

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

**Consolidated Financial Statements and
Other Supplementary Information**

June 30, 2018

**Food Bank of the Rio Grande Valley, Inc.
and Subsidiaries
Annual Financial Report
June 30, 2018**

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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 statements of financial position as of June 30, 2018, and the related consolidated statements of activities, cash flows, and functional expenses 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2018, and the changes in their net assets, cash flows, and functional expenses for the year 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 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 January 15, 2019 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
January 15, 2019

FINANCIAL STATEMENTS

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2018

(with comparative information at June 30, 2017)

<u>ASSETS</u>	Totals	
	2018	2017
Current Assets		
Cash and cash equivalents	\$ 699,205	\$ 635,524
Restricted cash	148,042	236,946
Investments	19,999	17,437
Accounts receivable, net	655,478	867,094
Product inventory, net of salvage	760,258	1,301,747
Other assets	27,155	22,119
Total Current Assets	2,310,137	3,080,867
Property and equipment, net of accumulated depreciation	10,200,271	10,513,799
Intangible assets, net of accumulated amortization	170,590	181,523
Deferred rent receivable	483,461	240,202
Loans receivable	7,326,685	7,326,685
Total Assets	\$ 20,491,144	\$ 21,343,075
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 186,216	\$ 90,274
Total Current Liabilities	186,216	90,274
Noncurrent Liabilities		
Equipment lease	-	8,096
Notes payable	11,145,000	11,145,000
Total Noncurrent Liabilities	11,145,000	11,153,096
Total Liabilities	11,331,216	11,243,370
Net Assets		
Net assets - unrestricted	8,453,129	8,731,235
Net assets - temporarily restricted	706,799	1,368,470
Total Net Assets	9,159,928	10,099,705
Total Liabilities and Net Assets	\$ 20,491,144	\$ 21,343,075

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, 2018

(with comparative information for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Totals	
			2018	2017
Revenues, gains and other support:				
Grants:				
USDA - TEFAP commodities	\$ -	\$ 2,569,113	\$ 2,569,113	\$ 4,134,996
USDA - CSFP commodities	-	1,666,488	1,666,488	1,603,272
USDA - TEFAP administration	364,285	-	364,285	593,128
USDA - CSFP administration	565,962	-	565,962	557,977
Emergency Food & Shelter Program	257,432	132,045	389,477	342,592
Supplemental Nutrition Assistance Program	259,856	-	259,856	193,937
Community Based Outreach/Match	111,754	-	111,754	90,835
Community Development Block Grants	1,515	-	1,515	9,639
USDA - Farmer's Market Promotion Program	24,259	-	24,259	32,217
Total grants	1,585,063	4,367,646	5,952,709	7,558,593
Value of donated inventory	85,864,428	-	85,864,428	67,817,732
Shared maintenance	846,881	-	846,881	945,851
Donations and private grants	1,350,329	-	1,350,329	951,423
Special events	307,707	-	307,707	236,641
Other	256,869	-	256,869	663,662
Dividend and interest income	36,419	-	36,419	44,280
Rent income	195,657	-	195,657	12,460
Net assets released from restrictions	5,029,317	(5,029,317)	-	-
Total revenues, gains and other support	95,472,670	(661,671)	94,810,999	78,230,642
Expenses:				
Program expenses	94,619,432	-	94,619,432	77,996,141
Supporting services:				
Administrative	654,388	-	654,388	813,414
Fundraising	476,956	-	476,956	405,740
Total expenses	95,750,776	-	95,750,776	79,215,295
Increase (Decrease) in Net Position	(278,106)	(661,671)	(939,777)	(984,653)
Net Assets, June 30, 2017	8,731,235	1,368,470	10,099,705	11,084,358
Net Assets, June 30, 2018	\$ 8,453,129	\$ 706,799	\$ 9,159,928	\$ 10,099,705

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, 2018

(with comparative information for the year ended June 30, 2017)

