

**WEST TEXAS FOOD BANK
AND
WTFB MID COUNTY
(a supporting organization)**

**CONSOLIDATED FINANCIAL STATEMENTS &
INDEPENDENT AUDITOR'S REPORT**

**AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**

**Randy Silhan, CPA, CFE
Certified Public Accountant
Certified Fraud Examiner**

WEST TEXAS FOOD BANK & WTFB MID COUNTY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the West Texas Food Bank and WTFB Mid County:

Report on the Financial Statements

I have audited the accompanying consolidated financial statements of West Texas Food Bank and WTFB Mid County (both nonprofit organizations), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my 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 I 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, I 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of West Texas Food Bank and WTFB Mid County as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

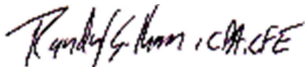
Other Matters

Other Information

My audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statement of financial position and consolidating statement of activities are presented for purposes of additional analysis and are not required parts of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 my 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*, I have also issued my report dated March 27, 2018, on my consideration of the Food Bank's internal control over financial reporting and on my 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 my 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's internal control over financial reporting and compliance.



Lubbock, Texas
March 27, 2018

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016**

A S S E T S	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and Cash Equivalents - unrestricted and board designated	\$ 1,263,626	\$ 2,498,752
Cash and Cash Equivalents - temporarily restricted	566,577	496,253
Accounts Receivable	55,720	83,373
Grants Receivable	54,678	43,983
Pledges Receivable - current	185,400	203,900
Interest Receivable	-	11,635
Inventory	1,045,651	807,072
Prepaid Expenses	15,805	4,978
TOTAL CURRENT ASSETS	<u>3,187,457</u>	<u>4,149,946</u>
PLEDGES RECEIVABLE - long term	<u>158,500</u>	<u>615,000</u>
ENDOWMENT INVESTMENTS	<u>666,842</u>	<u>616,482</u>
NOTE RECEIVABLE	<u>4,061,000</u>	<u>4,061,000</u>
PROPERTY AND EQUIPMENT (net)	<u>16,626,529</u>	<u>15,722,388</u>
TOTAL ASSETS	<u><u>\$ 24,700,328</u></u>	<u><u>\$ 25,164,816</u></u>
LIABILITIES & NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 172,182	\$ 546,057
Accrued Liabilities	8,515	69,216
Current maturities of long-term debt	290,025	282,695
TOTAL CURRENT LIABILITIES	<u>470,722</u>	<u>897,968</u>
LONG-TERM LIABILITIES		
New Market Tax Credit Notes Payable, net of unamortized debt issuance costs of \$455,544	5,444,456	5,428,657
Long-Term Debt, net of current maturities	3,997,727	4,459,440
TOTAL LONG-TERM LIABILITIES	<u>9,442,183</u>	<u>9,888,097</u>
TOTAL LIABILITIES	<u>9,912,905</u>	<u>10,786,065</u>
NET ASSETS		
Unrestricted	12,686,930	12,193,284
Unrestricted, Board Designated Operating Reserve	523,174	253,832
Unrestricted, Board Designated Endowment	466,842	416,482
Temporarily Restricted	910,477	1,315,153
Permanently Restricted	200,000	200,000
TOTAL NET ASSETS	<u>14,787,423</u>	<u>14,378,751</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 24,700,328</u></u>	<u><u>\$ 25,164,816</u></u>

The accompanying notes are an integral part of these consolidated financial statements

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT				
Public contributions	\$ 2,286,506	\$ 648,191	\$ -	\$ 2,934,697
Capital campaign monetary contributions	-	147,134	-	147,134
Donated food and commodities	8,333,919	-	-	8,333,919
TOTAL PUBLIC SUPPORT	10,620,425	795,325	-	11,415,750
REVENUES & OTHER SUPPORT				
Government grants & contracts	526,820	-	-	526,820
Program revenue and fees	798,637	-	-	798,637
Special events, net of costs of \$55,033	34,862	-	-	34,862
Other income	113,143	-	-	113,143
Net investment income (loss)	82,847	-	-	82,847
TOTAL REVENUES & OTHER SUPPORT	1,556,309	-	-	1,556,309
TOTAL SUPPORT AND REVENUES	12,176,734	795,325	-	12,972,059
NET ASSETS RELEASED FROM RESTRICTIONS				
Restrictions Satisfied by Payments - Food & other programs	459,310	(459,310)	-	-
Restrictions Satisfied by Payments - Capital campaign	740,691	(740,691)	-	-
TOTAL SUPPORT, REVENUES, & RECLASSIFICATIONS	13,376,735	(404,676)	-	12,972,059
EXPENSES				
Program Services:				
Distribution	9,378,529	-	-	9,378,529
Transportation	1,002,741	-	-	1,002,741
Processing	1,003,821	-	-	1,003,821
Public Education	42,764	-	-	42,764
TOTAL PROGRAM SERVICES	11,427,855	-	-	11,427,855
Supporting Services:				
Management and General	806,410	-	-	806,410
Fundraising	329,122	-	-	329,122
TOTAL SUPPORT SERVICES	1,135,532	-	-	1,135,532
TOTAL EXPENSES	12,563,387	-	-	12,563,387
CHANGE IN NET ASSETS	813,348	(404,676)	-	408,672
BEGINNING NET ASSETS	12,863,598	1,315,153	200,000	14,378,751
ENDING NET ASSETS	\$ 13,676,946	\$ 910,477	\$ 200,000	\$ 14,787,423

The accompanying notes are an integral part of these consolidated financial statements

