisition of property and equipment	<u>(513,517)</u>
Net cash used in investing activities	<u>(513,517)</u>
Cash flows from financing activities	
Payments on long-term debt	<u>(21,413)</u>
Net cash used in financing activities	<u>(21,413)</u>
Net decrease in cash and cash equivalents	(212,350)
Cash and cash equivalents, beginning of year	<u>1,205,262</u>
Cash and cash equivalents, end of year	<u>\$ 992,912</u>
Supplemental cash flow information:	
Interest paid in cash	\$ 48,246
Reconciliation to statement of financial position	
Cash and cash equivalents- non-restricted	\$ 332,079
Restricted cash for building construction	660,833
Cash and cash equivalents, end of year	<u>\$ 992,912</u>

The accompanying notes are an integral part of this statement.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 - NATURE OF ACTIVITIES AND PRINCIPLES OF CONSOLIDATION

The Food Bank of the Rio Grande Valley, Inc. (FBRGV, Inc.) was organized as a Texas Nonprofit Corporation in February 1986. Its purpose is to collect and warehouse salvageable food and commodities, and to distribute those items to various area social agencies which assist the needy within Hidalgo, Starr, Willacy, and Cameron counties. The social agencies receiving the goods are assessed a shared maintenance fee based on the weight of the items transferred to them.

Funding is provided through grants from governmental agencies (primarily the Federal Emergency Management Agency and the U.S. Department of Agriculture) and private foundations, as well as donations from civic and social organizations, businesses, and individuals.

FBRGV, Inc. is associated with Feeding America and the Texas Food Bank Network.

On March 17, 2005, FBRGV, Inc. created a Limited Liability Company (FBRGV, LLC) and became its sole member. In addition, FBRGV, Inc. created a Texas Limited Partnership (Food RGV, LP) in which FBRGV, LLC became the general partner and FBRGV, Inc. became the limited partner. Food RGV, LP, was organized to acquire, develop, renovate and own the real property and improvements of the Valley Fruit and Vegetable Company building located at 724 N. Cage Blvd., Pharr, Hidalgo County, Texas. This building is to be the new location of the current food bank operations. The purpose of creating these entities was to enable historical tax credit monies as an additional means of financing the renovation.

Fiscal Year Change

Food Bank of the Rio Grande Valley, Inc. changed its fiscal year from October 1st to September 30th to July 1st to June 30th; thereby capturing nine months of activity for the period ended June 30, 2010.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements of the Food Bank have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Codification (ASC) 958-205 (Not for Profit Entities- Presentation of Financial Statements). In accordance with ASC 958-205, the Food Bank 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.

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

Temporarily restricted net assets- Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Food Bank and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently restricted net assets- Net assets subject to donor-imposed stipulations that they be maintained permanently by the Food Bank. Generally, the donors of these assets permit the Food Bank to use all or a part of the income earned on any related investments for general or specific purposes. Currently, the Food Bank has no permanently restricted net assets.

Consolidated Financial Statements

The financial statements include the accounts of FBRGV, Inc., FBRGV, LLC, and Food RGV, LP. All significant intercompany balances and transactions have been eliminated. The consolidated entity is referred to as the Food Bank.

Restricted and Unrestricted Revenue

The Food Bank accounts for contributions in accordance with the recommendations of the FASB Accounting Standards Codification (ASC) 958-605 (Not-for-Profit Entities – Revenue Recognition). In accordance with ASC 958-605, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) 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 on 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 as net assets released from restrictions.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. Contributions of food inventory from various donors are valued using standards established by the Feeding America National Food Bank Network. During the fiscal year, contributed food was valued at \$1.60 per pound. Commodities received through federal grants are recorded at amounts provided by the awarding agency.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Food Bank generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Food Bank with specific programs, campaign solicitations, and various other assignments. The Food Bank receives more than 24,000 volunteer hours per year.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Food Bank considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents and all certificates of deposit, regardless of maturity, to be cash equivalents.

Investments

The Food Bank carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Investment Income and Gains

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Accounts Receivable

Accounts receivable 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. At June 30, 2010, management considers all of its accounts receivable to be fully collectible.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Inventories consist primarily of donated foods and commodities as well as some purchased foods. Inventories are typically written down at the end of the year to provide an allowance for a portion of donated inventory that will be trashed because it is unusable for consumption.