	Totals	
	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net position	\$ (939,777)	\$ (984,653)
Adjustments to reconcile net assets to net cash (used) provided by operating activities		
Depreciation expense	448,179	429,606
Amortization expense	10,933	10,933
Unrealized (gains) on investments	(2,562)	(1,201)
Non-monetary inventory transactions	499,242	1,236,439
Proceeds from the sale of capital assets	46,217	175,673
Decrease (increase) in:		
Accounts receivable	211,616	(438,406)
Purchased inventory	52,095	(42,247)
Deferred rent receivable	(243,259)	(43,674)
Other assets	(5,036)	(13,282)
Increase (decrease) in:		
Accounts payable and accrued expenses	95,942	(129,173)
Net cash (used in) provided by operating activities	173,590	200,015
Cash flows from investing activities:		
Decrease (increase) in restricted cash	88,904	(302)
Proceeds from capital lease	-	8,327
Payments on capital lease	(2,776)	(231)
Capital expenditures	(196,037)	(143,664)
Net cash provided by (used in) investing activities	(109,909)	(135,870)
Net change in cash	63,681	64,145
Cash at beginning of year	635,524	571,379
Cash at end of year	\$ 699,205	\$ 635,524
Supplemental Disclosure:		
Interest paid in cash	\$ 102,551	\$ 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, 2018

(with comparative information for the year ended June 30, 2017)

	Program Services	Supporting Services		Totals	
		Administrative	Fundraising	2018	2017
Commodities and in-kind donations distributed	\$ 90,331,771	\$ -	\$ -	\$ 90,331,771	\$ 74,639,898
Leased employees and related expenses	2,257,325	339,941	274,073	2,871,339	2,525,314
Warehouse maintenance and lease	169,028	98,981	93	268,102	253,559
Fuel and mileage allowance	539,287	1,399	1,834	542,520	452,311
Depreciation expense	448,179	-	-	448,179	429,606
Professional fees	386,347	99,852	3,167	489,366	204,392
Office expense	113,764	41,078	14,714	169,556	159,379
Marketing	-	-	117,382	117,382	155,312
Loan interest	102,551	-	-	102,551	104,473
Equipment maintenance	70,587	6,219	11,454	88,260	77,027
Insurance	-	22,763	-	22,763	53,903
Training expense	56,614	14,216	4,201	75,031	48,497
Utilities	28,047	5,272	5,972	39,291	38,526
State and national association fees	38,266	-	-	38,266	29,928
Other	67,170	2,340	2,040	71,550	18,102
Publications	-	13,038	-	13,038	14,135
Amortization expense	10,496	328	109	10,933	10,933
Fundraising	-	3,079	40,926	44,005	-
Volunteer recognition	-	5,882	991	6,873	-
	<u>\$ 94,619,432</u>	<u>\$ 654,388</u>	<u>\$ 476,956</u>	<u>\$ 95,750,776</u>	<u>\$ 79,215,295</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, 2018

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, 2018

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.

In 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.

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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2018, 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, 2018, 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.

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 \$1.68 per pound for the year ended June 30, 2018. 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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 28,095 hours of services from approximately 5,199 volunteers for the year ending June 30, 2018. 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.

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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 partnership for federal income tax purposes.

The Food Bank's Form 990, Return of Organization Exempt from Income Tax for the years ending 2016, 2017, and 2018 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 \$47,400 as of June 30, 2018.

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 January 15, 2019 the date the financial statements were available to be issued.

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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 3 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

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 a loan for the amount of \$7,394,157 to Chase NMTC FBRGV Investment Fund, LLC and 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, payments of \$70,790 are due quarterly through December 21, 2046. The loan matures December 21, 2046.

The total amount of loans receivable on June 30, 2018 was \$7,326,685. The decrease in the principal amount outstanding is the result of a credit applied to the loan due to an overpayment in the amount of \$67,348 toward a previous loan paid in August 2012.