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT				
Public contributions	\$ 1,519,317	\$ 441,878	\$ -	\$ 1,961,195
Capital campaign monetary contributions	-	2,500	-	2,500
Donated food and commodities	9,878,708	-	-	9,878,708
TOTAL PUBLIC SUPPORT	11,398,025	444,378	-	11,842,403
REVENUES & OTHER SUPPORT				
Government grants & contracts	753,439	-	-	753,439
Program revenue and fees	1,023,606	-	-	1,023,606
Special events, net of costs of \$56,163	34,644	-	-	34,644
Other income	65,084	-	-	65,084
Net investment income (loss)	59,742	-	-	59,742
TOTAL REVENUES & OTHER SUPPORT	1,936,515	-	-	1,936,515
TOTAL SUPPORT AND REVENUES	13,334,540	444,378	-	13,778,918
NET ASSETS RELEASED FROM RESTRICTIONS				
Restrictions Satisfied by Payments - Food & other programs	361,989	(361,989)	-	-
Restrictions Satisfied by Payments - Capital campaign	5,172,675	(5,172,675)	-	-
TOTAL SUPPORT, REVENUES, & RECLASSIFICATIONS	18,869,204	(5,090,286)	-	13,778,918
EXPENSES				
Program Services:				
Distribution	11,467,763	-	-	11,467,763
Transportation	949,035	-	-	949,035
Processing	950,519	-	-	950,519
Public Education	40,493	-	-	40,493
TOTAL PROGRAM SERVICES	13,407,810	-	-	13,407,810
Supporting Services:				
Management and General	548,654	-	-	548,654
Fundraising	330,347	-	-	330,347
TOTAL SUPPORT SERVICES	879,001	-	-	879,001
TOTAL EXPENSES	14,286,811	-	-	14,286,811
CHANGE IN NET ASSETS	4,582,393	(5,090,286)	-	(507,893)
BEGINNING NET ASSETS	8,281,205	6,405,439	200,000	14,886,644
ENDING NET ASSETS	\$ 12,863,598	\$ 1,315,153	\$ 200,000	\$ 14,378,751

The accompanying notes are an integral part of these consolidated financial statements

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	PROGRAM SERVICES - ALL WEST TEXAS FOOD BANK					SUPPORT SERVICES			TOTAL
	Distribution	Transportation	Processing	Public	Total	West Texas Food Bank	West Texas	WTFB-Mid County	2017
				Education		Management and General	Food Bank Fundraising	Management and General	
Salaries	\$ 210,815	\$ 370,555	\$ 484,656	\$ 20,647	\$ 1,086,673	\$ 228,499	\$ 90,787	\$ -	\$ 1,405,959
Payroll taxes	16,008	28,138	36,803	1,568	82,517	17,423	6,948	-	106,888
Other employee benefits	44,824	78,788	103,048	4,390	231,050	48,584	19,303	-	298,937
Total Personnel Costs	271,647	477,481	624,507	26,605	1,400,240	294,506	117,038	-	1,811,784
Professional fees	-	-	-	-	-	25,808	-	44,114	69,922
Direct mail fundraising costs	-	-	-	-	-	-	163,453	-	163,453
Bad debt	-	-	-	-	-	2,374	600	-	2,974
Contract labor	-	-	-	-	-	5,532	-	-	5,532
Supplies	9,739	17,119	22,390	954	50,202	12,551	-	-	62,753
Telephone	6,149	10,809	14,137	602	31,697	7,925	-	-	39,622
Occupancy	20,012	35,176	46,008	1,960	103,156	25,789	-	-	128,945
Equipment rental, repair & maintenance	16,776	29,487	38,567	1,643	86,473	21,618	-	1,350	109,441
Promotional, publications, & printing	-	-	-	-	-	-	48,031	-	48,031
Travel	7,168	12,599	16,478	702	36,947	9,237	-	-	46,184
Conferences & meetings	1,172	2,060	2,695	115	6,042	1,511	-	-	7,553
Dues, fees, & subscriptions	3,730	6,557	8,576	365	19,228	4,807	-	-	24,035
Insurance	10,115	17,780	23,255	991	52,141	13,035	-	-	65,176
Vehicle & transportation costs	-	235,249	-	-	235,249	58,812	-	-	294,061
Special food program & project costs	6,272	11,024	14,419	614	32,329	-	-	-	32,329
Food distributed - Donated	7,426,878	-	-	-	7,426,878	-	-	-	7,426,878
Food distributed - USDA commodities	699,253	-	-	-	699,253	-	-	-	699,253
Food distributed - Purchased	815,759	-	-	-	815,759	-	-	-	815,759
Bank fees	886	1,557	2,037	87	4,567	1,142	-	535	6,244
Interest - debt issuance costs	-	-	-	-	-	-	-	15,799	15,799
Interest on loans and notes	17,636	30,999	40,545	1,727	90,907	22,727	-	59,000	172,634
Total before depreciation	9,313,192	887,897	853,614	36,365	11,091,068	507,374	329,122	120,798	12,048,362
Depreciation	65,337	114,844	150,207	6,399	336,787	84,197	-	94,041	515,025
TOTAL	\$ 9,378,529	\$ 1,002,741	\$ 1,003,821	\$ 42,764	\$ 11,427,855	\$ 591,571	\$ 329,122	\$ 214,839	\$ 12,563,387

The accompanying notes are an integral part of these consolidated financial statements