Property and Equipment

The Food Bank capitalizes all expenditures for property and equipment in excess of \$2,500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of assets.

Advertising Costs

The Food Bank expenses advertising costs as incurred.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the schedule of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Food Bank of the Rio Grande Valley, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It does not conduct any activities which are subject to federal income tax. In addition, the Food Bank qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

FBRGV, LLC, a Texas limited liability company, qualifies and reports as a disregarded entity under federal income tax regulations. Food RGV, LP is treated as a partnership for federal income tax purposes.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

NOTE 3- DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

The following program and supporting services are included in the accompanying financial statements:

Programs – Food Distribution

The main programs consist of the emergency food assistance program, product recovery program, and commodity supplemental food program. Through member agencies, the Food Bank is able to help families in need of food throughout the counties of Starr, Hidalgo, Willacy and Cameron. Member agencies consist of food pantries, on-site feeding centers, soup kitchens, and shelters. The product recovery program is responsible for sorting, cleaning, inspecting, and repacking of donated off-the-shelf food and non-food products. The product recovery program utilizes the majority of volunteers. The commodity supplemental food program is operated by the Food Bank and primarily serves the elderly population in the designated service areas.

Management and General

Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Food Bank's program strategy; and manage the financial and budgetary responsibilities of the Food Bank.

Fundraising

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

NOTE 4- PROMISES TO GIVE

In 2004, the Board of Directors of the Food Bank approved the acquisition and renovation of the Valley Fruit and Vegetable Company building located in Pharr, Texas. The facility is 100,000 square feet and is situated on 14 acres of land. In order to fund the acquisition and renovation of the property, the Food Bank held a capital campaign to raise the necessary funds. Promises to give are restricted to payment of the costs of purchasing the building and land and costs of renovating the building.

Unconditional promises to give at June 30, 2010, are as follows:

Capital campaign	\$	41,976
	\$	<u>41,976</u>
Receivable in less than one year	\$	41,976
Receivable in one to five years		<u>-</u>
Total unconditional promises to give		41,976
Less allowance for doubtful accounts		(15,094)
Less discounts to net present value		<u>(2,348)</u>
Net unconditional promises to give at June 30, 2010	\$	<u>24,534</u>

Promises to give receivable due in more than one year are discounted at 6%.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Building	\$	424,610
Leasehold improvements		167,233
Furniture and fixtures		34,628
Vehicles		883,451
Office equipment		222,142
Warehouse equipment		537,671
		2,269,735
Accumulated depreciation		(1,417,331)
		852,404
Construction in progress		374,388
Land		1,074,652
	\$	2,301,444

The land and building purchased as part of the capital campaign are pledged as collateral for the Food Bank's promissory note payable.

Depreciation expense totaled \$76,911 for the year ended June 30, 2010.

NOTE 6 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset and liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Food Bank has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the assets or liability, which are typically based on the entity's own assumptions, as there is little, if any, related market value.

The following table presents the Food Bank's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2010.

	Fair Value Measurements Using			Total Fair Value at June 30, 2010
	Level 1	Level 2	Level 3	
Equity securities	\$ 9,429	\$ -	\$ -	\$ 9,429
Promises to give	-	-	39,628	39,628

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010

NOTE 6 – FAIR VALUE MEASUREMENTS (Continued)

The table below presents information about the changes in unconditional promises to give for the nine months ended June 30, 2010:

Beginning balance	\$	88,658
New promises received		-
Collections		(17,702)
Contribution revenue		773
Management and general (write-offs)		(32,101)
Ending balance	\$	<u>39,628</u>

NOTE 7- INVESTMENTS

Investments are reported on the basis of quoted market prices and consist of equity securities. All investment return on these investments is classified as unrestricted on the statement of activities and consists of unrealized gains and losses for the year ended June 30, 2010. The Food Bank has an agreement with its depository bank, whereby money is swept out of the main operating account on a daily basis. These monies are used to purchase overnight repurchase agreements. All repurchase agreements are collateralized by the securities purchased.

