



Tarrant Area Food Bank and Subsidiary

Consolidated Financial Statements
As of and For the Years Ended June 30, 2016 and 2015

Tarrant Area Food Bank and Subsidiary

Consolidated Financial Statements

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Tarrant Area Food Bank and Subsidiary

Contents

Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Consolidated Statements of Functional Expenses	6
Notes to Consolidated Financial Statements	7
Supplemental Information	
Consolidating Statement of Financial Position	24
Consolidating Statement of Activities	25



Tel: 817-738-2400
Fax: 817-738-1995
www.bdo.com

6050 Southwest Blvd, Suite 300
Fort Worth, TX 76109

Independent Auditor's Report

The Board of Directors
Tarrant Area Food Bank and Subsidiary
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of the Tarrant Area Food Bank and its subsidiary (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 Tarrant Area Food Bank and its subsidiary as of June 30, 2016 and 2015 and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information on pages 24 and 25 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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 information is 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 November 1, 2016 on our consideration of Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BDO USA, LLP

November 1, 2016
Fort Worth, Texas

Consolidated Financial Statements

Tarrant Area Food Bank and Subsidiary

Consolidated Statements of Financial Position

<i>June 30,</i>	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 2,031,196	\$ 3,017,215
Grants receivable	261,610	177,887
Handling fees receivable	97,023	99,623
Pledges receivable	192,916	352,082
Inventory of food and commodities	1,279,370	2,317,655
Investments	882,372	1,243,259
Prepaid expenses	21,608	16,175
Total current assets	4,766,095	7,223,896
Pledges receivable	146,167	60,000
Note receivable	4,353,000	4,353,000
Land, buildings, and equipment, net	7,723,828	7,640,399
Other assets	331,482	342,043
Beneficial interest in trust	8,280	388,079
Restricted endowment funds	633,288	633,288
Total assets	\$ 17,962,140	\$ 20,640,705
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 622,183	\$ 1,348,611
Notes payable	2,988	5,018
Total current liabilities	625,171	1,353,629
Notes payable	5,920,000	5,923,057
Total liabilities	6,545,171	7,276,686
Commitments and contingencies		
Net assets		
Unrestricted	7,618,573	3,505,635
Temporarily restricted	3,165,108	9,225,096
Permanently restricted	633,288	633,288
Total net assets	11,416,969	13,364,019
Total liabilities and net assets	\$ 17,962,140	\$ 20,640,705

See accompanying notes to consolidated financial statements.

Tarrant Area Food Bank and Subsidiary

Consolidated Statements of Activities

For the years ended June 30,

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:								
Public support								
Public contributions	\$ 4,799,317	\$ 1,642,825	\$ -	\$ 6,442,142	\$ 4,693,576	\$ 2,368,059	\$ -	\$ 7,061,635
Donated food and commodities	-	49,432,919	-	49,432,919	-	53,821,314	-	53,821,314
Special events, net	258,729	-	-	258,729	303,720	-	-	303,720
Total public support	5,058,046	51,075,744	-	56,133,790	4,997,296	56,189,373	-	61,186,669
Revenues:								
Handling fees	1,909,966	-	-	1,909,966	1,898,783	-	-	1,898,783
Investment income	328,820	(233,048)	-	95,772	234,742	31,760	-	266,502
Change in value of beneficial interest in trust	(117,590)	-	-	(117,590)	(7,811)	-	-	(7,811)
Other revenue	149,867	-	-	149,867	36,417	-	-	36,417
Total revenue	2,271,063	(233,048)	-	2,038,015	2,162,131	31,760	-	2,193,891
Government grants and cost reimbursements	2,322,121	-	-	2,322,121	2,067,998	-	-	2,067,998
Net assets released from restrictions	56,902,684	(56,902,684)	-	-	55,423,849	(55,423,849)	-	-
Total support and revenues	66,553,914	(6,059,988)	-	60,493,926	64,651,274	797,284	-	65,448,558
Expenses:								
Program	58,711,940	-	-	58,711,940	62,499,033	-	-	62,499,033
Management and general	1,470,437	-	-	1,470,437	818,064	-	-	818,064
Fundraising	2,258,599	-	-	2,258,599	2,227,311	-	-	2,227,311
Total expenses	62,440,976	-	-	62,440,976	65,544,408	-	-	65,544,408
Change in net assets	4,112,938	(6,059,988)	-	(1,947,050)	(893,134)	797,284	-	(95,850)
Net assets, beginning of year	3,505,635	9,225,096	633,288	13,364,019	4,398,769	8,427,812	633,288	13,459,869
Net assets, end of year	\$ 7,618,573	\$ 3,165,108	\$ 633,288	\$ 11,416,969	\$ 3,505,635	\$ 9,225,096	\$ 633,288	\$ 13,364,019

See accompanying notes to consolidated financial statements.