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 \$105,000 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:

2019	\$	463,500
2020		465,818
2021		468,147
2022		470,487
2023		472,840
Thereafter		<u>3,376,742</u>
Total	\$	<u>5,717,534</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, 2018, lease income was \$296,093 for annual base rent. As of June 30, 2018, the cumulative adjustment to record deferred rental income on a straight-line basis was \$1,710,440 and is shown (after a related party elimination of \$1,226,979) as "Deferred rent receivable" on the accompanying statement of financial position.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 5 - RELATED PARTY TRANSACTIONS

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 \$89,266 and increase each year thereafter through year 2026.

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

2019	\$	494,768
2020		496,853
2021		498,949
2022		501,056
2023		503,173
Thereafter		<u>1,522,330</u>
Total	\$	<u>4,017,129</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, 2018, lease expense incurred is \$100,435 for annual base rent. As of June 30, 2018, the cumulative adjustment to record lease expense on a straight-line basis was \$1,226,979. This is classified as "Deferred rent payable" and is completely eliminated on the accompanying consolidating statement of financial position as a related party transaction.

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 \$12,472 for the 2018 plan year. The Food Bank also maintains a 457 plan for key employees. No employer contribution was made for the 2019 plan year.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, the Food Bank had no significant concentrations of credit risk.

NOTE 9 – INVENTORY

Inventory consisted of the following as of June 30:

	2018		(For comparative purposes only) 2017	
	Weight (lbs.)	Value	Weight (lbs.)	Value
Donated Inventory:				
Donated food inventory	55,281	\$ 92,872	52,772	\$ 88,130
USDA - TEFAP commodities	6,602	82,894	879,450	512,698
USDA - CSFP commodities	439,471	588,086	1,067,356	645,534
Total donated inventory	501,354	763,852	1,999,578	1,246,362
Purchased inventory:				
EFSP product	-	-	36,133	42,029
Backpack product	36,457	12,717	102,407	22,782
Total purchased inventory	36,457	12,717	138,540	64,811
Inventory allowance	-	(16,311)	-	(9,426)
Ending inventory	537,811	\$ 760,258	2,138,118	\$ 1,301,747

NOTE 10 – PROPERTY AND EQUIPMENT - NET

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

	2018		(For comparative purposes only) 2017	
	Weight (lbs.)	Value	Weight (lbs.)	Value
Land	\$	1,846,305	\$	1,846,305
Building		7,671,407		7,671,407
Construction in progress		15,124		-
Leasehold improvements		922,597		922,598
Bulding improvements		1,072,917		1,302,255
Furniture & equipment		1,084,737		1,184,746
Vehicles		339,015		277,745
Total property & equipment		12,952,102		13,205,056
Less accumulated depreciation		(2,751,830)		(2,691,257)
Ending property and equipment	\$	10,200,272	\$	10,513,799

Depreciation expense for the year ended June 30, 2018 totaled \$448,179.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018 the amortization expense was \$10,933.

	(For comparative purposes only)	
	2018	2017
Financing costs	\$ 113,465	\$ 113,465
Leasing costs	127,289	127,289
Total intangible assets	240,754	240,754
Less accumulated ammortization	(70,164)	(59,231)
Total intangible assets, net	\$ 170,590	\$ 181,523

NOTE 12 - RESTRICTED NET ASSETS

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

	(For comparative purposes only)	
	2018	2017
Commodities for distribution:		
USDA - TEFAP	\$ 82,894	\$ 512,698
USDA - CSFP	588,086	645,534
EFSP purchased inventory	-	42,030
Kids pack inventory	12,717	22,782
Total restricted inventory	683,697	1,223,044
Valley Baptist Hospital	-	119,253
Beaumont Foundation Food & Program Assistance	-	26,174
Mesa Llena	23,102	-
Total restricted net assets	\$ 706,799	\$ 1,368,470

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 - 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 \$219,484 for the year ended June 30, 2018.