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	PROGRAM SERVICES - ALL WEST TEXAS FOOD BANK					SUPPORT SERVICES			TOTAL
	Distribution	Transportation	Processing	Public	Total	West Texas Food Bank	West Texas	WTFB-Mid County	2016
				Education		Management and General	Food Bank Fundraising	Management and General	
Salaries	\$ 198,081	\$ 348,174	\$ 455,383	\$ 19,400	\$ 1,021,038	\$ 208,147	\$ 119,595	\$ -	\$ 1,348,780
Payroll taxes	15,592	27,407	35,846	1,527	80,372	16,350	9,449	-	106,171
Other employee benefits	42,784	75,203	98,359	4,190	220,536	44,958	25,832	-	291,326
Total Personnel Costs	256,457	450,784	589,588	25,117	1,321,946	269,455	154,876	-	1,746,277
Professional fees	-	-	-	-	-	19,914	-	-	19,914
Direct mail fundraising costs	-	-	-	-	-	-	143,175	-	143,175
Capital campaign fundraising expenses	-	-	-	-	-	-	4,030	-	4,030
Bad debt	-	-	-	-	-	2,733	380	-	3,113
Contract labor	-	-	-	-	-	8,455	-	-	8,455
Supplies	11,852	20,832	27,247	1,161	61,092	15,272	-	268	76,632
Telephone	4,772	8,389	10,972	467	24,600	6,150	-	-	30,750
Occupancy	19,953	35,071	45,870	1,954	102,848	25,711	-	-	128,559
Equipment rental, repair & maintenance	17,854	31,383	41,046	1,749	92,032	23,007	-	-	115,039
Promotional, publications, & printing	-	-	-	-	-	-	27,886	-	27,886
Travel	8,457	14,865	19,442	828	43,592	10,898	-	-	54,490
Conferences & meetings	1,793	3,152	4,122	176	9,243	2,311	-	-	11,554
Dues, fees, & subscriptions	4,852	8,528	11,154	475	25,009	6,252	-	-	31,261
Insurance	4,885	8,587	11,231	478	25,181	6,295	-	-	31,476
Vehicle & transportation costs	-	222,291	-	-	222,291	55,573	-	-	277,864
Special food program & project costs	18,876	33,180	43,396	1,849	97,301	-	-	-	97,301
Food distributed - Donated	6,877,507	-	-	-	6,877,507	-	-	-	6,877,507
Food distributed - USDA commodities	807,737	-	-	-	807,737	-	-	-	807,737
Food distributed - Purchased	903,329	-	-	-	903,329	-	-	-	903,329
USDA Commodities distributed to									
El Pasoans Fighting Hunger	2,185,851	-	-	-	2,185,851	-	-	-	2,185,851
USDA administrative reimbursements to									
El Pasoans Fighting Hunger	279,885	-	-	-	279,885	-	-	-	279,885
Bank fees	843	1,482	1,938	83	4,346	1,086	-	-	5,432
Interest - debt issuance costs	-	-	-	-	-	-	-	2,633	2,633
Interest on loans and notes	14,318	25,167	32,917	1,402	73,804	18,451	-	11,636	103,891
Total before depreciation	11,419,221	863,711	838,923	35,739	13,157,594	471,563	330,347	14,537	13,974,041
Depreciation	48,542	85,324	111,596	4,754	250,216	62,554	-	-	312,770
TOTAL	\$ 11,467,763	\$ 949,035	\$ 950,519	\$ 40,493	\$ 13,407,810	\$ 534,117	\$ 330,347	\$ 14,537	\$ 14,286,811

The accompanying notes are an integral part of these consolidated financial statements

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash collected from support and revenue	\$ 5,058,286	\$ 5,213,528
Cash paid for operations	(4,209,993)	(3,834,376)
Interest received	600	199
Interest paid	(172,634)	(103,891)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	676,259	1,275,460
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(1,419,165)	(7,134,580)
Distributions from endowment	32,487	32,723
Issuance of note receivable	-	(4,061,000)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(1,386,678)	(11,162,857)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings on West Texas Food Bank loans	-	2,883,355
Proceeds from borrowings on NMTC loans	-	5,900,000
Debt issuance costs paid on NMTC loans	-	(473,976)
Principal repayments on West Texas Food Bank loans	(454,383)	(261,798)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(454,383)	8,047,581
NET CHANGE IN CASH & CASH EQUIVALENTS	(1,164,802)	(1,839,816)
CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	2,995,005	4,834,821
CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 1,830,203	\$ 2,995,005
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 408,672	\$ (507,893)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	515,025	312,770
Net investment return on endowment	(82,847)	(59,743)
Amortization of debt issuance costs (interest)	15,799	2,633
Change in Assets and Liabilities:		
Decrease (Increase) in grants and accounts receivable	16,958	99,507
Decrease (Increase) in pledges receivable	475,000	1,288,500
Decrease (Increase) in interest receivable	11,635	(11,635)
Decrease (Increase) in prepaid expenses	(10,827)	1,567
Decrease (Increase) in inventory	(238,580)	(166,959)
Increase (Decrease) in accounts payable and accrued liabilities	(434,576)	316,713
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 676,259	\$ 1,275,460

The accompanying notes are an integral part of these consolidated financial statements

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

West Texas Food Bank (the Food Bank) is a non-profit corporation originally organized in the State of Texas in 1985 as the Permian Basin Food Bank, Inc. The Food Bank changed its name to West Texas Food Bank in 2005. The Food Bank serves individuals and partner agencies in 19 counties in West Texas. The Food Bank's network includes 65 community partners and faith-based charitable agencies, including food pantries, community kitchens, emergency organizations, shelters, residential centers, rehabilitation centers, senior centers, and youth centers. These agencies provide ongoing and emergency food assistance to thousands of persons. The Food Bank also provides programs to increase the community awareness on issues of hunger and nutrition education.

WTFB Mid County (the Supporting Organization), also a Texas nonprofit corporation, was created in June 2016 and is organized and will be operated at all times exclusively for the benefit of the Food Bank. The Supporting Organization constructed a new facility in Midland, Texas which it leases to the Food Bank. The facility was fully placed in service in January 2017. WTFB Mid County is a Type I supporting organization as defined by Section 509(a)(3) of Internal Revenue Code, whereby not less than a majority of the board of directors has been appointed from the Food Bank's board of directors.

Basis of Consolidation

The accompanying consolidated financial statements include the financial statements of the Food Bank and the Supporting Organization (collectively, the Organizations). All significant inter-organization transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting consistent with generally accepted accounting principles applicable to voluntary health and welfare organizations in the United States of America.

Financial Statement Presentation

Under FASB ASC 958, the Organizations are required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organizations are required to present a statement of cash flows. As permitted by this statement, the Organizations do not use fund accounting and have, accordingly, reclassified their financial statements to present the three classes of net assets required.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Both the Food Bank and WTFB Mid County qualify as a tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, both organizations have been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no taxable unrelated business income for 2017 or 2016. The Organizations Forms 990, Return of Organization Exempt from Income Tax are subject to examination by the IRS, generally for three years after they are filed. There were no examinations during 2017 or 2016 and are none in progress through the date of this report.

Cash & Cash Equivalents

The Organizations consider all cash on hand, cash held in demand accounts, certificates of deposit, and all highly liquid investments maturing in three (3) months or less to be cash and cash equivalents.

Accounts Receivable

Accounts receivables consist primarily of shared maintenance fees billed to agencies for services rendered. Grants receivable are reimbursable costs due from granting agencies. The Food Bank use the direct write-off method to account for bad debts. Management considers all receivables to be fully collectible, and accordingly, no allowance for doubtful accounts is necessary. Accounts will be charged to operations if they become uncollectible.