Tarrant Area Food Bank and Subsidiary

Consolidated Statements of Cash Flows

<i>For the years ended June 30,</i>	2016	2015
Cash flows from operating activities		
Cash received from contributors, grants and cost reimbursements	\$ 9,162,135	\$ 10,338,032
Cash received from partner agencies	1,912,566	2,012,251
Interest/other received	157,792	192,345
Cash paid to employees and suppliers	(11,575,723)	(11,174,166)
Net cash (used in) provided by operating activities	(343,230)	1,368,462
Cash flows from investing activities		
Proceeds from sale of investments	397,146	117,227
Proceeds from interest in trust	262,209	-
Proceeds from sale of equipment	99,461	-
Purchase of investments	(98,279)	(108,489)
Purchase of building and equipment	(1,298,239)	(3,780,867)
Net cash used in investing activities	(637,702)	(3,772,129)
Cash flows from financing activities		
Payment on notes payable and lines of credit	(5,087)	(1,368,950)
Net cash used in financing activities	(5,087)	(1,368,950)
Net decrease in cash and cash equivalents	(986,019)	(3,772,617)
Cash and cash equivalents at beginning of year	3,017,215	6,789,832
Cash and cash equivalents at end of year	\$ 2,031,196	\$ 3,017,215
Reconciliation of changes in net assets to change in net cash provided by operating activities		
Change in net assets	\$ (1,947,050)	\$ (95,850)
Depreciation	453,316	214,410
Unrealized loss on investments	137,902	33,989
Realized gain on investments	(75,882)	(108,146)
Change in value of beneficial interest in trust	117,590	7,811
Changes in assets and liabilities:		
Handling fee receivable	2,600	113,468
Prepaid expenses and other assets	5,128	(572)
Grants receivable	(83,723)	215,429
Pledges receivable	72,999	652,834
Inventory of food and commodities	1,038,285	298,063
Accounts payable and accrued liabilities	(64,395)	37,026
Net cash (used in) provided by operating activities	\$ (343,230)	\$ 1,368,462
Supplemental Disclosures		
Noncash activities		
Donated food and commodities received	\$ 49,432,919	\$ 53,821,314
Donated food and commodities distributed	\$ 50,697,214	\$ 54,216,474
Additions to construction in process included in accounts payable	\$ -	\$ 662,033
Cash paid for interest, capitalized in construction in progress	\$ -	\$ 153,771

See accompanying notes to consolidated financial statements.

Tarrant Area Food Bank and Subsidiary

Consolidated Statements of Functional Expenses

For the years ended June 30,

	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 3,087,204	\$ 617,762	\$ 957,815	\$ 4,662,781	\$ 3,229,223	\$ 352,775	\$ 773,098	\$ 4,355,096
Employees benefits and payroll taxes	1,004,165	155,906	272,048	1,432,119	874,308	87,100	253,539	1,214,947
Total salaries and related expenses	4,091,369	773,668	1,229,863	6,094,900	4,103,531	439,875	1,026,637	5,570,043
Vehicle and transportation	514,750	629	1,866	517,245	505,111	1,324	814	507,249
Conferences, conventions and meetings	76,030	31,626	14,496	122,152	71,252	15,615	10,470	97,337
Supplies	426,972	30,571	497,483	955,026	418,228	9,704	439,209	867,141
Insurance	96,029	23,371	2,161	121,561	82,734	4,503	-	87,237
Professional fees	12,002	185,435	448,573	646,010	134,661	84,648	690,293	909,602
Equipment	189,715	4,008	7,074	200,797	215,669	6,853	9,027	231,549
Occupancy	395,058	153,541	54,825	603,424	379,970	9,620	32,870	422,460
Miscellaneous expense	15,161	(3,722)	2,258	13,697	6,636	241,039	1,309	248,984
Purchased food distributed and processing costs	2,015,634	-	-	2,015,634	2,171,922	-	-	2,171,922
Donated food distributed	50,697,214	-	-	50,697,214	54,216,474	-	-	54,216,474
Total expenses before depreciation	58,529,934	1,199,127	2,258,599	61,987,660	62,306,188	813,181	2,210,629	65,329,998
Depreciation	182,006	271,310	-	453,316	192,845	4,883	16,682	214,410
Total expenses	\$ 58,711,940	\$ 1,470,437	\$ 2,258,599	\$ 62,440,976	\$ 62,499,033	\$ 818,064	\$ 2,227,311	\$ 65,544,408

See accompanying notes to consolidated financial statements.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Activities

Tarrant Area Food Bank (TAFB) is a hunger relief organization incorporated in the State of Texas as a 501(c)(3) nonprofit corporation. The organization supports the nutritional needs of children, families and seniors through education, advocacy and strategic partnerships. The organization distributes donated, purchased and prepared foods through a network of approximately 320 partner agencies in thirteen North Texas counties.

