

**San Antonio Food Bank, Inc.
and SAFB Real Estate, Inc.**

**Combined Financial Statements
and Supplementary Information**

June 30, 2015 and 2014

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

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Padgett Stratemann

Independent Auditor's Report

To the Board of Directors
San Antonio Food Bank, Inc.
and SAFB Real Estate, Inc.
San Antonio, Texas

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of San Antonio Food Bank Inc. and SAFB Real Estate, Inc. (collectively, the "Food Bank"), which comprise the combined statements of financial position as of June 30, 2015 and 2014, and the related combined statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Food Bank's preparation and fair presentation of the combined 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 Food Bank'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 combined financial statements.

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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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2015 and 2014, and the changes in net assets and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2015 on our consideration of the Food Bank'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 conformity with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.

Padgett, Statemann + Co., L.L.P.

San Antonio, Texas
November 16, 2015

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Combined Statements of Financial Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 7,219,414	\$ 5,646,078
Pledge receivables – current portion	130,000	1,670,000
Accounts receivable – net	1,414,381	1,479,189
Inventory	8,079,049	5,993,609
Prepaid expenses	<u>133,319</u>	<u>137,555</u>
Total current assets	<u>16,976,163</u>	<u>14,926,431</u>
Noncurrent Assets		
Pledges receivable – net of current portion	270,000	1,040,000
Note receivable	20,589,733	19,709,500
Assets limited as to use	15,710,876	14,010,630
Issuance costs	627,042	785,102
Property and equipment – net	<u>26,447,168</u>	<u>27,142,092</u>
Total noncurrent assets	<u>63,644,819</u>	<u>62,687,324</u>
Total assets	<u>\$ 80,620,982</u>	<u>\$ 77,613,755</u>
Current Liabilities		
Accounts payable	\$ 649,227	\$ 705,556
Accrued and other liabilities	<u>526,611</u>	<u>341,414</u>
Total current liabilities	1,175,838	1,046,970
Long-Term Debt	<u>26,530,000</u>	<u>26,530,000</u>
Total liabilities	<u>27,705,838</u>	<u>27,576,970</u>
Net Assets		
Unrestricted:		
Undesignated	38,248,918	36,591,157
Board-designated endowment	<u>14,228,978</u>	<u>12,645,628</u>
	52,477,896	49,236,785
Temporarily restricted net assets	37,248	600,000
Permanently restricted net assets	<u>400,000</u>	<u>200,000</u>
Total net assets	<u>52,915,144</u>	<u>50,036,785</u>
Total liabilities and net assets	<u>\$ 80,620,982</u>	<u>\$ 77,613,755</u>

Notes to the combined financial statements form an integral part of these statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, support, and other changes:				
Donated food	\$ 102,029,372	\$ -	\$ -	\$ 102,029,372
Contributions	7,830,091	-	200,000	8,030,091
Governmental funding authorities	4,524,056	1,944,980	-	6,469,036
United Way	980,821	-	-	980,821
Revenue from purchased food	850,299	-	-	850,299
Shared maintenance	904,235	-	-	904,235
Investment income	6,299	-	-	6,299
Special events – net of direct expenses of \$116,016	425,594	-	-	425,594
Non-federal contracts	1,862,807	-	-	1,862,807
Other income	1,473,123	-	-	1,473,123
Net assets released from restriction	2,507,732	(2,507,732)	-	-
Total revenues, support, and other changes	123,394,429	(562,752)	200,000	123,031,677
Expenses:				
Program expenses	116,660,633	-	-	116,660,633
Fundraising and development	1,174,852	-	-	1,174,852
General and administrative	2,317,833	-	-	2,317,833
Total expenses	120,153,318	-	-	120,153,318
Change in net assets	3,241,111	(562,752)	200,000	2,878,359
Net assets at beginning of year	49,236,785	600,000	200,000	50,036,785
Net assets at end of year	\$ 52,477,896	\$ 37,248	\$ 400,000	\$ 52,915,144

Notes to the combined financial statements form an integral part of these statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Combined Statement of Activities and Changes in Net Assets

Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, support, and other changes:				
Donated food	\$ 96,502,974	\$ -	\$ -	\$ 96,502,974
Contributions	5,506,082	1,066,020	200,000	6,772,102
Governmental funding authorities	7,033,028	-	-	7,033,028
United Way	1,217,810	-	-	1,217,810
Revenue from purchased food	993,592	-	-	993,592
Shared maintenance	907,630	-	-	907,630
Investment income	247,453	-	-	247,453
Special events – net of direct expenses of \$257,061	285,740	-	-	285,740
Non-federal contracts	1,127,937	-	-	1,127,937
Other income	536,935	-	-	536,935
Net assets released from restriction	<u>6,596,020</u>	<u>(6,596,020)</u>	<u>-</u>	<u>-</u>
Total revenues, support, and other changes	<u>120,955,201</u>	<u>(5,530,000)</u>	<u>200,000</u>	<u>115,625,201</u>
Expenses:				
Program expenses	111,846,102	-	-	111,846,102
Fundraising and development	1,367,302	-	-	1,367,302
General and administrative	<u>1,726,427</u>	<u>-</u>	<u>-</u>	<u>1,726,427</u>
Total expenses	<u>114,939,831</u>	<u>-</u>	<u>-</u>	<u>114,939,831</u>
Change in net assets	6,015,370	(5,530,000)	200,000	685,370
Net assets at beginning of year	<u>43,221,415</u>	<u>6,130,000</u>	<u>-</u>	<u>49,351,415</u>
Net assets at end of year	<u>\$ 49,236,785</u>	<u>\$ 600,000</u>	<u>\$ 200,000</u>	<u>\$ 50,036,785</u>

Notes to the combined financial statements form an integral part of these statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Combined Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 2,878,359	\$ 685,370
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,452,655	1,241,124
Amortization	158,060	158,059
Permanently restricted contributions	(200,000)	(200,000)
Net realized and unrealized gains (losses) on investments	318,686	(195,968)
Bad debt expense	53,020	527,369
Gain on disposal of property and equipment	(2,000)	(8,200)
Note receivable – accrued interest	(880,233)	-
Changes in:		
Pledges receivable	2,310,000	2,142,900
Accounts receivable	11,788	(586,060)
Inventory	(2,085,440)	244,398
Prepaid expenses	4,236	54,086
Accounts payable	(56,329)	(2,357,058)
Accrued and other liabilities	185,197	(79,413)
Net cash provided by operating activities	<u>4,147,999</u>	<u>1,626,607</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(757,731)	(3,165,344)
Proceeds from sales of equipment	2,000	8,200
Change in restricted cash	83,104	3,085,797
Purchases of investments	<u>(2,102,036)</u>	<u>(8,649,660)</u>
Net cash used in investing activities	<u>(2,774,663)</u>	<u>(8,721,007)</u>
Cash Flows From Financing Activities – permanently restricted contributions		
	<u>200,000</u>	<u>200,000</u>
Net increase (decrease) in cash and cash equivalents	1,573,336	(6,894,400)
Cash and cash equivalents at beginning of year	<u>5,646,078</u>	<u>12,540,478</u>
Cash and cash equivalents at end of year	<u>\$ 7,219,414</u>	<u>\$ 5,646,078</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 176,264</u>	<u>\$ 154,375</u>

Notes to the combined financial statements form an integral part of these statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

1. Organization and Significant Accounting Policies

Organization

The San Antonio Food Bank, Inc. ("SAFB") was incorporated in San Antonio, Texas on March 24, 1980 and is a clearinghouse that acquires and redistributes food to qualified agencies in San Antonio and surrounding counties. SAFB is supported primarily by contributions and governmental funding authorities.

SAFB Real Estate, Inc. ("Real Estate"), a qualified active low-income community business, was organized in 2012 as a Texas non-profit corporation. Real Estate was organized to acquire the present facility and construct the expansion of the current building for future use by SAFB. Both SAFB and Real Estate share a common Board of Directors (the "Board") and, as such, are combined in these financial statements.

Basis of Combination

These financial statements include the combined statements of financial condition, activities, and cash flows for SAFB and Real Estate. All balances and transactions between the entities have been eliminated in combination.

Accounting principles generally accepted in the United States of America ("GAAP") require that a non-profit organization combine its financial statements with another non-profit entity when the organization controls another non-profit entity through majority voting interest and economic interest.

The combined companies are collectively referred to as the "Food Bank."

