

**Food Bank of the Rio Grande Valley, Inc.
And Subsidiaries**

**Consolidated Financial Statements and
Other Supplementary Information**

June 30, 2016

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

**Annual Financial Report
June 30, 2016**

TABLE OF CONTENTS

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditors' Report.....	1 - 2
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position.....	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Cash Flows.....	5
Consolidated Statement of Functional Expenses.....	6
Notes to the Consolidated Financial Statements.....	7 - 20
SUPPLEMENTAL CONSOLIDATING INFORMATION	
Consolidating Statement of Financial Position.....	21
Consolidating Statement of Activities.....	22
SINGLE AUDIT SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23 - 24
Independent Auditors' Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance.....	25 - 26
Schedule of Findings and Questioned Costs.....	27
Summary of Schedule of Prior Year Audit Findings.....	28
Schedule of Expenditures of Federal Awards.....	29
Notes to the Schedule of Expenditures of Federal Awards.....	30 - 31

FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Food Bank of the Rio Grande Valley, Inc. and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audit 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

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

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Other Matter – Summarized Comparative Information

We have previously audited the consolidated financial statements of Food Bank of the Rio Grande Valley, Inc. and its subsidiaries, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

The supplemental consolidating information and the Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental consolidating information and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2017 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 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 Food Bank of the Rio Grande Valley, Inc. and subsidiaries' internal control over financial reporting and compliance.



Brownsville, Texas

March 8, 2017

FINANCIAL STATEMENTS

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

June 30, 2016

(with comparative information at June 30, 2015)

<u>ASSETS</u>	Totals	
	2016	2015
Current Assets		
Cash and cash equivalents	\$ 571,379	\$ 665,675
Restricted cash	236,644	303,758
Investments	16,236	14,226
Accounts receivable, net	428,688	174,734
Product inventory, net of salvage	2,495,939	2,386,750
Other assets	8,837	7,882
Total Current Assets	3,757,723	3,553,025
Property and equipment, net of accumulated depreciation	10,975,413	10,257,963
Intangible assets, net of accumulated amortization	192,456	203,084
Deferred rent receivable	196,528	152,856
Loans receivable	7,326,685	7,326,685
Total Assets	\$ 22,448,805	\$ 21,493,613
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 219,447	\$ 180,829
Total Current Liabilities	219,447	180,829
Noncurrent Liabilities		
Notes payable	11,145,000	11,145,000
Total Noncurrent Liabilities	11,145,000	11,145,000
Total Liabilities	11,364,447	11,325,829
Net Assets		
Net assets - unrestricted	10,383,958	9,191,208
Net assets - temporarily restricted	700,400	976,576
Total Net Assets	11,084,358	10,167,784
Total Liabilities and Net Assets	\$ 22,448,805	\$ 21,493,613

The accompanying notes are an integral part of this financial statement.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

(with comparative information at June 30, 2015)

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
Revenues, gains and other support:				
Grants:				
USDA - TEFAP commodities	\$ -	\$ 3,699,687	\$ 3,699,687	\$ 3,218,940
USDA - CSFP commodities	-	1,038,207	1,038,207	1,165,004
USDA - TEFAP administration	557,451	-	557,451	540,003
USDA - CSFP administration	303,156	-	303,156	336,720
Emergency Food & Shelter Program	186,120	-	186,120	49,870
Supplemental Nutrition Assistance Program	87,495	-	87,495	78,491
Community Based Outreach/Match	75,031	-	75,031	81,430
Community Development Block Grants	49,114	-	49,114	58,998
USDA - Farmer's Market Promotion Program	53,151	-	53,151	49,230
USDA - National Resources Conservation Service	-	-	-	2,500
Total grants	<u>1,311,518</u>	<u>4,737,893</u>	<u>6,049,411</u>	<u>5,581,186</u>
Value of donated inventory	62,115,128	-	62,115,128	32,717,084
Shared maintenance	817,840	-	817,840	858,858
Donations and private grants	2,317,535	-	2,317,535	1,019,347
Special events	192,355	-	192,355	141,780
Other	201,952	-	201,952	159,648
Dividend and interest income	39,479	-	39,479	12,460
Rent income	12,460	-	12,460	38,009
Net assets released from restrictions	<u>5,014,069</u>	<u>(5,014,069)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	<u>72,022,336</u>	<u>(276,176)</u>	<u>71,746,160</u>	<u>40,528,372</u>
Expenses:				
Program expenses	69,778,152	-	69,778,152	40,960,243
Supporting services:				
Administrative	582,767	-	582,767	634,738
Fundraising	468,666	-	468,666	484,720
Total expenses	<u>70,829,586</u>	<u>-</u>	<u>70,829,586</u>	<u>42,079,701</u>
Increase (Decrease) in Net Position	<u>1,192,750</u>	<u>(276,176)</u>	<u>916,574</u>	<u>(1,551,329)</u>
Net Assets, June 30, 2015	<u>9,191,208</u>	<u>976,576</u>	<u>10,167,784</u>	<u>11,719,113</u>
Net assets, June 30, 2016	<u>\$ 10,383,958</u>	<u>\$ 700,400</u>	<u>\$ 11,084,358</u>	<u>\$ 10,167,784</u>