TAFB-SPE is an organization incorporated in the state of Texas as a 501(c)(3) organization. TAFB-SPE was formed during 2014 to support the educational, charitable and social purposes of TAFB generally, and without limitation, specifically to construct and lease to TAFB warehouse and administrative office buildings and related improvements to be constructed on property located in Tarrant County. TAFB is the sole member of TAFB-SPE.

Basis of Consolidation

These financial statements include the assets, liabilities, net assets, and activities of TAFB and TAFB-SPE (collectively, the Organization).

Financial Statement Presentation Basis of Consolidation

Net assets, support and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets

Net assets not subject to donor-imposed stipulations. Certain net assets have been designated by the board of directors of the Organization for specific purposes or programs. These net assets are not restricted by donors for purpose or the passage of time.

Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets

Net assets subject to donor-imposed stipulations that will never lapse, requiring the funds to be retained permanently. The donors of the assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

Support and revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed and/or time restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenue in the period when unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than monetary assets are recorded at their estimated fair value.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investment income and net realized and unrealized gains and losses on investments of endowment and similar funds are reported as follows:

- As changes in permanently restricted net assets if the terms of the gift require they be included in principal of a permanent endowment fund;
- As changes in temporarily restricted net assets if the terms of the gift impose restrictions on their use;
- As changes in unrestricted net assets in all other cases.

As required by the Not-for-Profit Entities - Presentation of Financial Statements topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, the organization's governing board determines must be retained (preserved) permanently consistent with the relevant law. For each donor-restricted endowment fund for which the restriction exists until the donor-restricted assets are appropriated for expenditure, the Organization will classify the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the Board of Directors. The Organization is subject to the version of UPMIFA enacted by the State of Texas, which is described in Note 3.

Cash and Cash Equivalents

Cash equivalents consist of cash in banks and money market funds, except amounts held as part of the restricted endowment funds.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

Grants and Handling Fees Receivable

Grants and handling fees receivable are stated at the amount management expects to collect from outstanding balances, which approximates their fair values. 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 receivables. For the years ended June 30, 2016 and 2015, no allowance was considered necessary by management of the Organization.

Pledges Receivable

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows. For the years ended June 30, 2016 and 2015, no allowance for uncollectible amounts was considered necessary by management of the Organization.

Investments

Investments consist of mutual funds, recorded at fair value based on quoted market prices, and amounts held in pooled investments managed by a the Communities Foundation of North Texas, recorded at fair value based on the Organization's share of the pooled investments as reported by that foundation. Unrealized gains and losses resulting from fluctuations in fair value are reflected in the consolidated statements of activities.

Inventory of Food and Commodities

Inventories consist of purchased and donated food. Food purchases are valued at cost based on the first-in first-out method. Donated food is valued at fair value as determined annually by Feeding America, a recognized leader in providing hunger-related statistics in the United States. Based on estimates provided by Feeding America, the Organization valued donated food at \$1.67 and \$1.70 per pound for the years ended June 30, 2016 and 2015, respectively.

Land, Buildings and Equipment

Land, buildings, and equipment are stated at cost, if purchased, or at estimated fair value on the date donated for donated assets. Expenditures for maintenance and repairs are charged to expense. When items are disposed of, the cost and related accumulated depreciation is eliminated from the accounts and any gain or loss is included in the results of operations. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets as follows:

Buildings	30 years
Furniture and equipment	5 years
Warehouse equipment	5 years
Vehicles	5 years

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

The Organization capitalizes all items with cost greater than \$5,000 and estimated useful life greater than one year. The Organization periodically reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent fair value of a long-lived asset, determined based upon the estimated future cash inflows attributable to the asset, less estimated future cash outflows, are less than the carrying amount, an impairment loss is recognized. No such losses were recognized during the years ended June 30, 2016 and 2015.

Other Assets

Other assets consist primarily of debt issuance costs incurred related to the notes payable, which are amortized over the term of the debt on a straight-line basis, which approximates the effective interest method.

Beneficial Interest in Trust

The Organization has a 50% interest in a trust managed by a bank. The beneficial interest in trust is measured at fair value as report by the bank.

Functional Expenses

Expenses are charged to program and supporting services based on direct expenditures incurred. Any expenditure not directly chargeable to a program is allocated to program and supporting service by predetermined percentages based on management's estimates.