Basis of Accounting

The accompanying combined financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with GAAP.

Support and revenue are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed 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 temporary restrictions on net assets (e.g., 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.

Use of Estimates

The preparation of combined financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

Basis of Presentation

Under these provisions, net assets and revenue, expenses, gains, and losses are classified as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

Unrestricted Net Assets – Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions, and unrestricted dividend and interest income. Unrestricted net assets may be designated for specific purposes by action of the Board. The unrestricted board-designated endowment net asset is set up by the SAFB Board for enhancing the overall operational performance of the Food Bank through continuing financial support.

Temporarily Restricted Net Assets – Temporarily restricted net assets consist of assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specified event. When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets consist of net assets that are subject to donor-imposed stipulations that are to be maintained permanently. Generally, donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The required disclosures required by the Reporting Endowment Funds topic of the Financial Accounting Standards Board Accounting Standards Codification (“ASC”) have not been included in these combined financial statements due to immateriality.

Cash Equivalents

For financial statement purposes, the Food Bank considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Amounts excluded are cash and investments that are restricted for debt reserve funds and endowments. These cash and investments are classified as restricted.

Investments

Investments are stated at fair value based upon quoted market prices, when available, or estimates of fair value in the combined statements of financial position. Unrealized gains and losses are included in the combined statements of activities and changes in net assets.

The Food Bank has an investment policy that sets guidelines and constraints to ensure the portfolio is appropriately diversified.

Accounts Receivable

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance for doubtful accounts totaled \$154,383 at June 30, 2015 (\$141,796 at June 30, 2014).

Inventory

Inventory consists primarily of canned goods, produce, and durable household goods. Food inventory is valued at the weighted average wholesale value per pound (\$1.70 as of June 30, 2015 and \$1.72 as of June 30, 2014) as determined by an annual study performed by Feeding America (a national organization of food banks). Purchased inventory value is determined using the first-in, first-out method.

Depreciation and Amortization

Property and equipment are stated at cost if purchased, or fair value if donated. Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives: buildings and improvements – 10 to 40 years; vehicles – 5 to 7 years; equipment – 3 to 10 years; furniture and fixtures – 5 to 10 years; intangible assets – 40 years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. The Food Bank has adopted a capitalization policy for property and equipment of \$1,000.

Impairment of Long-Lived Assets

The Food Bank reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Food Bank did not recognize an impairment loss during the years ended June 30, 2015 and 2014.

Issuance Costs

Issuance costs represent costs incurred related to the issuance of the new market tax credit ("NMTC") notes payable, as discussed in Note 8, and are amortized over the term of the related debt. Issuance costs net of accumulated amortization totaled \$627,042 and \$785,102 at June 30, 2015 and 2014, respectively.

Federal Income Tax

The Food Bank is a not-for-profit organization and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying combined financial statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

The Food Bank's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At June 30, 2015 and 2014, no interest or penalties have been or are required to be accrued. The Food Bank, generally, is no longer subject to income tax examinations by federal authorities for years prior to June 30, 2011.

Revenue Recognition

In accordance with GAAP, revenue is recorded when earned rather than received. The following summarizes the revenue recognition policies for major classifications of revenue:

Donated Food – Donated food is accounted for by weight throughout the fiscal year and valued at fiscal year-end using an average per pound of food, as determined on an annual basis by Feeding America.

Contributions – The Food Bank records contributions when received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions received and expended in the same fiscal year are recorded as unrestricted contributions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities and changes in net assets as net assets released from restrictions.

Government Funding – Government funding is either recorded when advances are received or when expenses are incurred, as is the case on reimbursement grants. The Food Bank considers all government grants and contracts as exchange transactions rather than contributions. The Food Bank recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as refundable advances. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract.

United Way – Contributions from United Way are allocated annually in July and are recorded by the Food Bank on an accrual basis.

Purchased Food – The Food Bank recognizes as purchased food revenue a \$0.10 per pound handling charge for foods specifically purchased for and distributed to qualified agencies in San Antonio and surrounding counties to provide nutritional needs when those foods are not received through donation.

Shared Maintenance – The Food Bank distributes a certain portion of its food to qualified agencies in San Antonio and surrounding counties for \$0.15 per pound upon receipt from the Food Bank (referred to as shared maintenance in the accompanying combined statements of activities and changes in net assets).