The accompanying notes are an integral part of this financial statement.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

(with comparative information for the year ended June 30, 2015)

	Totals	
	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net position	\$ 916,574	\$ (1,551,329)
Adjustments to reconcile net assets to net cash (used in) provided by operating activities		
Depreciation expense	443,034	461,725
Amortization expense	10,933	10,932
Unrealized (gains) on investments	(2,010)	(267)
Non-monetary inventory transactions	(145,788)	982,483
Decrease (increase) in:		
Accounts receivable	(253,954)	(84,680)
Purchased inventory	(7,073)	(3,406)
Other assets	(955)	18,757
Increase (decrease) in:		
Accounts payable and accrued expenses	38,618	(116,681)
Net cash (used in) provided by operating activities	999,379	(282,466)
 Cash flows from investing activities:		
(Increase) decrease in restricted cash	67,114	67,015
Capital expenditures	(1,160,789)	(48,500)
Net cash provided by (used in) investing activities	(1,093,675)	18,515
 Net change in cash	(94,296)	(263,951)
Cash at beginning of year	665,675	929,626
Cash at end of year	\$ 571,379	\$ 665,675
 Supplemental Disclosure:		
Interest paid in cash	\$ 104,473	\$ 104,473

The accompanying notes are an integral part of this financial statement.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

(with comparative information for the year ended June 30, 2015)

	Program Services	Supporting Services		Totals	
		Administrative	Fundraising	2016	2015
Salary and benefit expense	\$ 1,602,827	\$ 441,492	\$ 281,700	\$ 2,326,019	\$ 2,264,964
Commodity and in-kind donations distributed	66,743,807	-	-	66,743,807	38,002,198
Purchased inventory distributed	270,131	-	-	270,131	218,095
Transportation	205,337	5,841	13,479	224,658	241,230
Building occupancy costs	150,421	11,965	8,547	170,933	176,314
Phone/internet	34,624	2,754	1,967	39,346	51,954
Professional fees	52,137	55,850	5,790	113,777	142,436
Equipment maintenance	54,318	1,545	3,566	59,429	38,213
General liability insurance	-	22,380	-	22,380	18,469
Loan interest	100,294	3,134	1,045	104,473	104,473
Promotions and fundraising	-	-	128,757	128,757	140,276
Office expense	75,183	9,489	6,569	91,241	89,723
Conferences, training and travel	12,632	6,346	10,675	29,653	44,895
Publications and newsletters	-	5,107	-	5,107	30,169
State and national food bank network fees	29,135	-	-	29,135	31,891
Depreciation expense	424,565	13,852	4,617	443,034	461,725
Amortization expense	10,496	328	109	10,933	10,933
Other	12,244	2,684	1,845	16,773	11,743
	<u>\$ 69,778,152</u>	<u>\$ 582,767</u>	<u>\$ 468,666</u>	<u>\$ 70,829,586</u>	<u>\$ 42,079,701</u>

The accompanying notes are an integral part of this financial statement.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - NATURE OF ACTIVITIES

The Food Bank of the Rio Grande Valley, Inc. and Subsidiaries (Food Bank) is a Texas non-profit corporation that began operations in February 1986. The Food Bank's 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, 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 U.S. Department of Homeland Security and the U.S. Department of Agriculture) and private foundations, as well as donations from civic and social organizations, businesses and individuals.

On March 17, 2005, the Food Bank of the Rio Grande Valley, Inc. (FBRGV, Inc.) created a Limited Liability Company (FBRGV, LLC) and became its sole member. In addition, the FBRGV, Inc. created a Texas Limited Partnership (Food RGV, LP) in which FBRGV, LLC became the general partner and the 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, (the Pharr building), located at 724 N. Cage Blvd., Pharr, Hidalgo County, Texas. This building is the new location of the current Food Bank operations. The purpose of creating these entities was to receive historical tax credit monies as an additional means of financing the renovation.

The Food Bank conducted a fundraising campaign to refurbish the Pharr building. As part of the rehabilitation effort, the Food Bank received Social Services Block Grant (SSBG) Emergency Disaster Relief funds under a sub-sub grant from the Texas Health and Human Services Commission (HHSC) through the Lower Rio Grande Valley Development Council to construct a large freezer at the Pharr building. The Food Bank filed a Notice of Federal Interest in December 2010 to formally recognize the government's ownership interest in the Pharr building and property.