Income Tax Status

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3); therefore, no provision for income taxes has been included in the consolidated financial statements.

The Organization follows FASB ASC topic *Accounting for Uncertainty in Income Taxes*. Under this guidance, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. The Organization does not believe there are any unrecognized tax benefits or liabilities that should be recorded. For the years ended June 30, 2016 and 2015, there were no interest or penalties recorded or incurred related to taxes. The Organization is still open to examination by taxing authorities from 2010 forward.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, public support and revenue, and functional expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. The most significant estimates are the valuation of donated food described above, the allocation of costs by function described above, and the valuation of assets related to the beneficial interest in trust described in Note 9.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

Donated Materials and Services

Donated materials and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. A substantial number of volunteers have contributed significant amounts of time in connection with the food distribution program for which no amount has been recorded in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

Reclassifications

Certain 2015 balances have been reclassified in the accompanying consolidated financial statements to conform with 2016 presentation.

2. Unconditional and Conditional Pledges

The Organization is involved in capital campaigns relating to planned expansion and facility improvements. Unconditional pledges receivable primarily relate to the capital campaign. No discount rate was applied to the future value of pledges receivable as management concluded the effect of such discounting was not material to the consolidated financial statements. Also, no allowance for doubtful accounts has been established because management believes pledges receivable are likely to be collected in full. Collections of the related pledges are expected as follows.

Due within one year	\$	192,916
Due in one to five years		146,167
<hr/>		
Total pledges receivable	\$	339,083

In addition to the unconditional pledges, which are reflected on the consolidated statements of activities, the Organization has two conditional pledges for a combined total of \$1,000,000 as of June 30, 2016. The condition relates to signing of a construction contract and achieving 90% of the fund-raising goal for the capital campaign. Management expects the conditions will be met within one year, at which time the related support will be recorded as a contribution.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

3. Inventory of Food and Commodities

The Organization had the following activities for food and commodities held in inventory:

<i>June 30,</i>	2016		
	USDA	Other	Total
Beginning inventory	\$ 241,633	\$ 2,076,022	\$ 2,317,655
Donations and grants	4,729,866	44,703,053	49,432,919
Purchases	-	241,538	241,538
Distribution of donations	(4,810,019)	(45,887,195)	(50,697,214)
Distribution of purchases	-	(250,619)	(250,619)
Other adjustments	2,576	232,515	235,091
Ending inventory	\$ 164,056	\$ 1,115,314	\$ 1,279,370

<i>June 30,</i>	2015		
	USDA	Other	Total
Beginning inventory	\$ 433,570	\$ 2,182,148	\$ 2,615,718
Donations and grants	3,951,638	49,869,675	53,821,313
Purchases	-	716,024	716,024
Distribution of donations	(4,152,099)	(50,064,375)	(54,216,474)
Distribution of purchases	-	(794,214)	(794,214)
Other adjustments	8,524	166,764	175,288
Ending inventory	\$ 241,633	\$ 2,076,022	\$ 2,317,655

The majority of the food distributed by the Organization is received by contributions from general public donations and from the U.S. Department of Agriculture (USDA). The estimated value of these contributions is recognized in the financial statements as contribution revenue and inventory (or program expense if distributed during the year).

The Organization values donated food held in inventory, received and distributed during the year from local sources at \$1.67 and \$1.70 per gross pound respectively as determined by Feeding America. Food provided by USDA is valued at rates determined by USDA.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

4. Investments, Including Restricted Endowment Funds

Investments, including amount included in the restricted endowment fund, consisted of the following at June 30, 2016:

	Cost	Market
Equity mutual funds	\$ 473,302	\$ 568,050
Fixed income mutual funds	376,071	452,328
Investments held by foundation	448,538	495,282
	1,297,911	1,515,660
Less restricted endowment funds		(633,288)
Investments		\$ 882,372

Investments, including amount included in the restricted endowment funds, consisted of the following at June 30, 2015:

	Cost	Market
Equity mutual funds	\$ 698,599	\$ 934,341
Fixed income mutual funds	380,405	396,423
Investments held by foundation	441,892	545,783
	1,520,896	1,876,547
Less restricted endowment funds		(633,288)
Investments		\$ 1,243,259

The change in unrealized gain for the years ended June 30 is as follows:

	2016	2015
Unrealized gain, beginning of year	\$ 355,651	\$ 389,640
Unrealized loss during the year	(137,902)	(33,989)
Unrealized gain, end of year	\$ 217,749	\$ 355,651

Investment income for the years ended June 30 is comprised of the following:

	2016	2015
Interest and dividend income	\$ 157,792	\$ 192,345
Unrealized loss on investments	(137,902)	(33,989)
Realized gain on investments	75,882	108,146
Investment income	\$ 95,772	\$ 266,502

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

5. Note Receivable

The Organization entered into an agreement on June 24, 2014 to lend \$4,353,000 to COCRF Investor 22, LLC (the Borrower). The note is secured by the Borrower's membership interest in Brownfield Revitalization XVIII, LLC, a Delaware limited liability company, and TX CDE VII, LLC, a Texas limited liability company. The interest rate on the note is 3.11%. Interest earned by the Organization was \$135,378 and \$138,000 for the years ended June 30, 2016 and 2015, respectively. The note has a maturity date of October 1, 2038.

Commencing on July 10, 2014 and continuing on the tenth day of each October, January, April and July thereafter up to and included October 10, 2021, the Borrower will pay interest only on the full proceeds of the note quarterly in arrears for the quarter ending on the last day of the month immediately preceding the month in which such payment is made.

Commencing on January 10, 2022 and continuing on the tenth day of each April, July, October and January thereafter until the maturity date, the Borrower will pay quarterly in arrears for the quarter ending on the last day of the month immediately preceding the month in which such payment is made, equal installments of principal and interest on the note. Payment of the principal balance of the loan, all accrued and unpaid interest thereon, and any other amounts payable by the Borrower to the Organization will be paid in full on the maturity date.

6. Land, Buildings and Equipment

The composition of land, buildings, and equipment is as follows:

<i>June 30,</i>	2016	2015
Land	\$ 1,316,227	\$ 1,316,227
Buildings	8,348,689	3,293,969
Furniture and equipment	745,656	616,364
Warehouse equipment	679,902	679,902
Vehicles	415,950	598,095
Total land, building and equipment	11,506,424	6,504,557
Less accumulated depreciation	(3,855,189)	(3,505,432)
Net land, building and equipment	7,651,235	2,999,125
Construction in progress	72,593	4,641,274
Land, building and equipment	\$ 7,723,828	\$ 7,640,399

Construction in progress relates to ongoing facility design activities. The Organization began the design phase of a renovation of their warehouse facility, with estimated future contract costs of \$6,000,000.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

7. Beneficial Interest in Trust

The Organization is a beneficiary of a charitable endowment trust fund established during 1985, which is administered by the Community Foundation of North Texas. The Organization receives 10.8% of the net income of the trust fund on an annual basis. This is contingent on the Organization maintaining its charitable status and using the distributions from the fund for charity. The Community Foundation maintains variance power over the assets and accordingly the Organization's interest in the trust has not been recorded in the accompanying financial statements. The Organization received total distributions of \$116,957 and \$116,942 for each of the years ended June 30, 2016 and 2015, respectively. These amounts are included in the contributions from public support.

During 2009, the Organization recorded its interest as a beneficiary of another trust for which it has one-half interest. During 2016, all but a de minimis amount of the assets of the trust were sold and distributed to the beneficiaries, including the Organization. A summary of the changes in this asset for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Fair value of assets at beginning of year	\$ 388,079	\$ 395,890
Change in value of assets during the year	(117,590)	(7,811)
Distribution of assets to the Organization	(262,209)	-
	<u>\$ 8,280</u>	<u>\$ 388,079</u>

8. Donor Designated Endowment

The Organization's endowment consists of two donor restricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding for Organization operations supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which meets the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix of mutual funds and cash that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions for operations. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

Through June 30, 2015, the Organization was focused on growing the endowment balance but in fiscal year 2016 a distribution was taken.

Endowment net asset composition by type of fund as of June 30, 2016 and 2015 are as follows:

<i>June 30,</i>	2016	2015
Donor-restricted endowment funds	\$ 749,455	\$ 982,503

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

<i>June 30,</i>	2016		
	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 349,215	\$ 633,288	\$ 982,503
Contributions	-	-	-
Investment income	(42,693)	-	(42,693)
Amounts appropriated for expenditure	(190,355)	-	(190,355)
Endowment net assets, end of year	\$ 116,167	\$ 633,288	\$ 749,455

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

<i>June 30,</i>	2015		
	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$ 317,455	\$ 633,288	\$ 950,743
Contributions	-	-	-
Investment income	31,760	-	31,760
Amounts appropriated for expenditure	-	-	-
Endowment net assets, end of year	\$ 349,215	\$ 633,288	\$ 982,503

9. Fair Value Measurements

FASB ASC topic *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the FASB ASC topic are described as follows:

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

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

Mutual Funds

The fair value of mutual funds (registered investment companies) are valued based on exchange listed prices at the close of each business day and are classified in Level 1 of the fair value hierarchy.