Non-Federal Contracts – Consist of contracts for food disbursement to non-federal entities. The contracts are approximately six months or less.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

In-Kind Donations – In-kind donations consist of donated services and materials. Donated services and materials are recorded if the services and/or materials (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Food Bank. Donated services and materials totaled \$0 and \$33,704 for the years ended June 30, 2015 and 2014, respectively.

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the combined statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contingencies

Certain conditions may exist as of the date the combined financial statements are issued, which may result in a loss to the Food Bank, but which will only be resolved when one or more future events occur or fail to occur. The Food Bank's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Food Bank or unasserted claims that may result in such proceedings, the Food Bank's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Food Bank's combined financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Advertising Expenses

The Food Bank expenses advertising costs as incurred. As of June 30, 2015, advertising costs totaled \$42,430 (\$4,520 in 2014).

Subsequent Events

The Food Bank has evaluated subsequent events through November 16, 2015, the date the combined financial statements were available to be issued.

Reclassification

Certain reclassifications have been made in the prior year's combined financial statements to conform to the current year's presentation.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

2. Fair Value Measurements and Disclosures

The requirements of *Fair Value Measurements and Disclosures* of the ASC apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The fair value of the Food Bank's cash and cash equivalents, receivables and payables and prepaid and accrued expenses approximates the carrying amounts of such instruments due to their short maturity. The fair value of the notes receivable and debt approximates the carrying amount because the rate and terms currently available to the Food Bank approximate the rate and terms on the existing notes receivable and debt.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

The following table represents assets measured at fair value on a recurring basis as reported on the combined statements of financial position as of June 30, 2015 and 2014 and by level within the fair value measurement hierarchy:

	Total Fair Value Measurement at June 30, 2015	Level 1	Level 2	Level 3
U.S. money markets	\$ 708,565	\$ 708,565	\$ -	\$ -
Stocks	2,866,330	2,866,330	-	-
Bonds and other fixed income	11,054,083	-	11,054,083	-
	<u>\$ 14,628,978</u>	<u>\$ 3,574,895</u>	<u>\$ 11,054,083</u>	<u>\$ -</u>

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

	Total Fair Value Measurement at June 30, 2014	Level 1	Level 2	Level 3
U.S. money markets	\$ 1,126,781	\$ 1,126,781	\$ -	\$ -
Stocks	1,771,468	1,771,468	-	-
Bonds and other fixed income	9,947,379	-	9,947,379	-
	<u>\$ 12,845,628</u>	<u>\$ 2,898,249</u>	<u>\$ 9,947,379</u>	<u>\$ -</u>

Bond and fixed income investments are classified within Level 2 of the valuation hierarchy, with the exception of certain Treasury bonds and certain equity investment securities that are classified within Level 1. The Food Bank obtains fair value measurements from reputable pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, the bond's terms and conditions, and other such data.

3. Investments

Investments consist of the following:

	June 30, 2015		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
U.S. money markets	\$ 708,565	\$ 708,565	\$ -
Stocks	2,920,142	2,866,330	(53,812)
Bonds and other fixed income	11,318,957	11,054,083	(264,874)
	<u>\$ 14,947,664</u>	<u>\$ 14,628,978</u>	<u>\$ (318,686)</u>
	June 30, 2014		
	Cost	Estimated Fair Value	Unrealized Appreciation (Depreciation)
U.S. money markets	\$ 1,126,781	\$ 1,126,781	\$ -
Stocks	1,573,930	1,771,468	197,538
Bonds and other fixed income	9,948,949	9,947,379	(1,570)
	<u>\$ 12,649,660</u>	<u>\$ 12,845,628</u>	<u>\$ 195,968</u>

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

Investment income consists of the following:

	Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 379,265	\$ -	\$ 379,265
Unrealized losses	(318,686)	-	(318,686)
Investment expenses	(54,280)	-	(54,280)
	<u>\$ 6,299</u>	<u>\$ -</u>	<u>\$ 6,299</u>
	Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 73,102	\$ -	\$ 73,102
Realized gains	11,470	-	11,470
Unrealized gains	195,968	-	195,968
Investment expenses	(33,087)	-	(33,087)
	<u>\$ 247,453</u>	<u>\$ -</u>	<u>\$ 247,453</u>