The Food Bank combined existing funds with new loan proceeds from a financial structure that utilized New Markets Tax Credits available through a Federal tax-credit program established in year 2000 with the passage of the Community Renewal Tax Relief Act of 2000. A portion of existing Food Bank funds and the new loan proceeds paid for the remaining capital improvements to the Pharr building and land. To comply with the requirements of the tax credit programs, the Food Bank established a specified financial structure to complete the series of transactions necessary.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - NATURE OF ACTIVITIES

Several new entities were formed to facilitate the loan and equity transactions. Following is a brief synopsis of newly-formed entities, their ownership structure, and transactions that took place on December 21, 2011.

- Food Bank will lease the Pharr building and land to FBRGV Landlord, LLC (Landlord) for a term of 55 years.
- FBRGV Manager, LLC (Manager) was formed as the manager and majority owner of profits interest in Landlord, the ground lessor of the Pharr building and property. Manager is a wholly-owned subsidiary of the Food Bank.
- The underlying ownership structure of Landlord is as follows: (a) Manager owns a 90% profits interest as the managing member, and. (b) FBRGV Tenant, LLC (Tenant) as a member owns a 10% interest in Landlord.
- Tenant is owned by Partnerships of Hope II, LLC, a sole member and managed by Manager.
- Partnerships of Hope II, LLC is owned by (a) Raza Development Fund, Inc., with a .01% profits interest as managing member and by (b) Chase NMTC FBRGV Investment Fund, LLC, with a 99.99% profits interest.
- Chase NMTC FBRGV Investment Fund, LLC is owned by (a) RDF Manager, LLC with a .01% profits interest as managing member and by (b) Chase Community Equity, LLC with a 99.99% profits interest.
- Landlord will lease the Pharr building and property to Tenant for a term of 19 years.
- Tenant will sub-lease the property to the Food Bank for a term of 15 years.

Part of the financing of the rehabilitation of the Pharr building facility came from loans from Partnerships of Hope II, LLC, to Landlord, for approximately \$11,145,000. The sources of funds for the loan are equity proceeds from Chase Community Equity, LLC, and debt proceeds from the Food Bank, using available funds. The loan is secured by a first leasehold deed of trust in Landlord's leasehold interest in the Pharr building.

On December 2011, Food Bank transferred to Landlord, cost of the Pharr land and building, including improvements, totaling \$5,589,313 for payment of \$8,634,936 from Landlord. The remaining \$3,048,402 was treated as extraordinary income on the books of the Food Bank.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements

The accompanying consolidated financial statements includes the financial statements of the FBRGV Landlord, LLC. Significant inter-company transactions have been eliminated in the financial statements. The consolidated entity is referred to as the Food Bank.

Basis of Accounting

The Food Bank prepares its financial statements under the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Financial Statement Presentation

The Financial Accounting Standards Board (FASB) issued FASB ASC 958-205, "Not for Profit Entities-Presentation of Financial Statements." The Food Bank follows the provisions of FASB ASC 958-205. Under FASB 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, temporarily restricted, 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 organization 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.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of cash flows, the Food Bank considers investments available for current use with an initial maturity date of three months or less to be cash equivalents and all certificates of deposit, regardless of maturity, to be cash equivalents. The Food Bank maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits of up to \$250,000 under the Federal Deposit Insurance Corporation (FDIC). Management believes it is not exposed to any significant risk on cash accounts.

Shared Maintenance Fees

The Food Bank receives fees, from participating agencies, to assist in the costs of distributing food. These shared maintenance fees are based on a predetermined rate range of \$0 to \$.19 per pound.

Accounts Receivable

Accounts receivable represent amounts due from agencies and are stated at the amount the Food Bank expects to collect for shared maintenance fees and grants from government agencies. 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. As of June 30, 2016, management has a reserve for losses on receivables in the amount of \$13,390.

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. The Food Bank uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. As of June 30, 2016, the Food Bank had no unconditional promises to give.

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 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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventory

Inventory is stated at the lower of cost or market determined by the first-in, first-out method. Inventory consists of donated food and non-food items, purchased food, and commodities received from the United States Department of Agriculture (USDA). Donated food and related items were valued at \$1.67 per pound for the year ended June 30, 2016. This valuation is based on cost studies conducted for Feeding America. Donations to the School Tools program have been valued at market value. Purchased food is valued at latest purchase price. USDA commodities are valued based on published USDA fair market values. Inventory is 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

Property and equipment are stated at cost, less accumulated depreciation. Gifts or contributions of property and equipment are recorded at the asset's fair market value at the time received. Depreciation is calculated using the straight-line method over useful lives of the assets, ranging from three to seven years for vehicles, office furniture and equipment and fifteen to thirty-nine years for buildings and building improvements. The Food Bank capitalizes all expenditures for property and equipment in excess of \$2,500. Maintenance and repairs that do not increase the useful life of the asset are expensed as incurred while major additions and improvements that do increase the useful life of the asset are capitalized. When items are disposed of, the cost and accumulated depreciation are eliminated from the records of accounts and any gains or losses are reported in the change in net assets.