NOTE 8 – LONG –TERM DEBT

The Food Bank’s obligation under long-term debt consists of the following:

Food RGV, LP

Compass Bank, McAllen promissory note payable in full on February 15, 2015 with interest payable in monthly installments of \$7,479 at a fixed 6.5% interest rate; collateralized by a deed of trust on the real property.

\$ 858,563

Less: current maturities

(28,981)
\$ 829,582

NOTE 9 – LONG –TERM DEBT

The future scheduled maturities of long-term debt are as follows:

Year Ending,		
2011	\$	28,981
2012		36,159
2013		38,466
2014		41,228
2015		713,729
	\$	<u>858,563</u>

For the year ended June 30, 2010, the Food Bank incurred \$48,246 in interest charges, which were all charged to expense.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

NOTE 10 – UNEARNED REVENUE

Unearned revenue consists primarily of grant funds advanced to the Food Bank for the Emergency Food and Shelter Program (EFSP). These funds are generally required to be spent by the end of the grant period, which ends on September 30, 2010. The balance of unearned revenues consists of the following at June 30, 2010:

Unspent EFSP Grant Proceeds	\$ 138,466
Other	<u>41,352</u>
Total	<u>\$ 179,818</u>

NOTE 11 – RESTRICTIONS/LIMITATIONS ON NET ASSETS

Temporarily restricted net assets are available for the following:

Capital campaign- acquisition and renovation of building	\$ 685,367
	<u>\$ 685,367</u>

NOTE 12- FINANCIAL INSTRUMENTS

Concentrations of Credit Risk Due to Promises to Give Receivable

Concentrations of credit risk with respect to promises to give receivable are limited due to the large number of contributors comprising the Food Bank's contributor base. As of June 30, 2010, the Food Bank had no significant concentrations of credit risk.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Food Bank maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2010, the Food Bank's uninsured cash balances total \$135,347.

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents- Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

Promissory note payable and accounts payable- Fair value approximates carrying value since stated rates approximate those currently available to the Food Bank for debt with similar terms and remaining maturities.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010

NOTE 13- TAX-DEFERRED ANNUITY PLAN

During the year ended September 30, 2003, the Food Bank entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. Currently, the Food Bank does not make any contributions to the plan. Employees may make voluntary contributions to the plan up to the maximum amount allowed by the Internal Revenue Code.

NOTE 14 – OPERATING LEASES

The Food Bank has several noncancelable operating leases, primarily for various types of equipment, that expire at various dates through September 30, 2012. Those leases generally contain renewal options for various periods and require the Food Bank to pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for those leases consisted of \$138,860 for the year ended June 30, 2010.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2010, are:

<u>Year Ending June 30,</u>	
2011	\$ 13,851
2012	9,657
2013	<u>3,642</u>
	<u>\$ 27,150</u>

NOTE 15 - RELATED PARTY TRANSACTIONS

The Food Bank is involved in a capital campaign to raise funds to purchase and renovate a new facility. As of June 30, 2010, board members have outstanding promises to give to the campaign totaling \$6,600, which is before discounts and allowances. In addition, the Food Bank purchased an investment from a bank, which one of its board members serves as a vice president.

NOTE 16 – LEASED EMPLOYEES

Effective July 8, 2006, the Food Bank entered into a contract with a staff leasing services company. Under the terms of the agreement, the staff leasing company agrees to provide workers to the Food Bank to perform activities in the furtherance of its exempt purpose. Under the terms of the agreement, the staff leasing company assumes responsibility for the payment of wages to the employees assigned to the Food Bank as well as the collection of taxes from payroll on employees assigned and payment of payroll taxes and unemployment taxes. The Food Bank pays a fee comprised of the gross payroll for each period and a fee rate percentage multiplied by the gross payroll.

NOTE 17- CONCENTRATIONS

The Food Bank receives a large portion of its food supplies from the U.S. Department of Agriculture via the Emergency Food Assistance Programs and Commodity Supplemental Food Programs. During the year, these commodities comprised approximately 54% of the total value of all donated food received.