Pledges Receivable

An unconditional promise to give (pledge) is recognized as revenue at the time of the pledge, net of an allowance for uncollectible amounts. Pledges are recorded at fair value based on the present value of expected future cash flows. Contributions are recognized when the donor makes a promise to give to the Food Bank that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Food Bank has estimated that all pledges are fully collectible based on the past history of those donors from whom the promises to give were received; therefore no discount rate or uncollectible amounts have been calculated. Pledges are temporarily restricted for the capital campaign to construct new warehouse and distribution facilities.

Inventory

Inventory consists of donated food, purchased food, and USDA commodities. Inventory is stated at the lower of cost or market value. Donated food is reported at an average price of \$1.73 per pound in 2017 and \$1.67 per pound in 2016 based on a cost study done by Feeding America at the national level. Purchased food is valued at cost. USDA commodities are valued based on published USDA fair market values.

Property and Equipment

The Organizations capitalize expenditures for property and equipment in excess of \$2,500. Furniture and equipment are recorded at cost or, if donated, at their fair market value at date of gift. Donated assets are reported as unrestricted support 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 support.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - continued

Expirations of donor restrictions are reported when the donated or acquired assets are placed in service as instructed by the donor, and reclassified from temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the individual assets, which range from 3 to 39 years. Construction work in process on the new facilities is being capitalized as expenditures are made. Upon beginning operations in their new facilities, the Organizations will depreciate the new building in accordance with their accounting policies. Maintenance and repair costs are charged to expense as incurred.

Investments

Under FASB ASC 958, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which they are recognized.

Support and Revenue Recognition

Under FASB ASC 958, contributions, grants, and other assets received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction or accomplishment of a purpose restriction. Certain restricted support and revenues whose restrictions are met within the same reporting period are classified as unrestricted support. Unconditional promises to give are recorded as received. Those due within one year are classified as current and those due in more than one year are classified as long-term.

Endowment contributions are generally recorded as permanently restricted by the donor. Earnings on these contributed assets are available for distribution and therefore recorded as unrestricted net assets. Any donor restricted earnings are classified as temporarily or permanently restricted net assets based on the nature of the restriction. Upon release of any such restrictions, earnings would then be reclassified as unrestricted net assets.

Donated food and products are recorded as unrestricted support at fair market value on the date received and as an expense when the food and products are distributed to agencies and individuals. The fair value of donated food is explained in the Inventory note above. Donated services that create or enhance non-financial assets or that require specialized skills that would typically need to be purchased if not donated, are recorded at fair market value in the period received.

For certain food products, the Food Bank collects a shared maintenance fee of ten to fifteen cents per pound of food distributed to help offset costs of handling and redistribution. These charges totaled \$223,880 in 2017 and \$197,448 in 2016.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Services & Materials

The Food Bank receives a significant amount of donated services from a variety of unpaid volunteers who assist in various food distribution processes. The Food Bank also receives a substantial amount of donated items for fundraising special events from various donors. No amounts have been recognized in the accompanying statement of activities for services and materials for which no fair market value was obtained from donors since the criteria for such recognition has not been met under FASB ASC 958. Estimated fair value of donated volunteer service hours totaled approximately \$414,000 in 2017 and \$318,000 in 2016.

Functional Expenses

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

NOTE 2: INVENTORY

Inventory consisted of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Donated food	\$ 662,144	\$ 543,837
USDA commodities	200,426	98,472
Purchased food	183,081	164,763
	<u>\$ 1,045,651</u>	<u>\$ 807,072</u>

Inventory turnover was as follows:

	<u>Pounds received</u>	
Donated food	4,347,499	4,111,204
USDA commodities	1,375,272	1,048,387
Purchased food	926,817	1,196,019
Total distributed to agencies and individuals	6,649,588	6,355,610
USDA commodities received and passed through to subrecipient - EPFH*	-	2,716,298
Total of all inventory received and distributed	<u>6,649,588</u>	<u>9,071,908</u>
	<u>Pounds distributed</u>	
Donated food	3,956,237	3,739,135
USDA commodities	1,047,628	850,742
Purchased food	915,107	1,223,819
Total distributed to agencies and individuals	5,918,972	5,813,696
USDA commodities received and passed through to subrecipient - EPFH*	-	2,716,298
Total of all inventory received and distributed	<u>5,918,972</u>	<u>8,529,994</u>

Effective October 1, 2016, El Pasoans Feeding Hunger is no longer a subrecipient of the Food Bank.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 3: PLEDGES RECEIVABLE

Unconditional pledges receivable for the capital campaign as of September 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 185,400	\$ 203,900
Due in 1 to 2 years	158,500	456,500
Due in 2 to 5 years	<u>-</u>	<u>158,500</u>
	<u>\$ 343,900</u>	<u>\$ 818,900</u>

NOTE 4: ENDOWMENT INVESTMENTS

The Food Bank received \$200,000 from a family charitable foundation in 1996. The donor explicitly stipulated that the principal was to be used to establish a permanent endowment fund from which only the income may be used to support operations. This donor-restricted endowment of \$200,000 is classified as permanently restricted net assets. The Food Bank has authority to direct the investments of the endowment. As of September 30, 2017 and 2016, the original principal of \$200,000 is invested in an endowment fund with the Permian Basin Area Foundation.

The board of directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Food Bank's original gift was not absent of donor stipulations. As a result of this interpretation, the Food Bank 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 SPMIFA.

In accordance with SPMIFA, the Food Bank considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) The duration and preservation of the fund (2) The purposes of the Food Bank and the donor-restricted endowment fund (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 Food Bank (7) The investment policies of the organization.

Any declines in the fair value of the assets of the donor-restricted endowment funds are classified as unrestricted in compliance with generally accepted accounting principles.

In 1996, the board of directors resolved to establish two separate endowment accounts of \$100,000 each from the donor-restricted gift of \$200,000. One account established was a money market mutual fund which was transferred into the Permian Basin Area Foundation endowment fund in October 2011.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 4: ENDOWMENT INVESTMENTS (Continued)

In 1996, the board also established a permanent endowment fund with the Permian Basin Area Foundation (PBAF) by signing an endowment fund agreement which establishes a beneficial interest in assets held by the PBAF whereby the PBAF receives, accepts, administers, invests, and distributes the assets of the fund for the benefit of the Food Bank. The Food Bank is eligible to receive annual distributions of 5% of the market value as determined by the agreement. Excess earnings are reinvested into the fund. The Permian Basin Area Foundation is a community foundation that facilitates the creation of permanent charitable funds, in partnership with many donors. The PBAF qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Assets in the permanent funds of Permian Basin Area Foundation are invested with long-term objectives of corpus protection and value growth employing proven professional investment managers and diligent performance monitoring. The Foundation's investment strategy embraces a defined asset allocation model and disciplined re-balancing to maintain actual values within the allocation policy. The diversified portfolio includes positions in large cap, mid-cap, small cap, and international equities, equities, as well as fixed income securities.