Future minimum lease payments under operating leases for the equipment that have remaining terms in excess of one year as of June 30, 2018, are:

<u>Year</u>	<u>Scheduled Payments</u>
2019	\$ 215,500
2020	206,880
2021	201,840
2022	<u>94,820</u>
Total	<u>\$ 719,040</u>

NOTE 14 – CAPITAL LEASES

The Food Bank entered into a capital lease agreement with Dell Financial Services in May 2017 for a total cost of \$8,327. The minimum annual lease payments are as follows:

<u>Year</u>	<u>Scheduled Payments</u>
2019	\$ 2,776
2020	<u>2,544</u>
Total	<u>\$ 5,320</u>

NOTE 15 - FAIR VALUE MEASUREMENT

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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 - FAIR VALUE MEASUREMENT

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.

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.

ASB 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.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 15 - FAIR VALUE MEASUREMENTS

- Level 3 Inputs - Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

Fair value of assets and liabilities measured on a recurring basis at June 30, 2018 is as follows:

	Fair Value	Quoted Priced in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2018</u>				
Equity Securities	\$ 20,000	\$ 20,000	\$ -	\$ -
Total	<u>\$ 20,000</u>	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2018.

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, 2018 was \$7,394,157 and \$3,750,843, respectively. Interest for the year ended June 30, 2018 was \$102,551. 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, 2018
(with comparative information at June 30, 2017)

<u>ASSETS</u>	Food Bank of the Rio Grande Valley, Inc.	FBRGV Landlord, LLC	Total	Eliminations	Total	
					2018 Consolidated	2017 Consolidated
Current Assets						
Cash and cash equivalents	\$ 699,205	\$ -	\$ 699,205	\$ -	\$ 699,205	\$ 635,524
Restricted cash	-	148,042	148,042	-	148,042	236,946
Investments	19,999	-	19,999	-	19,999	17,437
Accounts receivable, net	636,145	19,333	655,478	-	655,478	867,094
Product inventory, net of salvage	760,258	-	760,258	-	760,258	1,301,747
Other assets	27,155	-	27,155	-	27,155	22,119
Total Current Assets	2,142,762	167,375	2,310,137	-	2,310,137	3,080,867
Property and equipment, net of accumulated depreciation	1,375,105	8,825,166	10,200,271	-	10,200,271	10,513,799
Intangible assets, net of accumulated amortization	-	170,590	170,590	-	170,590	181,523
Due from related party - FBRGV Landlord, LLC	431,253	-	431,253	(431,253)	-	-
Deferred Rent Receivable - FBRGV Tenant, LLC	-	1,710,440	1,710,440	(1,226,979)	483,461	240,202
Loans receivable - FBRGV Investment Fund, LLC	7,326,685	-	7,326,685	-	7,326,685	7,326,685
Total Assets	\$ 11,275,805	\$ 10,873,571	\$ 22,149,376	\$ (1,658,232)	\$ 20,491,144	\$ 21,343,075
<u>LIABILITIES AND NET ASSETS</u>						
Current Liabilities						
Accounts payable and accrued expenses	\$ 186,216	\$ -	\$ 186,216	\$ -	\$ 186,216	\$ 90,274
Total Current Liabilities	186,216	-	186,216	-	186,216	90,274
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	1,226,979	-	1,226,979	(1,226,979)	-	-
Equipment Lease	0	-	-	-	-	8,096
Note payable - Partnerships of Hope II, LLC	-	11,145,000	11,145,000	-	11,145,000	11,145,000
Total Noncurrent Liabilities	1,226,979	11,576,253	12,803,232	(1,658,232)	11,145,000	11,153,096
Net Assets						
Net assets - unrestricted	9,155,811	(702,682)	8,453,129	-	8,453,129	8,731,235
Net assets - temporarily restricted	706,799	-	706,799	-	706,799	1,368,470
Retained earnings - FBRGV Manager, LLC	-	-	-	-	-	-
Total Net Assets	9,862,610	(702,682)	9,159,928	-	9,159,928	10,099,705
Total Liabilities and Net Assets	\$ 11,275,805	\$ 10,873,571	\$ 22,149,375	\$ (1,658,231)	\$ 20,491,144	\$ 21,343,075