Investments Held by Foundation

The fair value of investments held by foundation is based on the fair value of the Organization's share of pooled investments held by a community foundation. The assets of the foundation consist of 54% U.S. equities, 14% non-U.S. equities, 25% fixed income investments, and 7% other investments or cash. These amounts are classified in Level 3 of the fair value hierarchy.

Beneficial Interest in Trust

Beneficial interest in trust is comprised of property and investments held by a third party trust, valued based on quoted market prices for certain assets and estimated values for property provided to the Organization by the trust. These amounts are reflected in level 3.

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

The following tables set forth by level within the fair value hierarchy the Organization's assets at fair value as of June 30, 2016 and 2015.

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Large blend	\$ 211,565	\$ -	\$ -	\$ 211,565
Mid cap value	197,052	-	-	197,052
Large growth	85,308	-	-	85,308
Health	74,125	-	-	74,125
Fixed income	452,328	-	-	452,328
Total mutual funds	1,020,378	-	-	1,020,378
Investments held by foundation	-	-	495,282	495,282
Total investments	1,020,378	-	495,282	1,515,660
Beneficial interest in trust	-	-	8,280	8,280
Total assets at fair value	\$ 1,020,378	\$ -	\$ 503,562	\$ 1,523,940

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

	Assets at Fair Value as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Large blend	\$ 343,779	\$ -	\$ -	\$ 343,779
Mid cap value	228,074	-	-	228,074
Large growth	113,015	-	-	113,015
Health	109,493	-	-	109,493
Fixed income	396,422	-	-	396,422
Other	139,980	-	-	139,980
Total mutual funds	1,330,763	-	-	1,330,763
Investments held by foundation	-	-	545,784	545,784
Total investments	1,330,763	-	545,784	1,876,547
Beneficial interest in trust	-	-	388,079	388,079
Total assets at fair value	\$ 1,330,763	\$ -	\$ 933,863	\$ 2,264,626

The change in value of the beneficial interest in trust is further described in Note 7. The change in value of the investments held by foundation is the result of net investment earnings for the foundation attributable to the Organization less investment and administrative fees of approximately \$6,000 and \$7,000 for 2016 and 2015, respectively.

10. Lines of Credit

Lines of credit consist of the following as of June 30,

<i>June 30,</i>	2016	2015
Line of credit with a local bank for up to \$1,000,000, with interest accruing at a variable rate equal to the bank's prime rate plus .75% (4.00% at June 30, 2016), not to exceed 18%. The line of credit matures in November 2016. The line of credit had no balance as of June 30, 2016 or 2015.	\$ -	\$ -
	\$ -	\$ -

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

11. Notes Payable

Notes payable consist of the following as of June 30,

<i>June 30,</i>	2016	2015
Notes payable to a vendor for the purchase of a passenger vehicle. Interest accrues at 0.90% with principal and interest due monthly through December 2016.	\$ 2,988	\$ 8,075
Note payable to Brownfield Revitalization XVIII, LLC. Interest only is due in quarterly installments beginning on July 1, 2015 through October 1, 2021. Thereafter, principal and interest payments in the amount of \$41,386.95 each are due in quarterly installments. The unpaid principal balance of and all accrued unpaid interest is due in full on October 1, 2044. The Organization may not prepay any portion of the principal balance until September 17, 2020. Interest accrues at 2.295%.	2,952,000	2,952,000
Note payable to TX CDE VII LLC. Interest only is due in quarterly installments beginning on July 1, 2015 through October 1, 2021. Thereafter, principal and interest payments in the amount of \$19,641.98 each are due in quarterly installments. The unpaid principal balance of and all accrued unpaid interest is due in full on October 1, 2044. The Organization may not prepay any portion of the principal balance until September 17, 2020. Interest accrues at 2.295%.	1,401,000	1,401,000
Note payable to Brownfield Revitalization XVIII, LLC. Interest only is due in quarterly installments beginning on July 1, 2015 through October 1, 2021. Thereafter, principal and interest payments in the amount of \$13,571.33 each are due in quarterly installments. The unpaid principal balance of and all accrued unpaid interest is due in full on October 1, 2044. The Organization may not prepay any portion of the principal balance until September 17, 2020. Interest accrues at 2.295%.	968,000	968,000

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

Note payable to TX CDE VII LLC. Interest only is due in quarterly installments beginning on July 1, 2015 through October 1, 2021. Thereafter, principal and interest payments in the amount of \$8,397.96 each are due in quarterly installments. The unpaid principal balance of and all accrued unpaid interest is due in full on October 1, 2044. The Organization may not prepay any portion of the principal balance until September 17, 2020. Interest accrues at 2.295%.