The PBAF's investment committee governs policy and monitors investment management and performance relative to standard benchmarks and peer group comparisons. This agreement was amended in 2011 to a) add a provision that distributions from the fund may be required by the PBAF if the accumulated distributable amount exceeds 15% of the total value of the fund; b) change the administrative fee from 2% to 1%, and c) agree to the Food Bank's request for certain funds to be invested by an investment firm.

The board of directors does not factor the earnings from the endowment assets as part of their operating budget annually. Any specific purchases to be made from these earnings are approved by the board at its discretion. The Food Bank is eligible to receive annual distributions of 5% of the fund's balance at the close of the third quarter of each year to be effective for the subsequent year. No funds were available for distribution as of September 30, 2017, or 2016. Distributions taken during the fiscal year totaled \$32,487 in 2017 and \$32,723 in 2016.

Endowment net asset composition as of September 30, 2017:

<u>Board designated (unrestricted)</u>	<u>Cost</u>	<u>Fair Value</u>
Permian Basin Area Foundation	\$ 367,312	\$ 466,842
 <u>Permanently Restricted (donor-restricted)</u>		
Permian Basin Area Foundation	200,000	200,000
Total endowment investments	<u>\$ 567,312</u>	<u>\$ 666,842</u>

Endowment net asset composition as of September 30, 2016:

<u>Board designated (unrestricted)</u>	<u>Cost</u>	<u>Fair Value</u>
Permian Basin Area Foundation	\$ 367,132	\$ 416,482
 <u>Permanently Restricted (donor-restricted)</u>		
Permian Basin Area Foundation	200,000	200,000
Total endowment investments	<u>\$ 567,132</u>	<u>\$ 616,482</u>

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 4: ENDOWMENT INVESTMENTS (Continued)

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment investments beginning of year	\$ 416,482	\$ 200,000	\$ 616,482
Distributions	(32,487)	-	(32,487)
<u>Investment return:</u>			
Interest & dividends	12,796	-	12,796
Unrealized gains (losses)	84,184	-	84,184
Realized gains (losses)	(1,517)	-	(1,517)
Management fees	(12,616)	-	(12,616)
Total investment return	<u>82,847</u>	<u>-</u>	<u>82,847</u>
Endowment investments end of year	<u>\$ 466,842</u>	<u>\$ 200,000</u>	<u>\$ 666,842</u>

NOTE 5: FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature (FASB ASC 820) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Organizations use appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organizations measure fair value using Level 1 or Level 2 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were unavailable.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organizations 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 following table sets forth, by level within the fair value hierarchy, the Food Bank's investments:

<u>September 30, 2017</u>	<u>Fair Value</u>	<u>(Level 3)</u>
Endowment - PBAF*	<u>\$ 666,842</u>	<u>\$ 666,842</u>
<u>September 30, 2016</u>	<u>Fair Value</u>	<u>(Level 3)</u>
Endowment - PBAF*	<u>\$ 616,482</u>	<u>\$ 616,482</u>

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

*As previously stated, the beneficial interest in assets held in the endowment by the Permian Basin Area Foundation are invested in a diversified portfolio of marketable equity and fixed income securities. A substantial portion of the underlying assets at the PBAF are measured at fair value using level 1 and 2 inputs. The Food Bank's ownership in such investments is represented by an undivided beneficial interest in the portfolios managed by the PBAF. Since the Food Bank's interest itself is not a publicly traded investment, it is valued as a level 3 input as defined by FASB ASC 820. There were no transfers between fair value levels in 2017 or 2016. No changes were made to the availability of observable market data to assess the appropriate classification of investments.

The changes in level 3 assets measured at fair value on a recurring basis are summarized as follows:

PBAF endowment investments - beginning of year	\$616,482
<u>Investment return:</u>	
Interest & dividends	12,796
Unrealized gains (losses)	84,184
Realized gains (losses)	(1,517)
Management fees	<u>(12,616)</u>
Total investment return	<u>82,847</u>
Distributions	<u>(32,487)</u>
PBAF endowment investments - end of year	<u><u>\$666,842</u></u>

NOTE 6: NOTE RECEIVABLE

In connection with the issuance of New Market Tax Credits Notes Payable, the Food Bank entered into the following note receivable on July 20, 2016, to lend \$4,061,000 to Twain Investment Fund 184, LLC Investment Fund, LLC (Twain). The note is secured by Twain's 99.99% membership interest in USBCDE SUB-CDE 157, LLC and MBS-UI SUB-CDE XXIX, LLC, collectively the Community Development Entities (CDEs). Interest on the unpaid principal amount at the rate of 1.4527% per annum is receivable quarterly for interest accruing through the last day of the last month of the applicable quarter until August 31, 2022. The first quarterly payment shall be on September 15, 2016, and payments shall be made on each December 15, March 15, June 15, and September 15 thereafter through June 15, 2023. Beginning September 15, 2023, principal payments shall be made quarterly and continuing each December 15, March 15, June 15, and September 15 thereafter until all principal is paid. The maturity date of the note is June 15, 2046. Interest received totaled \$59,000 in 2017 and \$11,636 in 2016.

Future minimum principal receipts under the note receivable are as follows for the years ending September 30:

2023-2027	\$948,483
2028-2032	1,128,945
2033-2037	1,213,837
2038-2046	<u>769,735</u>
	<u><u>\$4,061,000</u></u>

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 7: PROPERTY & EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Buildings	\$15,990,380	\$11,291,649
Construction in progress	-	3,748,826
Improvements	237,468	237,468
Warehouse Equipment	192,774	169,841
Freezer/Cooler Units	336,312	336,312
Computer Equipment	195,659	190,102
Office & Kitchen Equipment	338,483	256,990
Vehicles	410,957	445,906
Land	<u>1,007,575</u>	<u>672,575</u>
	18,709,608	17,349,669
Accumulated Depreciation	<u>(2,083,079)</u>	<u>(1,627,281)</u>
Net Property & Equipment	<u>\$16,626,529</u>	<u>\$15,722,388</u>

Depreciation expense totaled \$515,025 in 2017 and \$312,770 in 2016.