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018
(with comparative information for the year ended June 30, 2017)

	Food Bank of the Rio Grande Valley, Inc.			FBRGV Landlord, LLC	Total	Eliminations	Total	
	Unrestricted	Temporarily Restricted					2018 Consolidated	2017 Consolidated
Revenues, gains and other support:								
Grants:								
USDA - TFAP commodities	\$ -	\$ 2,569,113	\$ -	\$ 2,569,113	\$ -	\$ 2,569,113	\$ 4,134,996	
USDA - CSFP commodities	-	1,666,488	-	1,666,488	-	1,666,488	1,603,272	
USDA - TFAP administration	364,285	-	-	364,285	-	364,285	593,128	
USDA - CSFP administration	565,962	-	-	565,962	-	565,962	557,977	
Emergency Food & Shelter Program	257,432	132,045	-	389,477	-	389,477	342,592	
Supplemental Nutrition Assistance Program	259,856	-	-	259,856	-	259,856	193,937	
Community Based Outreach/Match	111,754	-	-	111,754	-	111,754	90,835	
Community Development Block Grants	1,515	-	-	1,515	-	1,515	9,639	
USDA - Farmer's Market Promotion Program	24,259	-	-	24,259	-	24,259	32,217	
USDA - National Resources Conservation Service	-	-	-	-	-	-	-	
Total grants	1,585,063	4,367,646	-	5,952,709	-	5,952,709	7,558,593	
Value of donated inventory	85,864,428	-	-	85,864,428	-	85,864,428	67,817,732	
Shared maintenance	846,881	-	-	846,881	-	846,881	945,851	
Donations and private grants	1,350,329	-	-	1,350,329	-	1,350,329	951,423	
Special events	307,707	-	-	307,707	-	307,707	236,641	
Other	256,869	-	-	256,869	-	256,869	663,662	
Dividend and interest income	36,270	-	149	36,419	-	36,419	44,280	
Rent income	-	-	296,092	296,092	(100,435)	195,657	12,460	
Net position released from restrictions	5,029,317	(5,029,317)	-	-	-	-	-	
Total revenues, gains and other support	95,276,864	(661,671)	296,241	94,911,434	(100,435)	94,810,999	78,230,642	
Expenses:								
Program expenses	94,275,510	-	432,305	94,707,815	(88,383)	94,619,432	77,996,141	
Supporting services:								
Administrative	641,418	-	20,000	661,418	(7,030)	654,388	813,414	
Fundraising	481,978	-	-	481,978	(5,022)	476,956	405,740	
Total expenses	95,398,906	-	452,305	95,851,211	(100,435)	95,750,776	79,215,295	
(Decrease) Increase in Net Position	(122,042)	(661,671)	(156,064)	(939,777)	-	(939,777)	(984,653)	
Net Assets, June 30, 2017	9,277,853	1,368,470	(546,618)	10,099,705	-	10,099,705	11,084,358	
Net Assets, June 30, 2018	\$ 9,155,811	\$ 706,799	\$ (702,682)	\$ 9,159,928	\$ -	\$ 9,159,928	\$ 10,099,705	

SINGLE AUDIT SECTION



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

**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 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 consolidated statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 15, 2019.

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*.

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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.

Pattillo, Brown & Hill, LLP

Brownsville, Texas
January 15, 2019

**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 *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Food Bank of the Rio Grande Valley, Inc. and Subsidiaries’ major federal programs for the year ended June 30, 2018. Food Bank of the Rio Grande Valley, Inc. and Subsidiaries’ major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

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* (CFR) 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, 2018.