During the year, a grant to reimburse administrative costs with the U.S. Department of Agriculture provided approximately 31% of the assistance necessary to fund the operations of the Food Bank.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010

NOTE 18 – CONTINGENCIES

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Food Bank for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date. The Food Bank expects such amounts, if any, to be immaterial.

NOTE 19 – PRIOR PERIOD ADJUSTMENT

The Food Bank changed its fiscal year end from September 30, 2010 to June 30, 2010. Because of this change, the amounts used for the consolidation of Food RGV, LP are for the calendar year ending December 31, 2009 as opposed to December 31, 2010. Because the consolidated December 31, 2009 amounts were used in the financial statements issued in the previous period, the same activity of Food RGV, LP was already included in the opening equity balances. Therefore, opening balances have been restated for this change. The effect of this adjustment was to increase the beginning balance of net assets by \$124,061.

NOTE 20 – SUBSEQUENT EVENTS

For purposes of reporting subsequent events, management has considered events occurring up to March 22, 2011, the date the report was available to be issued.

Pay-off of Loan. On November 18, 2010, the Food Bank paid off in full its promissory note payable to Compass Bank.

SUPPLEMENTARY INFORMATION

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

Board of Directors
Food Bank of the Rio Grande Valley, Inc. and Subsidiaries

We have audited the consolidated financial statements of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated March 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Food Bank's internal control over financial reporting as a basis for designing our auditing procedures 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 Food Bank's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over financial reporting.

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 control deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Food Bank's financial statements are free of 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*.

We noted certain matters that we reported to management of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries in a separate letter dated March 22, 2011.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
March 22, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Food Bank of the Rio Grande Valley, Inc. and Subsidiaries

Compliance

We have audited the compliance of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Food Bank's management. Our responsibility is to express an opinion on the Food Bank's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Food Bank'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. Our audit does not provide a legal determination of the Food Bank's compliance with those requirements.

In our opinion, the Food Bank complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2.

Internal Control Over Compliance

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Food Bank's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Food Bank'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 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Food Bank's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Food Bank's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of, management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


LONG CHILTON, LLP
Certified Public Accountants

McAllen, Texas
March 22, 2011

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X none reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness (es) identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? X Yes _____ No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Program</u>
10.568	Emergency Food Assistance Program Cluster: Emergency Food Assistance Program (Administrative Costs) ARRA- Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program Cluster: Emergency Food Assistance Program (Food Commodities)
93.667	Social Services Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 For the Nine Months Ended June 30, 2010

Section II – Financial Statement Findings

None.

Section III – Federal Findings and Questioned Costs

<p>U.S. Department of Health and Human Services</p> <p>Passed through: Texas Department of Agriculture</p> <p>Emergency Food Assistance Cluster</p> <p style="padding-left: 20px;">10.568</p> <p style="padding-left: 20px;">10.569</p>	
Reference No.: 2010-1	Agency Monitoring.
Criteria:	According to the TEXCAP manual, Section 5000- Visits, Review and Audits, Section 5300 states that “Contractors monitor subagencies to ensure program compliance and proper use of USDA-donated commodities.” Section 5310- Contractor Reviews, requires monitoring of agencies as follows: “At least 50% of subagencies that distribute USDA-donated commodities and each contractor no less than every two years.”
Condition Found:	During the audit, it was discovered that the Food Bank was not monitoring an adequate number of subagencies during the year under audit. The Food Bank had a shortened year due to changes in its fiscal period. Therefore, we used the monitoring list of the Food Bank for an entire year, which ran from October 1, 2009 through September 30, 2010.
Cause:	The Food Bank appeared to have a lack of resources to monitor the necessary amount of subagencies since it was also involved in a major food distribution project, which limited time agency personnel had to monitor subagencies.
Effect:	The Food Bank monitored only 69 subagencies, when there were at least 168 active agencies receiving and distributing USDA product. Therefore, the Food Bank should have monitored at least 84 subagencies.
Questioned Costs:	N/A
Recommendation:	We recommend that the Food Bank develop an approach to determine the number of active subagencies at the beginning of the period. A target number of agencies to be monitored should be developed based on the total number of active agencies and monitored throughout the period.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
 For the Nine Months Ended June 30, 2010