	\$ 599,000	\$ 599,000
	5,922,988	5,928,075
Less current portion	(2,988)	(5,018)
Long term portion of notes payable	\$ 5,920,000	\$ 5,923,057

The notes payable to Brownfield Revitalization XVIII, LLC and TX CDE VII LLC were extended to finance the construction of a programs and administrative facility in Tarrant County and are intended to be treated as a qualified low-income community investment for purposes of generating New Market Tax Credits under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by the constructed property and guaranteed by TAFB.

In June 2015, Capital One, NA (Investor) made equity investments in Brownfield Revitalization XVIII, LLC and TX CDE VII LLC in the amounts of \$4,000,000 and \$2,000,000, respectively. On June 24, 2015, Investor assigned its membership interest in Brownfield Revitalization XVIII, LLC and TX CDE VII LLC to COCRF Investor 22, LLC (the Borrower from Note 5), which is entirely owned by the Investor.

TAFB granted to the Investor an option (the Put) to sell its interest in COCRF Investor 22, LLC to TAFB for \$1,000 between the seventh and eighth anniversary of the loans. After exercising this option, TAFB may cancel the notes payable related to Brownfield Revitalization XVIII, LLC and TX CDE VII LLC.

Future maturities of notes payable are as follows as of June 30, 2016:

Amounts due in fiscal year 2017	\$	2,988
Amounts due in fiscal year 2021 and thereafter		5,920,000
Notes payable	\$	5,922,988

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

12. Restricted Net Assets

The temporarily restricted net assets consisted of TAFB donated inventory that has not been distributed and cash received from grants and contributions that had not been used for their intended purpose at June 30, 2016 and 2015, which are as follows:

<i>June 30,</i>	2016	2015
Food distribution	\$ 1,249,390	\$ 2,289,861
Unappropriated endowment earnings - feeding children	90,134	140,637
Unappropriated endowment earnings - general operations	26,033	208,578
Capital campaign	1,718,366	6,459,180
Food purchases	81,185	1,297
Other	-	125,543
	\$ 3,165,108	\$ 9,225,096

Permanently restricted net assets are restricted for the following purposes:

<i>June 30,</i>	2016	2015
Feeding children	\$ 405,148	\$ 405,148
General operations	228,140	228,140
Permanently restricted net assets	\$ 633,288	\$ 633,288

13. Retirement Plan

The Organization has a qualified 403(b) defined-contribution plan (the Plan). The Plan covers the majority of employees who have worked for the Organization longer than one year. The Plan is specified as an employer only contribution plan, which is a set percentage of each eligible employee's monthly salary. During the years ended June 30, 2016 and 2015, the Organization paid \$311,190 and \$253,077, respectively, into the Plan on behalf of qualified employees.

14. Leases

The Organization has a non-cancelable operating lease for office and warehouse equipment. The rent expense for the years ended June 30, 2016 and 2015 was \$193,111 and \$182,404, respectively, and the future commitments are as follows:

2017	\$ 154,087
2018	104,019
2019	54,496
2020	49,620
2021	42,108
Future lease commitments	\$ 404,330

Tarrant Area Food Bank and Subsidiary

Notes to Consolidated Financial Statements

15. Federal Grants

The Organization participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grant, refunds of any money received may be required. In the opinion of the Organization's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grant; therefore, no provision has been recorded in the accompanying consolidated financial statements for such contingencies.

A separate report has been issued, dated on the same date as this report, on the Organization's compliance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The Organization received grants and contracts from the U. S. Department of Agriculture that include food distribution, administration of the USDA program and other program-related contracts for which the Organization serves as a vendor.

16. Special Events

Special events are presented net of direct donor benefit expense of \$152,874 and \$100,674 for the years ended June 30, 2016 and 2015, respectively.

17. Concentrations of Risk

Concentrations of credit risk consist of cash, grants receivable, handling fees receivable, pledges receivable, and investments.

The Organization places its cash in local banks. At times, cash balances may exceed federally insured limits. The Organization places its investments with investment companies and a foundation. Investments are subject to market risk. The Organization's grants receivable are due from the U.S. Department of Agriculture. The Organization's handling fees receivable are due from various member agencies. Pledge receivables from five donors represent 88% of total pledge receivables for the year ended June 30, 2016. Pledge receivables from three donors represent 80% of total pledge receivables for the year ended June 30, 2015.

18. Subsequent Events

The Organization evaluated events occurring between the end of our most recent fiscal year and November 1, 2016, the date the financial statements were available to be issued. Subsequent to June 30, 2016, the Organization received additional conditional pledges related to the capital campaign that total \$700,000.