NOTE 8: NEW MARKET TAX CREDITS NOTES PAYABLE

WTFB Mid County (the Supporting Organization) executed loan agreements for four separate promissory notes effective July 20, 2016, that provide for borrowings totaling \$5,900,000 from USBCDE SUB-CDE 157, LLC and MBS-UI SUB-CDE XXIX, LLC, collectively the Community Development Entities (CDEs). The loans were used to finance the building of a new facility in Midland, Texas and are intended to be treated as a “qualified low-income community investment” for purposes of generating New Market Tax Credits (NMTC) under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by a property deed of trust, security agreement and fixture filing on this property and a guaranty by the Food Bank.

All four notes were originated July 20, 2016 and bear interest at an annual effective rate of 1% and mature on June 1, 2046. Interest is payable quarterly on March 1, June 1, September 1, and December 1 of each year, beginning September 1, 2016. Starting September 1, 2023 through the maturity date, payments of principal and interest are payable quarterly on the same dates aforementioned. All remaining principal and accrued and unpaid interest shall be due and payable on the maturity date. The note payable balances as of September 30 are as follows:

	<u>2017</u>	<u>2016</u>
USB QLICI – Loan A	\$ 668,500	\$ 668,500
USB QLICI – Loan B	331,500	331,500
MBS QLICI – Loan A	3,392,500	3,392,500
MBS QLICI – Loan B	<u>1,507,500</u>	<u>1,507,500</u>
	5,900,000	5,900,000
Unamortized debt issuance costs	<u>(455,544)</u>	<u>(471,343)</u>
	<u>\$5,444,456</u>	<u>\$5,428,657</u>

No interest has been imputed on these loans that carry below market interest rates since they carry certain restrictions as defined in the loan agreements. Interest expense totaled \$59,000 in 2017 and \$11,636 in 2016.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 8: NEW MARKET TAX CREDITS NOTES PAYABLE (Continued)

Debt issuance costs are fees incurred related to the issuance of the NMTC notes payable and are being amortized over the term of the debts. FASB ASU 2015-03 requires these costs to be presented as a direct deduction from the carrying value of the associated debt.

Future maturities of debt payments for all four NMTC notes payable are as follows for the years ending September 30:

2023-2027	\$1,050,260
2028-2032	1,223,674
2033-2037	1,286,334
2038-2042	1,352,201
2043-2046	<u>987,531</u>
	<u>\$5,900,000</u>

At the end of the seven year compliance period, in July 2023, US Bancorp Community Development Corporation (the Tax Credit Investor) can exercise its put option to sell its interest in the Twain Investment Fund 184, LLC for \$1,000 to the Organizations. After exercising its option to purchase the interest in the Investment Fund, the Organizations may cancel the new market tax credits notes payable.

NOTE 9: LONG-TERM DEBT

Long-term debt consisted of the following as of September 30, 2017:

\$5,000,000 construction note payable to a bank bearing interest at 2.59% annually.

Repayments will be made on advances taken from this note as interest only

payments for 24 months with any unpaid principal due beginning August 2017 and

payable annually for each year thereafter. The note matures in August 2019 and is

secured by a construction deed of trust on the new facility and warehouse in Odessa, Tx. \$ 4,273,641

Note payable to a vehicle finance company bearing interest at 1.9% annually;

matures in March 2019; payable in monthly installments of \$890 for 48 months;

secured by 2015 Ford pickup truck

14,111

\$ 4,287,752

Current maturities

(290,025)

Long-term debt

\$ 3,997,727

Maturities of long-term debt as of September 30 are as follows:

2018 \$ 290,025

2019 3,997,727

\$ 4,287,752

Interest expense on the above notes totaled \$113,634 in 2017 and \$92,255 in 2016.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 10: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent unspent contributions received and pledged for specific programs and purposes that will be satisfied by future purchases. Temporarily restricted net assets are as follows as of September 30:

	<u>2017</u>	<u>2016</u>
Capital campaign	\$ 504,886	\$ 1,098,443
Reeves County children, seniors, Big Orange Room	115,119	154,738
Salaries for Midland facility	140,294	-
Ector Middle School pantry	8,200	8,200
HEB pantry support	-	33,548
Kids in the Kitchen	13,847	-
Upton County/Rankin ministerial alliance	14,606	-
Disaster relief for Hurricane Harvey victims	<u>113,445</u>	<u>-</u>
	<u>\$ 910,477</u>	<u>\$ 1,315,153</u>

Net assets of \$1,200,001 and \$5,534,663 were released from restrictions by expending funds to satisfy restrictions in 2017 and 2016, respectively.

NOTE 11: HEALTH CARE COVERAGE

Employees of the Food Bank were covered by a qualified health insurance plan. The Food Bank pays for the employee premium based on their current group plan in effect. Employees, at their option, may authorize payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers. Employer costs totaled \$238,962 in 2017 and \$236,614 in 2016.

NOTE 12: RETIREMENT PLAN

The Food Bank offers participation in a Simple IRA plan for all eligible employees. Employees may contribute the maximum allowable limit of their eligible compensation as determined by the IRS annually. The Food Bank's contribution is 100% of the employees' contribution up to a maximum of 3% of eligible compensation. These contributions totaled \$15,003 in 2017 and \$16,175 in 2016.

NOTE 13: AFFILIATED ORGANIZATIONS

The Food Bank is a member of Feeding America, a national food bank network that provides financial and administrative resources to member food banks throughout the nation. Dues totaled \$5,793 in 2017 and \$11,142 in 2016.

The Food Bank is also a member of the Texas Food Bank Network, an alliance of food banks in the state of Texas who administers several programs and partnerships to aid in the relief of hunger in the state. Dues totaled \$5,925 in 2017 and \$4,800 in 2016.

WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 14: OPERATING LEASES

The Food Bank leases a vehicle and trucks under non-cancelable operating leases. Original terms range from 36 – 78 months on these leases. Future minimum lease payments are as follows:

<u>For the year ended September 30:</u>	<u>Amount</u>
2018	\$ 87,383
2019	30,550
2020	10,650
	<u>\$ 128,583</u>

Rental payments under these operating leases totaled \$96,456 in 2017 and \$113,418 in 2016.

The Food Bank (lessee) and WTFB Mid County (lessor) have executed a premises and equipment lease whereby the Food Bank leases the Midland facility from as part of the New Market Tax Credit program. The term of this lease commenced on July 20, 2016 and shall end on July 20, 2046, unless terminated early in accordance with the terms of the lease. Base rent of \$17,500 per quarter is payable on the twenty-fifth day of each August, November, February and May through and including May 2023 (the seven year compliance period in accordance with the NMTC agreement). Quarterly payments would increase to \$73,250 per quarter in the event the lease was not terminated after the compliance period. All lease payments are eliminated in consolidation between the Food Bank and WTFB Mid County.

NOTE 15: CONCENTRATIONS OF CREDIT AND MARKET RISKS

The Organizations maintain their cash deposits with financial institutions. Noninterest-bearing deposits are now aggregated with any interest-bearing deposits the owner holds in the same category, and the combined total insured up to at least \$250,000. The Organizations have not experienced any losses related to these accounts and believes there is no significant risk with respect to their deposits.

Through their endowment, the Food Bank has investments in various types of marketable debt and equity securities including professionally managed mutual funds, corporate bonds, common stocks, and exchange traded funds. Such investments are exposed to various risks, such as fluctuations in market value and credit risk. Thus, it is at least reasonably possible that changes in the near term could materially affect investment balances and the amounts reported in the consolidated financial statements.

NOTE 16: COMMITMENTS AND CONTINGENCIES

The Organizations participates in both federal and state governed programs. In connection with grants and funding under these programs, the Organizations are required to comply with specific terms and agreements, as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by the grantors and their representatives. In the opinion of management, the Organizations have complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. Management does not anticipate any such disallowances or questioned costs.

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 17: DIRECT MAIL

Direct mail produced the following results for the years ending September 30:

	<u>2017</u>	<u>2016</u>
Direct mail contributions	\$ 747,165	\$ 606,261
Direct mail expense	<u>(163,453)</u>	<u>(143,175)</u>
Net direct mail results	<u>\$ 583,712</u>	<u>\$ 463,086</u>

NOTE 18: RECENT ACCOUNTING DEVELOPMENTS

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers,” which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. For non-public entities, the new standard was originally effective for annual periods beginning after December 15, 2017. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606) – Deferral of Effective Date,” which deferred the effective date for one year. Accordingly, this ASU will be effective for the Organizations for the fiscal year beginning after December 15, 2018.

In February 2016, the FASB issued an accounting standards update (ASU 2016-02), intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate and equipment. The ASU will require organizations that lease assets—referred to as “lessees”—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Amendments to this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

In August 2016, the FASB issued an accounting standards update (ASU 2016-14) that will result in significant changes to the presentation of financial statements of not-for-profit entities. The main provisions are as follows: (1) eliminate requirement to present separately amounts for *temporarily restricted net assets* and *permanently restricted net assets*, (2) eliminate requirement to present separately the transactions and other changes in each of those classes of net assets, (3) eliminate requirement to present cash flows provided by operating activities using the indirect method of reporting, (4) present two net asset classes rather than the current three by reporting net assets with donor restrictions and without donor restrictions, (5) provide enhanced disclosures for: board designations and donor-imposed restrictions, liquidity, quantitative information on the availability of an NFP to meet cash needs within one year of balance sheet date, and (6) voluntary health and welfare organizations will no longer be required to provide a statement of functional expenses; rather, they can provide such information about expenses on the face of the statement of activities, as a separate statement, or in notes to financial statements. This Update is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Organizations are currently evaluating the impact of these updates.

NOTE 19: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 27, 2018, the date which the consolidated financial statements were available to be issued. No significant subsequent events have occurred that would require disclosure in the notes or recognition in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017**

	West Texas Food Bank	WTFB Mid County	Eliminations	Consolidated Total
A S S E T S				
CURRENT ASSETS				
Cash and Cash Equivalents - unrestricted and board designated	\$ 585,967	\$ 677,659	\$ -	\$ 1,263,626
Cash and Cash Equivalents - temporarily restricted	566,577	-	-	566,577
Accounts Receivable	55,720	-	-	55,720
Grants Receivable	54,678	-	-	54,678
Pledges Receivable - current	185,400	-	-	185,400
Inventory	1,045,651	-	-	1,045,651
Prepaid Expenses	15,805	-	-	15,805
TOTAL CURRENT ASSETS	2,509,798	677,659	-	3,187,457
PLEDGES RECEIVABLE - long term	158,500	-	-	158,500
ENDOWMENT INVESTMENTS	666,842	-	-	666,842
NOTE RECEIVABLE	4,061,000	-	-	4,061,000
PROPERTY AND EQUIPMENT (net)	11,088,438	5,538,091	-	16,626,529
TOTAL ASSETS	\$ 18,484,578	\$ 6,215,750	\$ -	\$ 24,700,328
LIABILITIES & NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 144,012	\$ 28,170	\$ -	\$ 172,182
Accrued Liabilities	8,515	-	-	8,515
Current maturities of long-term debt	290,025	-	-	290,025
TOTAL CURRENT LIABILITIES	442,552	28,170	-	470,722
LONG-TERM LIABILITIES				
New Market Tax Credit Notes Payable, net of unamortized debt issuance costs of \$455,544	-	5,444,456	-	5,444,456
Long-Term Debt, net of current maturities	3,997,727	-	-	3,997,727
TOTAL LONG-TERM LIABILITIES	3,997,727	5,444,456	-	9,442,183
TOTAL LIABILITIES	4,440,279	5,472,626	-	9,912,905
NET ASSETS				
Unrestricted	11,943,806	743,124	-	12,686,930
Unrestricted, Board Designated Operating Reserve	523,174	-	-	523,174
Unrestricted, Board Designated Endowment	466,842	-	-	466,842
Temporarily Restricted	910,477	-	-	910,477
Permanently Restricted	200,000	-	-	200,000
TOTAL NET ASSETS	14,044,299	743,124	-	14,787,423
TOTAL LIABILITIES AND NET ASSETS	\$ 18,484,578	\$ 6,215,750	\$ -	\$ 24,700,328