Contributions

The Food Bank follows the Financial Accounting Standards Board's (FASB) FASB ASC 958-605. The provisions of the FASB ASC 958-605 state, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Donated Services

The Food Bank receives services donated from its members in carrying out its operations. However, no amounts have been recognized in the statement of activities since they do not meet the criteria for recognition under FASB ASC 958-605-25. The Food Bank received approximately 27,878 hours of services from approximately 2,695 volunteers for the year ending June 30, 2016. Volunteers assisted in sorting food items. No amounts have been recognized in the financial statements for these volunteer hours because they do not meet the criteria for recognition.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Allocation of Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the consolidated statement of activities. 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 taxes pursuant to 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. FBRGV Landlord, LLC is treated as a partnerships for federal income tax purposes.

The Food Bank's Form 990, Return of Organization Exempt from Income Tax for the years ending 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Compensated Absences

Employees are entitled to paid vacations and personal days off, depending on job classification, length of services and other factors. The accrued balance was \$115,455 as of June 30, 2016.

Advertising Costs

The Food Bank expenses advertising costs as incurred.

Date of Management's Review

Management of the Food Bank has evaluated subsequent events for disclosure through March 8, 2017, the date the financial statements were available to be issued.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

Programs - Food distribution

The main programs consist of the emergency food assistance program, product recovery program, and commodity supplemental program. Through member agencies, the Food Bank is able to help families in need of food throughout the counties of Hidalgo, Willacy and Cameron. Member agencies consist of food pantries, on-site feed 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 products 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 services areas. The Food Bank RGV also provides nutrition education, assistance with SNAP applications, and a community garden.

Fundraising

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

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.

NOTE 4 - LOANS RECEIVABLE

On December 21, 2011, the Food Bank made two loans totaling \$8,634,936 to Chase NMTC FBRGV Investment Fund, LLC. The first loan in the amount of \$7,394,157 is classified as a "Leverage Loan". The Leverage Loan is for a term of 35 years at a rate of .5000%, with interest only payments due quarterly through December 21, 2018. Thereafter, quarterly payments of \$70,790 are due quarterly through December 21, 2046. The loan matures December 21, 2046.

The second loan in the amount of \$1,240,779 is classified as a "Federal Historical Tax Credits Bridge Loan" (Bridge loan). The Bridge loan carries an interest rate of 0.000% with a payment of \$1,240,779 due April 30, 2012. This payment was made on August 22, 2012. The Historical Tax Credit payment received exceeded the amount of the second loan by \$67,348 and this was treated as a repayment of principal on the first loan.

The total amount of loans receivable on June 30, 2016 was \$7,326,685.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 - RELATED PARTY TRANSACTIONS

FBRGV Landlord, LLC (Landlord) entered into a master lease agreement with FBRGV Tenant, LLC (Tenant) on December 21, 2011 for occupying the Pharr building. The lease term ends on December 31, 2030. Annual lease payments from Tenant to Landlord total \$58,000 per year through 2017. The payments increase to \$81,500 in 2018 and increase each year thereafter through year 2030.

Pursuant to the Master Lease, future annual lease payments for the next five years and thereafter are as follows for years ending June 30:

2017	\$	58,000
2018		81,500
2019		284,250
2020		464,659
2021		468,147
Thereafter		<u>4,552,978</u>
Total	\$	<u>5,909,534</u>

Pursuant to FASB-ASC 840-20, lease income is required to be recognized on a straight-line basis. For the year ended June 30, 2016, lease income was \$324,760 for annual base rent. As of June 30, 2016, the cumulative adjustment to record deferred rental income on a straight-line basis was \$1,200,420 and is shown (after a related party elimination of \$1,003,892) as "Deferred rent receivable" on the accompanying statement of financial position.

Also on December 21, 2011, the Food Bank entered into a sublease agreement with Tenant whereby Tenant would sublease the Pharr building to the Food Bank. The lease ends on December 31, 2026. Annual lease payments from the Food Bank to Tenant total \$89,213 per year from fiscal 2012 through fiscal 2016. In 2017 the payments total \$89,240 and in 2018 increase to \$110,642.

Pursuant to the sublease, future annual lease payments for the next five years and thereafter are as follows for years ending June 30:

2017	\$	89,240
2018		110,642
2019		313,393
2020		495,811
2021		498,949
Thereafter		<u>3,016,000</u>
Total	\$	<u>4,524,035</u>

Pursuant to FASB-ASC 840-20, lease expense is required to be recognized on a straight-line basis. For the year ended June 30, 2016, lease expense incurred is \$312,300 for annual base rent. As of June 30, 2016, the cumulative adjustment to record lease expense on a straight-line basis was \$1,003,892. This is classified as "Deferred rent payable" and is completely eliminated on the accompanying consolidating statement of financial position as a related party item.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 - 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 7 - RETIREMENT PLAN

Effective January 2012, the Food Bank entered into a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. Currently, the Food Bank agrees to make a 2% contribution match to the plan. Employees may make voluntary contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The total employer contributions for this Plan was \$16,760 for the 2016 plan year. The Food Bank also maintains a 457 plan for key employees. No employer contribution was made for the 2016 plan year.