<p>U.S. Department of Health and Human Services</p> <p>Passed through: Lower Rio Grande Development Council</p> <p>Social Services Block Grant</p> <p>93.667</p>	
<p>Reference No.: 2010-2</p>	<p>Suspension and Debarment.</p>
<p>Criteria:</p>	<p>When making procurements, grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation on Federal assistance programs under Executive Order 12549, "Debarment and Suspension."</p>
<p>Condition Found:</p>	<p>The Food Bank does not appear to have any procedures in place regarding checking for suspension or debarment when making procurements under the grant. No records were available documenting whether the Food Bank had checked the relevant EPLS website or made vendors sign a certification that they were not suspended or debarred.</p>
<p>Cause:</p>	<p>The Food Bank was not aware of the federal requirements.</p>
<p>Effect:</p>	<p>Although the Food Bank did not appear to award any procurements to any suspended or debarred vendors, the lack of procedures in place could have resulted in an award being made to a suspended or debarred vendor.</p>
<p>Questioned Costs:</p>	<p>N/A</p>
<p>Recommendation:</p>	<p>It is recommended that the Food Bank develop procedures for checking the epls.gov website or develop a procedure where vendors sign a certification that they are not suspended or debarred when making procurements (generally over \$25,000) under federal grants.</p>

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS- STATUS OF PRIOR YEAR FINDINGS
 For the Nine Months Ended June 30, 2010

U.S. Department of Agriculture Passed through: Texas Department of Human Services Emergency Food Assistance Program Cluster 10.568 10.569	
Reference No.: 2007-7	Inventory Inspection Reports.
Current Status:	The finding does not warrant further action. The finding was first reported in the 2007 schedule of findings and questioned costs in September 2008. No such findings were encountered in the current year.

U.S. Department of Agriculture Passed through: Texas Department of Human Services Emergency Food Assistance Program Cluster 10.568 10.569	
Reference No.: 2007-8	Commodity Losses.
Current Status:	The finding does not warrant further action. The finding was first reported in the 2007 schedule of findings and questioned costs in September 2008. No such findings were encountered in the current year.

U.S. Department of Agriculture Passed through: Texas Department of Human Services Commodity Supplemental Food Program 10.565	
Reference No.: 2007-9	Inventory Documentation.
Current Status:	The finding does not warrant further action. The finding was first reported in the 2007 schedule of findings and questioned costs in September 2008. No such findings were encountered in the current year.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS- STATUS OF PRIOR YEAR FINDINGS
 (CONTINUED)
 For the Nine Months Ended June 30, 2010

<p>U.S. Department of Agriculture</p> <p>Passed through: Texas Department of Human Services</p> <p>Emergency Food Assistance Program Cluster</p> <p>10.568</p> <p>10.569</p>	
<p>Reference No.: 2008-2</p>	<p>Agency Monitoring.</p>
<p>Current Status:</p>	<p>The agency relations department monitored in excess of 50% of its subagencies in fiscal year 2009. However, the coverage in the current audit did not meet the 50% requirement. This was addressed as a finding in the fiscal year 2010 audit.</p>

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 CORRECTIVE ACTION PLAN
 For the Year Ended June 30, 2010

Reference No.: 2010-1	Agency Monitoring.
Corrective Action Plan:	We will monitor more than 50% of our partner agencies on a yearly basis by using and keeping track of our monitoring log. Contact: Libby Salinas, Agency Relations Manager Phone: (956) 682-8101

Reference No.: 2010-2	Suspension and Debarment.
Corrective Action Plan:	Whenever we have a Federal grant we will get certification from vendors that they are not suspended and debarred when we make purchases in amounts greater than \$25,000. Contact: Terri Drefke, Executive Director Phone: (956) 682-8101