See Independent Auditor's Report

**WEST TEXAS FOOD BANK AND WTFB MID COUNTY
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	WEST TEXAS FOOD BANK			WTFB MID COUNTY			Consolidated Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	Unrestricted	TOTAL		Eliminations
PUBLIC SUPPORT								
Public contributions	\$ 2,286,506	\$ 648,191	\$ -	\$ 2,934,697	\$ -	\$ -	\$ -	\$ 2,934,697
Capital campaign monetary contributions	-	147,134	-	147,134	-	-	-	147,134
Donated food and commodities	8,333,919	-	-	8,333,919	-	-	-	8,333,919
TOTAL PUBLIC SUPPORT	10,620,425	795,325	-	11,415,750	-	-	-	11,415,750
REVENUES & OTHER SUPPORT								
Government grants & contracts	526,820	-	-	526,820	-	-	-	526,820
Program revenue and fees	798,637	-	-	798,637	-	-	-	798,637
Special events, net of costs of \$55,033	34,862	-	-	34,862	-	-	-	34,862
Other income	113,143	-	-	113,143	70,000	70,000	(70,000)	113,143
Net investment income (loss)	82,847	-	-	82,847	-	-	-	82,847
TOTAL REVENUES & OTHER SUPPORT	1,556,309	-	-	1,556,309	70,000	70,000	(70,000)	1,556,309
TOTAL SUPPORT AND REVENUES	12,176,734	795,325	-	12,972,059	70,000	70,000	(70,000)	12,972,059
NET ASSETS RELEASED FROM RESTRICTIONS								
Restrictions Satisfied by Payments - Food & other programs	459,310	(459,310)	-	-	-	-	-	-
Restrictions Satisfied by Payments - Capital campaign	740,691	(740,691)	-	-	-	-	-	-
TOTAL SUPPORT, REVENUES, & RECLASSIFICATIONS	13,376,735	(404,676)	-	12,972,059	70,000	70,000	(70,000)	12,972,059
EXPENSES								
Program Services:								
Distribution	9,389,393	-	-	9,389,393	-	-	(10,864)	9,378,529
Transportation	1,021,837	-	-	1,021,837	-	-	(19,096)	1,002,741
Processing	1,028,797	-	-	1,028,797	-	-	(24,976)	1,003,821
Public Education	43,828	-	-	43,828	-	-	(1,064)	42,764
TOTAL PROGRAM SERVICES	11,483,855	-	-	11,483,855	-	-	(56,000)	11,427,855
Supporting Services:								
Management and General	605,571	-	-	605,571	214,839	214,839	(14,000)	806,410
Fundraising	329,122	-	-	329,122	-	-	-	329,122
TOTAL SUPPORT SERVICES	934,693	-	-	934,693	214,839	214,839	(14,000)	1,135,532
TOTAL EXPENSES	12,418,548	-	-	12,418,548	214,839	214,839	(70,000)	12,563,387
CHANGE IN NET ASSETS	958,187	(404,676)	-	553,511	(144,839)	(144,839)	-	408,672
BEGINNING NET ASSETS	11,975,635	1,315,153	200,000	13,490,788	887,963	887,963	-	14,378,751
ENDING NET ASSETS	\$ 12,933,822	\$ 910,477	\$200,000	\$ 14,044,299	\$ 743,124	\$ 743,124	\$ -	\$ 14,787,423

See Independent Auditor's Report



Randy Silhan, CPA, CFE
Certified Public Accountant
Certified Fraud Examiner



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

To the Board of Directors of the West Texas Food Bank:

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Texas Food Bank (a nonprofit organization) (the Food Bank) which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 27, 2018.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

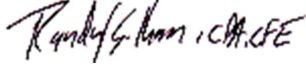
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 the Food Bank's financial statements are free from material misstatement, I 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 my audit, and accordingly, I 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*.

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 Food Bank's internal control or on compliance. This report is an integral part of an audit performed in accordance *with Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lubbock, Texas
March 27, 2018



Randy Silhan, CPA, CFE
Certified Public Accountant
Certified Fraud Examiner



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of the West Texas Food Bank:

Report on Compliance for Each Major Federal Program

I have audited the Food Bank's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Food Bank's major federal programs for the year ended September 30, 2017. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of the Food Bank's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of the Food Bank's compliance.

Opinion on Each Major Federal Program

In my opinion, the Food Bank 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 September 30, 2017.

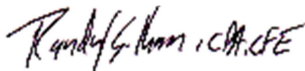
Report on Internal Control Over Compliance

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

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

My 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. I did not identify any deficiencies in internal control over compliance that I 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Lubbock, Texas
March 27, 2018

**WEST TEXAS FOOD BANK
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Program Award Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture (USDA)			
Passed-through the Texas Department of Agriculture (TDA)			
Emergency Food Assistance Program - Food Commodities*	10.569	-	* \$ 699,253
Emergency Food Assistance Program - Administrative Costs	10.568	6TX810816	111,718
Summer Food Service Program	10.559	-	104,161
Child and Adult Care Food Program	10.558	-	184,915
SUBTOTAL - Texas Department of Agriculture			<u>1,100,047</u>
SUBTOTAL - Texas Department of Agriculture			<u>1,100,047</u>
Passed-through Feeding Texas			
SNAP Nutrition Education Program (SNAP - Ed)	10.551	-	58,165
Community Partner Program	10.551	-	65,073
SUBTOTAL - Feeding Texas			<u>123,238</u>
TOTAL USDA			<u>1,223,285</u>
TOTAL EXPENDITURES OF FEDERAL FINANCIAL AWARDS			<u>\$ 1,223,285</u>

* Value of commodities redistributed

See accompanying notes to the schedule of expenditures of federal awards

WEST TEXAS FOOD BANK
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS
SEPTEMBER 30, 2017

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of West Texas Food Bank (the Food Bank) under programs of the federal government for the year ended September 30, 2017. 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). Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Food Bank.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Food Bank has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3: FOOD DISTRIBUTION

Non-cash assistance is reported in the schedule at the fair market value of the commodities received and distributed. USDA food commodities inventory on hand totaled \$200,426 as of September 30, 2017.