NOTE 8 - FINANCIAL INSTRUMENTS

Concentration 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, 2016 the Food Bank had no significant concentrations of credit risk.

NOTE 9 – INVENTORY

Inventory consisted of the following as of June 30:

	2016		(For Comparative Purposes Only) 2015	
	Pounds	Dollars	Pounds	Dollars
Donated Inventory:				
Donated Food Inventory	143,322	\$ 210,507	120,488	\$ 176,012
USDA-TFAP Commodities	535,764	297,361	960,246	567,520
USDA-CSFP Commodities	307,062	240,463	317,141	246,477
School Tools Inventory	397,486	1,725,043	622,984	1,381,250
Total Donated Inventory	1,383,634	\$ 2,473,374	2,020,859	\$ 2,371,259
Purchased Food Inventory:				
Other purchased inventory	36,332	\$ 22,565	70,686	\$ 15,492
Total Purchased Food Inventory	36,332	\$ 22,565	70,686	\$ 15,492

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 10 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	(For Comparative Purposes Only)	
	2016	2015
Land	\$ 1,868,580	\$ 1,868,580
Building	8,096,017	8,096,017
Leasehold improvements	922,597	922,597
Building improvements	1,302,255	229,338
Furniture & equipment	1,049,582	1,079,170
Vehicles	844,257	995,549
Construction in progress	-	83,675
	14,083,288	13,274,926
Less: Accumulated depreciation	(3,107,875)	(3,016,963)
Total property and equipment, net	\$ 10,975,413	\$ 10,257,963

Depreciation expense for the year ended June 30, 2016 totaled \$443,032. See NOTE 1 for details of the transfer of the Pharr building and land to FBRGV Landlord, LLC

NOTE 11 – INTANGIBLE ASSETS

Intangible assets include leasing fees of \$127,289, which are recorded at cost and amortized ratably over 214 months using the straight-line method and financing costs of \$113,465, which are recorded at cost and amortized ratably over 360 months using the straight line method. For the year ended June 30, 2016 the amortization expense was \$10,933.

	(For Comparative Purposes Only)	
	2016	2015
Financing costs	\$ 113,465	\$ 113,465
Leasing costs	127,289	127,289
	240,754	240,754
Less: Accumulated amortization	(48,298)	(37,670)
Total intangible assets, net	\$ 192,456	\$ 203,084

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 - RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30 were available for the following purposes:

	(For Comparative Purposes Only)	
Commodities for Distribution:	2016	2015
USDA – TFAP	\$ 297,361	\$ 567,520
USDA – CSFP	240,463	246,477
EFSP purchase inventory	-	-
Kids pack inventory	<u>22,565</u>	<u>15,492</u>
Total Restricted Inventory	560,389	829,489
Community Garden	19,051	19,051
Walmart SNAP Grant	19,080	19,080
Kids Back Pack Program	20,029	27,105
Beaumont Foundation Food and Program Assistance	13,326	13,326
Nutritional Education	5,000	5,000
Relief Efforts	4,251	4,251
Equipment/Technology	2,500	2,500
Capital	<u>56,774</u>	<u>56,774</u>
Total Restricted Net Assets	<u>\$ 700,400</u>	<u>\$ 976,576</u>

NOTE 13 – 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. These commodities comprised approximately 24% of the total value of all donated food received for the year ending June 30, 2016. During the 2016 fiscal year, a grant to reimburse administrative costs with the U.S. Department of Agriculture provided approximately 35% of the assistance necessary to fund the operations of the Food Bank.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 14 - OPERATING LEASES

The Food Bank has several non-cancelable operating leases, primarily for various types of equipment. Those leases generally contain renewal options for various periods and require the Food Bank to pay all executor costs such as taxes, maintenance, and insurance. Rent expense for the equipment totaled \$13,115 for the year ended June 30, 2015.

Future minimum lease payments under operating leases for the equipment that have remaining terms in excess of one year as of June 30, 2015, are:

<u>Year</u>	
2017	\$ 14,404
2018	14,404
2019	<u>4,042</u>
Total	<u>\$ 32,850</u>

NOTE 15 - FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board (FASB) ASC 820-10-50 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB ASC 820-10-50 clarifies the definition of exchange price as the price between market participants in an orderly transaction to sell an asset or liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The changes to current practice resulting from the application of this statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements.

FASB ASC 820-10-50 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 - FAIR VALUE MEASUREMENTS

An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

FASB ASC 820-10-50 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement costs). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability.

Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the assets or liability developed based on the best information available in the circumstances. In that regard, FASB ASC 820-10-50 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows.

- Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability at the measurement date.
- Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liability (for example interest rates, volatilities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 - FAIR VALUE MEASUREMENTS

Fair value of assets and liabilities measured on a recurring basis at June 30, 2016 is as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2016</u>				
Equity securities	\$ 16,236	\$ 16,236	\$ -	\$ -
Total	\$ 16,236	\$ 16,236	\$ -	\$ -

To estimate their fair value, the Food Bank uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities, in other words the market approach. The Food Bank did not have any significant transfers between levels 1 and 2 for the year ended June 30, 2016.

NOTE 16 – NEW MARKET TAX CREDITS NOTES PAYABLE

FBRGV Landlord, LLC (Landlord) executed two loan agreements on December 21, 2011, entitled QLICI A and QLICI B that provide for borrowings of \$7,394,157 and \$3,750,843 respectively from Partnerships of Hope II, LLC. FBRGV Manager, LLC (Manager) is directly liable for its 90% profits interest as the managing member. See NOTE 1 for additional details regarding the structure of the Food Bank's ownership structure.

Each loan accrues interest at 0.9374% payable quarterly beginning in December 31, 2011 with the principal balance due in its entirety on December 21, 2046. QLICI A and QLICI B are not permitted to prepay any portion of the loans until the seventh anniversary of the loan. Balances outstanding for note payables QLICI A and QLICI B as of June 30, 2016 was \$7,394,157 and \$3,750,843. Interest for the year ended June 30, 2016 was \$104,473. The notes payable hold the Food Bank's property, real or personal, as collateral in the event of a default.

(End of Notes)

SUPPLEMENTARY INFORMATION

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

June 30, 2016

(with comparative information at June 30, 2015)

	Food Bank of the Rio Grande Valley, Inc.		FBRGV Landlord, LLC		Eliminations	Total	
	Grande Valley, Inc.	Landlord, LLC	Landlord, LLC	Total		2016 Consolidated	2015 Consolidated
<u>ASSETS</u>							
Current Assets							
Cash and cash equivalents	\$ 514,888	\$ 56,491	\$ -	\$ 571,379	\$ -	\$ 571,379	\$ 665,675
Restricted cash	-	236,644	-	236,644	-	236,644	303,758
Investments	16,236	-	-	16,236	-	16,236	14,226
Accounts receivable, net	428,688	-	-	428,688	-	428,688	174,734
Product inventory, net of salvage	2,495,939	-	-	2,495,939	-	2,495,939	2,386,750
Other assets	8,837	-	-	8,837	-	8,837	7,882
Total Current Assets	<u>3,464,588</u>	<u>293,135</u>	<u>-</u>	<u>3,757,723</u>	<u>-</u>	<u>3,757,723</u>	<u>3,553,025</u>
Property and equipment, net of accumulated depreciation	1,506,463	9,468,950	-	10,975,413	-	10,975,413	10,257,963
Intangible assets, net of accumulated amortization	-	192,456	-	192,456	-	192,456	203,084
Due from related party - FBRGV Landlord, LLC	431,253	-	-	431,253	(431,253)	-	-
Deferred Rent Receivable - FBRGV Tenant, LLC	-	1,200,420	-	1,200,420	(1,003,892)	196,528	152,856
Loans receivable - Chase NMTC FBRGV Investment Fund, LLC	7,326,685	-	-	7,326,685	-	7,326,685	7,326,685
Total Assets	<u>\$ 12,728,989</u>	<u>\$ 11,154,961</u>	<u>\$ -</u>	<u>\$ 23,883,950</u>	<u>\$ (1,435,145)</u>	<u>\$ 22,448,805</u>	<u>\$ 21,493,613</u>
<u>LIABILITIES AND NET ASSETS</u>							
Current Liabilities							
Accounts payable and accrued expenses	\$ 219,447	\$ -	\$ -	\$ 219,447	\$ -	\$ 219,447	\$ 180,829
Total Current Liabilities	<u>219,447</u>	<u>-</u>	<u>-</u>	<u>219,447</u>	<u>-</u>	<u>219,447</u>	<u>180,829</u>
Noncurrent Liabilities							
Due to related party - Food Bank of the Rio Grande Valley	-	431,253	-	431,253	(431,253)	-	-
Deferred rent payable - FBRGV Landlord LLC	1,003,892	-	-	1,003,892	(1,003,892)	-	-
Note payable - Partnerships of Hope II, LLC	-	11,145,000	-	11,145,000	-	11,145,000	11,145,000
Total Noncurrent Liabilities	<u>1,003,892</u>	<u>11,576,253</u>	<u>-</u>	<u>12,580,145</u>	<u>(1,435,145)</u>	<u>11,145,000</u>	<u>11,145,000</u>
Net Assets							
Net assets - unrestricted	10,805,250	(421,292)	-	10,383,958	-	10,383,958	10,167,784
Net assets - temporarily restricted	700,400	-	-	700,400	-	700,400	-
Total Net Assets	<u>11,505,650</u>	<u>(421,292)</u>	<u>-</u>	<u>11,084,358</u>	<u>-</u>	<u>11,084,358</u>	<u>10,167,784</u>
Total Liabilities and Net Assets	<u>\$ 12,728,989</u>	<u>\$ 11,154,961</u>	<u>\$ -</u>	<u>\$ 23,883,950</u>	<u>\$ (1,435,145)</u>	<u>\$ 22,448,805</u>	<u>\$ 21,493,613</u>