Supplemental Information

Tarrant Area Food Bank and Subsidiary

Consolidating Statement of Financial Position

<i>June 30,</i>	2016		
	TAFB	TAFB-SPE	Consolidated
Assets			
Current assets			
Cash and cash equivalents	\$ 1,920,969	\$ 110,227	\$ 2,031,196
Grants receivable	261,610	-	261,610
Handling fees receivable	97,023	-	97,023
Pledges receivable	192,916	-	192,916
Inventory of food and commodities	1,279,370	-	1,279,370
Investments	882,372	-	882,372
Prepaid expenses	21,608	-	21,608
Total current assets	4,655,868	110,227	4,766,095
Pledges receivable	146,167	-	146,167
Note receivable	4,353,000	-	4,353,000
Land, buildings, and equipment, net	2,604,305	5,119,523	7,723,828
Other assets	44,546	286,936	331,482
Beneficial interest in trust	8,280	-	8,280
Restricted endowment funds	633,288	-	633,288
Total assets	\$ 12,445,454	\$ 5,516,686	\$ 17,962,140
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued liabilities	\$ 622,183	\$ -	\$ 622,183
Notes payable	2,988	-	2,988
Total current liabilities	625,171	-	625,171
Notes payable	-	5,920,000	5,920,000
Total liabilities	625,171	5,920,000	6,545,171
Commitments and contingencies			
Net assets			
Unrestricted	8,021,887	(403,314)	7,618,573
Temporarily restricted	3,165,108	-	3,165,108
Permanently restricted	633,288	-	633,288
Total net assets	11,820,283	(403,314)	11,416,969
Total liabilities and net assets	\$ 12,445,454	\$ 5,516,686	\$ 17,962,140

Tarrant Area Food Bank and Subsidiary

Consolidating Statement of Activities

For the years ended June 30,

	Tarrant Area Food Bank				2016		Consolidated Totals			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	TAFB-SPE Unrestricted	Eliminations Unrestricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues:										
Public support										
Public contributions	\$ 4,799,317	\$ 1,642,825	\$ -	\$ 6,442,142	\$ -	\$ -	\$ 4,799,317	\$ 1,642,825	\$ -	\$ 6,442,142
Donated food and commodities	-	49,432,919	-	49,432,919	-	-	-	49,432,919	-	49,432,919
Special events, net	258,729	-	-	258,729	-	-	258,729	-	-	258,729
Total public support	5,058,046	51,075,744	-	56,133,790	-	-	5,058,046	51,075,744	-	56,133,790
Revenues:										
Handling fees	1,909,966	-	-	1,909,966	-	-	1,909,966	-	-	1,909,966
Investment income	328,820	(233,048)	-	95,772	-	-	328,820	(233,048)	-	95,772
Change in value of beneficial interest in trust	(117,590)	-	-	(117,590)	-	-	(117,590)	-	-	(117,590)
Other revenue	149,867	-	-	149,867	159,617	(159,617)	149,867	-	-	149,867
Total revenue	2,271,063	(233,048)	-	2,038,015	159,617	(159,617)	2,271,063	(233,048)	-	2,038,015
Government grants and cost reimbursements	2,322,121	-	-	2,322,121	-	-	2,322,121	-	-	2,322,121
Net assets released from restrictions	56,902,684	(56,902,684)	-	-	-	-	56,902,684	(56,902,684)	-	-
Total support and revenues	66,553,914	(6,059,988)	-	60,493,926	159,617	(159,617)	66,553,914	(6,059,988)	-	60,493,926
Expenses:										
Program	58,711,940	-	-	58,711,940	-	-	58,711,940	-	-	58,711,940
Management and general	1,225,876	-	-	1,225,876	404,178	(159,617)	1,470,437	-	-	1,470,437
Fundraising	2,258,599	-	-	2,258,599	-	-	2,258,599	-	-	2,258,599
Total expenses	62,196,415	-	-	62,196,415	404,178	(159,617)	62,440,976	-	-	62,440,976
Change in net assets	4,357,499	(6,059,988)	-	(1,702,489)	(244,561)	-	4,112,938	(6,059,988)	-	(1,947,050)
Net assets, beginning of year	3,664,388	9,225,096	633,288	13,522,772	(158,753)	-	3,505,635	9,225,096	633,288	13,364,019
Net assets, end of year	\$ 8,021,887	\$ 3,165,108	\$ 633,288	\$ 11,820,283	\$ (403,314)	\$ -	\$ 7,618,573	\$ 3,165,108	\$ 633,288	\$ 11,416,969