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

Contract Number	CFDA Number	Grant Period	Expenditures	Amounts to Subrecipients	
<u>Department of Health and Human Services</u>					
Passed through the Lower Rio Grande Valley Development Council					
	Social Services Block Grant	93.667	10/01/09-9/30/10	\$ 830,578	\$ -
	Total Department of Health and Human Services			<u>830,578</u>	<u>-</u>
<u>United States Department of Agriculture</u>					
Passed through Texas Department of Agriculture					
108-7088	Emergency Food Assistance Program (Administrative Costs)	* 10.568	10/01/09-9/30/10	256,296	-
108-7088	Emergency Food Assistance Program (Food Commodities)	* 10.569	10/01/09-9/30/10	3,625,346	-
6TX840816	ARRA- Emergency Food Assistance Program (Administrative Costs)	* 10.568	10/01/09-9/30/10	257,540	-
6TX840816	ARRA- Emergency Food Assistance Program (Food Commodities)	* 10.569	10/01/09-9/30/10	256,151	-
108-4002	Commodity Supplemental Food Program (Administrative Costs)	10.565	10/01/09-9/30/10	70,314	-
108-4002	Commodity Supplemental Food Program (Food Commodities)	10.565	10/01/09-9/30/10	414,605	-
529-06-0002	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	* 10.561	10/01/09-9/30/10	32,618	-
	Total United States Department of Agriculture			<u>4,912,870</u>	<u>-</u>
Total Expenditures of Federal Awards				<u>\$ 5,743,449</u>	<u>\$ -</u>

* Denotes cluster of federal programs.

SNAP Cluster

10.561 State Administrative Matching Grants for Supplemental Nutrition Assistance Program

Emergency Food Assistance Cluster

10.568 Emergency Food Assistance Program (Administrative Costs)

10.569 Emergency Food Assistance Program (Food Commodities)

The accompanying notes are an integral part of this schedule.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 June 30, 2010

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Food Bank and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, Local Governments, and Non-Profit Organizations.

NOTE 2- FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. At June 30, 2010, the Food Bank had food commodities in inventory totaling \$1,141,910.

NOTE 3- RECONCILIATION OF FEDERAL AWARDS TO FINANCIAL STATEMENTS

Total expenditures of federal awards	\$	5,743,449
Non-federal expenditures		<u>6,070,357</u>
Total expenses per statement of activities	\$	<u>11,813,806</u>

The Food Bank, as a recipient agency in CSFP and TEFAP, considers all USDA donated foods distributed or used in a fiscal year as expended for purposes of the schedule of expenditures of federal awards. Therefore, there are differences in amounts reported on the statement of activities as revenues and amounts reported on the schedule of expenditures of federal awards as expenditures. The following table reconciles these amounts.

Monetary- per statement of activities		\$ 1,447,347
Commodities- per statement of activities		<u>4,692,537</u>
Total federal awards per the statement of activities		6,139,884
Change in USDA inventories		<u>(396,435)</u>
Total expenditures of federal awards		<u>\$ 5,743,449</u>

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the Nine Months Ended June 30, 2010

	Food Distribution	Support Services		Total
		Management and General	Fundraising	
Commodity distribution, monetary	\$ 272,160	\$ -	\$ -	\$ 272,160
Commodity distribution, in-kind	9,537,406	-	-	9,537,406
Fundraising events	-	-	33,845	33,845
Marketing	-	-	131,908	131,908
Professional services	21,738	5,099	-	26,837
Fuel and mileage allowance	53,184	1,876	5,669	60,729
Equipment maintenance and lease	58,789	7,138	8,030	73,957
Interest	43,905	2,894	1,447	48,246
Insurance	41,436	3,187	910	45,533
Office supplies	31,545	22,617	5,356	59,518
State and national association fees	26,791	-	-	26,791
Volunteer recognition	1,450	-	-	1,450
Seminars and training	14,729	1,668	-	16,397
Utilities and telephone	73,671	6,549	1,637	81,857
Warehouse maintenance and lease	142,302	-	-	142,302
Leased employees and related expenses	657,106	289,572	167,061	1,113,739
Depreciation expense	69,220	6,153	1,538	76,911
Public relations	5,727	-	1,909	7,636
Property taxes	-	42,276	-	42,276
Other	14,309	-	-	14,309
	<u>\$ 11,065,467</u>	<u>\$ 389,029</u>	<u>\$ 359,310</u>	<u>\$ 11,813,806</u>

Reconciliation of Program Expenses to Statement of Activities

Food distribution- commodities	\$ 9,537,406
Food distribution- monetary	<u>1,528,061</u>
Total- food distribution	<u>\$ 11,065,467</u>