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

For the Year Ended June 30, 2016

(with comparative information for the year ended June 30, 2015)

	Food Bank of the Rio Grande Valley, Inc.		FBRGV Landlord, LLC		Total	Eliminations	Total	
	Unrestricted	Temporarily Restricted	Landlord, LLC				2016 Consolidated	2015 Consolidated
Revenues, gains and other support:								
Grants:								
USDA - TFAP commodities	\$ -	\$ 3,699,687	\$ -	\$ -	\$ 3,699,687	\$ -	\$ 3,699,687	\$ 3,218,940
USDA - CSFP commodities	-	1,038,207	-	-	1,038,207	-	1,038,207	1,165,004
USDA - TFAP administration	557,451	-	-	-	557,451	-	557,451	540,003
USDA - CSFP administration	303,156	-	-	-	303,156	-	303,156	336,720
Emergency Food & Shelter Program	186,120	-	-	-	186,120	-	186,120	49,870
Supplemental Nutrition Assistance Program	87,495	-	-	-	87,495	-	87,495	78,491
Community Based Outreach/Match	75,031	-	-	-	75,030	-	75,030	81,430
Community Development Block Grants	49,114	-	-	-	49,114	-	49,114	58,998
USDA - Farmer's Market Promotion Program	53,151	-	-	-	53,151	-	53,151	49,230
USDA - National Resources Conservation Service	-	-	-	-	-	-	-	2,500
Total grants	1,311,518	4,737,893	-	-	6,049,411	-	6,049,411	5,581,186
Value of donated inventory	62,115,128	-	-	-	62,115,128	-	62,115,128	32,717,084
Shared maintenance	817,840	-	-	-	817,840	-	817,840	858,858
Donations and private grants	2,317,535	-	-	-	2,317,535	-	2,317,535	1,019,347
Special events	192,355	-	-	-	192,355	-	192,355	141,780
Other	201,952	-	-	-	201,952	-	201,952	159,648
Dividend and interest income	39,093	-	386	-	39,479	-	39,479	38,009
Rent income	-	-	324,760	-	324,760	(312,300)	12,460	12,460
Net position released from restrictions	5,014,069	(5,014,069)	-	-	-	-	-	-
Total revenues, gains and other support	72,009,490	(276,176)	325,146	-	72,058,460	(312,300)	71,746,160	40,528,372
Expenses:								
Program expenses	69,638,123	-	439,837	-	70,077,960	(299,808)	69,778,152	40,960,243
Supporting services:								
Administrative	568,571	-	23,564	-	592,135	(9,368)	582,767	634,738
Fundraising	470,637	-	1,154	-	471,790	(3,124)	468,666	484,720
Total expenses	70,677,331	-	464,555	-	71,141,886	(312,300)	70,829,586	42,079,701
(Decrease) Increase in Net Position	1,332,159	(276,176)	(139,409)	-	916,574	-	916,574	(1,551,329)
Net Assets, June 30, 2015	9,473,091	976,576	(281,883)	-	10,167,784	-	10,167,784	11,719,113
Net Assets, June 30, 2016	10,805,250	700,400	(421,292)	-	11,084,358	-	11,084,358	10,167,784

SINGLE AUDIT SECTION



PATTILLO, BROWN & HILL, L.L.P.
 CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

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

We have audited 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, the financial statements of Food Bank of the Rio Grande Valley, Inc. and Subsidiaries (a nonprofit organization), which comprise the statement of consolidated financial position as of June 30, 2016, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 8, 2017

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Food Bank of the Rio Grande Valley, Inc. and Subsidiaries’ 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Food Bank of the Rio Grande Valley, Inc. and Subsidiaries’ internal control. Accordingly, we do not express an opinion on the effectiveness of Food Bank of the Rio Grande Valley, Inc. and Subsidiaries’ 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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

<p>RIO GRANDE VALLEY, TX 765 E. 7th Street Brownsville, Texas 78520 956.544.7778 www.pbhpa.com</p>	<p>HOUSTON, TX 281.671.6259</p> <p>TEMPLE, TX 254.791.3460</p>	<p>WACO, TX 254.772.4901</p> <p>ALBUQUERQUE, NM 505.266.5904</p>	
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Purpose of This Report

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

A handwritten signature in black ink that reads "Patricia, Brown & Hill, C.P.A." The signature is written in a cursive, flowing style.

Brownsville, Texas
March 8, 2017



PATTILLO, BROWN & HILL, L.L.P.
 CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
 EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
 OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' 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 Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' major federal programs for the year ended June 30, 2016. The Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' 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 Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' 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 Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' compliance.