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Report on Internal Control over Compliance

Management of 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.

Pattillo, Brown & Hill, LLP

Brownsville, Texas
January 15, 2019

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Auditors' Results

Financial Statements:

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

Noncompliance which is material to the basic financial statements No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified that are not considered to be material weakness(es)? None Reported

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:

CFDA Numbers:

10.565, 10.568, 10.569

Name of Federal Program or Cluster:

Food Distribution Cluster

II. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None

III. Federal Award Findings and Questioned Costs

None

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2018

<u>Reference No.</u>	<u>Finding/Noncompliance</u>
<i>Finding 2017-001</i>	<i>Significant Deficiency</i>
	<i>Federal Program:</i> Food Distribution Cluster -- CFDA #10.565, 10.568, 10.569
	<i>Federal Agency:</i> U.S. Department of Agriculture
	<i>Federal Award Year:</i> 2016, 2017
<i>Criteria:</i>	Under the Uniform Guidance section 2 CFR 200.403(f), allowable costs shall not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
<i>Condition:</i>	During our review of federal expenditures, we determined the Food Bank has a control deficiency which cannot prevent expenses from being reported more than once to separate grant programs.
<i>Cause:</i>	Food Bank does not have a sufficient accounting codification for TEFAP grant expenses.
<i>Effect:</i>	Without proper coding of expenses, the Food Bank cannot prevent or detect instances in which expenses are reported twice to separate programs.
<i>Questioned Costs:</i>	\$0
<i>Recommendation:</i>	We recommend Food Bank adhere to the Uniform Guidance section 2 CFR 200.403 and set up proper object codes for the TEFAP grant.
<i>Views of responsible officials and planned corrective actions:</i>	The Food Bank will implement a project code for TEFAP to ensure that costs do not overlap or become duplicated.
<i>Status:</i>	Item corrected.

FOOD BANK OF THE RIO GRANDE VALLEY, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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>24,259</u>
Food Distribution Cluster			
Commodity Supplemental Food Program (Food Commodities)	10.565	186TX877Y8005	1,723,936
Commodity Supplemental Food Program (Administrative Costs)	10.565	186TX877Y8005	565,962
Emergency Food Assistance Program (Administrative Costs)	10.568	N/A	364,285
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	<u>2,998,917</u>
Total Food Distribution Cluster			<u>5,653,100</u>
Total Passed through the Texas Department of Agriculture			<u>5,677,359</u>
<i>Passed through the Texas Health and Human Services Commission:</i>			
SNAP Cluster			
Supplemental Nutrition Assistance Program	10.561	529-16-0002-00002	<u>259,856</u>
Total U.S. Department of Agriculture			<u>5,937,215</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	220,432
Emergency Food and Shelter National Board Program - Cameron County	97.024	792400-005	31,755
Emergency Food and Shelter National Board Program - Willacy County	97.024	845200-004	<u>5,245</u>
Total Passed through the United Way of South Texas			<u>257,432</u>
Total U.S. Department of Homeland Security			<u>257,432</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Hidalgo County, Texas Urban County Program:</i>			
<i>Passed through the City of Pharr, Texas</i>			
CDBG - Entitlement Grants Cluster			
Community Development Block Grant	14.218	N/A	<u>1,515</u>
Total U.S. Department of Housing and Urban Development			<u>1,515</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 6,196,162</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, 2018

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, 2018. 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		\$	5,952,710
Non-Federal Grants			(243,799)
Decrease in USDA Inventories			<u>487,251</u>
		\$	<u>6,196,162</u>

NOTE 3 – COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities disbursed. At June 30, 2018, the Food Bank had food commodities totaling \$670,980 in inventory.

Program	CFDA No.	Inventory
Commodity Supplemental Food Program	10.565	\$ 588,086
Emergency Food Assistance Program	10.569	<u>82,894</u>
		<u>\$ 670,980</u>

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)