Opinion on Each Major Federal Program

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

<p>RIO GRANDE VALLEY, TX 765 E. 7th Street Brownsville, Texas 78520 956.544.7778 www.pbhcpa.com</p>	<p>HOUSTON, TX 281.671.6259</p> <p>TEMPLE, TX 254.791.3460</p>	<p>WACO, TX 254.772.4901</p> <p>ALBUQUERQUE, NM 505.266.5904</p>	
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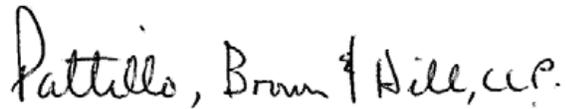
Report on Internal Control over Compliance

Management of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries 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 Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' 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 Food Bank of the Rio Grande Valley, Inc. and Subsidiaries' 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.



Brownsville, Texas
March 8, 2017

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

I. Summary of Auditors' Results

Type of report on financial statements	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None Reported
Internal control over major programs: Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	None Reported
Noncompliance which is material to the basic financial statements	No
Type of report on compliance with major programs	Unmodified
Findings and questioned costs for federal awards as defined in 2 CFR 200.516(a)	None
Dollar threshold considered between Type A and Type B federal programs	\$750,000
Low risk auditee statement	Yes
Identification of major programs:	
<u>CFDA Numbers:</u> 10.565, 10.568, 10.569	<u>Name of Federal Program or Cluster:</u> Food Distribution Cluster

II. Financial Statement Findings

There were no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

III. Federal Award Findings and Questioned Costs

There were no federal award findings or questioned costs required to be reported by the Uniform Guidance 2 CFR 200.516(a).

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

**SUMMARY OF SCHEDULE OF
PRIOR YEAR AUDIT FINDINGS**

JUNE 30, 2016

Reference No.

Finding/Noncompliance

None reported.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant Pass Through Identifying Number	Federal Expenditures
<u>FEDERAL AWARDS</u>			
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed through the Texas Department of Agriculture:</i>			
Farmer's Market Promotion Program	10.168	02369	\$ <u>53,151</u>
Food Distribution Cluster			
Commodity Supplemental Food Program (Food Commodities)	10.565	6TX810877	1,044,220
Commodity Supplemental Food Program (Administrative Costs)	10.565	6TX810877	303,156
Emergency Food Assistance Program (Administrative Costs)	10.568	6TX810816	557,451
Emergency Food Assistance Program (Food Commodities)	10.569	6TX810816	<u>3,969,849</u>
Total Food Distribution Cluster			<u>5,874,676</u>
Total Passed through the Texas Department of Agriculture			<u>5,927,827</u>
<i>Passed through the Texas Health and Human Services Commission:</i>			
Supplemental Nutrition Assistance Program	10.561	529-10-0011-00007E	<u>87,495</u>
Total U.S. Department of Agriculture			<u>6,015,322</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through United Way of South Texas:</i>			
Emergency Food and Shelter National Board Program - Hidalgo County	97.024	812800-004	137,077
Emergency Food and Shelter National Board Program - Cameron County	97.024	792400-005	36,460
Emergency Food and Shelter National Board Program - Willacy County	97.024	845200-004	<u>12,583</u>
Total Passed through the Texas Department of Agriculture			<u>186,120</u>
Total U.S. Department of Homeland Security			<u>186,120</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Hidalgo County, Texas Urban County Program:</i>			
Community Development Block Grant	14.218	353531	41,351
<i>Passed through the City of Pharr, Texas</i>			
Community Development Block Grant	14.218	N/A	4,858
<i>Passed through the City of Edinburg, Texas Urban County Program:</i>			
Community Development Block Grant	14.218	N/A	<u>2,905</u>
Total U.S. Department of Housing and Urban Development			<u>49,114</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,250,556</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Food Bank of the Rio Grande Valley, Inc. and Subsidiaries under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

The Food Bank's reporting entity and significant accounting policies are defined in Notes I and II, respectively, of the Notes to the Consolidated Financial Statements.

NOTE 2 - RECONCILIATION OF FEDERAL AWARDS TO THE FINANCIAL STATEMENTS

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.

Grant revenue per the Statement of Activities	\$	6,049,411
Non-federal grants		(75,031)
Change in USDA inventories		<u>276,176</u>
 Total expenditures of federal awards	 \$	 <u><u>6,250,556</u></u>

NOTE 3 – COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities disbursed. At June 30, 2016, the Food Bank had food commodities totaling \$537,824 in inventory.

Commodity Supplemental Food Program	10.565	\$	240,463
Emergency Food Assistance Program	10.569		<u>297,361</u>
 Commodities inventory as of June 30, 2016		 \$	 <u><u>537,824</u></u>

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

NOTE 4 – INDIRECT COST RATE

The Food Bank did not elect to use a de minimis cost rate of 10% as described at 2 CFR §200.414(f)—Indirect (F&A) costs.

(End of Notes)