4. Pledge Receivables

Pledges receivable are expected to be collected as follows:

Year ending June 30,	
2016	\$ 130,000
2017	120,000
2018	100,000
2019	<u>50,000</u>
	<u>\$ 400,000</u>

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

5. Inventory

Inventory consists of the following:

	June 30,	
	2015	2014
Donated food inventory	\$ 7,554,206	\$ 5,583,793
Purchased food inventory	425,742	355,959
Miscellaneous non-food inventory	21,720	53,857
Revolving Food Endowment	75,780	-
Food Retail	1,601	-
	<u>\$ 8,079,049</u>	<u>\$ 5,993,609</u>

6. Property and Equipment

Property and equipment consist of the following:

	June 30,	
	2015	2014
Land	\$ 962,572	\$ 962,572
Buildings and improvements	25,957,301	25,930,649
Vehicles	3,869,306	3,412,632
Equipment	1,963,631	1,934,262
Furniture and fixtures	846,711	812,660
Intangible assets	111,290	97,847
Construction in progress	174,813	-
	<u>33,885,624</u>	<u>33,150,622</u>
Less accumulated depreciation and amortization	<u>7,438,456</u>	<u>6,008,530</u>
Net property and equipment	<u>\$ 26,447,168</u>	<u>\$ 27,142,092</u>

7. Note Receivable

SAFB entered into an agreement on June 19, 2012 to lend \$19,709,500 to US Bancorp Community Development Corporation. The note is secured by US Bancorp Community Development Corporation's continuing first priority interest in and to all of US Bancorp Community Development Corporation's right, title, and equity interest in TMF Sub-CDE VIII, LLC and NNMF Sub-CDE XVI, LLC. The interest rate on the note is fixed at 1.93317%. Interest is payable quarterly beginning October 2012 until June 30, 2042. All principal and unpaid interest is due and payable in June 30, 2042. Interest earned as of June 30, 2015 and 2014 was \$978,780 and \$98,548, respectively, and has been included in other income on the combined statement of activities and changes in net assets. SAFB may accelerate the maturity date of the note to December 2019 with 30 days' notice to US Bancorp Community Development Corporation.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

At any time during the period beginning at the end of the Tax Credit Investment period and ending six months after the investor receives notice from the purchaser, the purchaser can exercise its put option to sell its interest in the NMTC Fund to SAFB for \$1,000. After exercising its option to purchase the interest in the NMTC, SAFB can cancel the new market credits notes payable. Note receivable totaled \$20,589,733 and \$19,709,500 for the years ended June 30, 2015 and 2014, respectively.

8. Long-Term Debt

Real Estate executed a loan agreement on June 19, 2012, that provides for borrowings of \$13,790,000 and \$12,740,000 from NNMF Sub-CDE XVI, LLC and TNF Sub-CDE VIII, LLC, respectively. The loans are intended to finance the acquisition and expansion of SAFB and are intended to be treated as a qualified low-income community investment for purposes of generating NMTC under Section 45D of the Internal Revenue Code of 1986, as amended. The loans are secured by a property deed of trust and security agreement filing on this property and a guaranty by SAFB's obligations under the loan agreement.

Pursuant to the issuance of the New Market Tax Credits Financing Commitment, Real Estate was required to establish certain reserve accounts for payment of certain fees and expenses. At June 30, 2015 and 2014, \$1,081,898 and \$1,165,002, respectively, was held at U.S. Bank for this purpose and is reported under assets limited as to use in the statement of financial position.

Under the terms of the loan agreement, each loan has an interest rate of 0.65985% per annum, payable quarterly, beginning October 1, 2012, and the principal balance is due in its entirety on the stated maturity dates noted below. Real Estate is not permitted to prepay any portion of the loans in whole or in part until the seventh anniversary of the loan.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

Long-term debt consists of the following:

	June 30,	
	<u>2015</u>	<u>2014</u>
Note payable to NNMF Sub-CDE XVI, LLC, matures on June 30, 2042, with principal payments commencing in October 2019	\$ 10,152,333	\$ 10,152,333
Note payable to NNMF Sub-CDE XVI, LLC, matures on June 30, 2042, with principal payments commencing in June 2019	3,637,667	3,637,667
Note payable to NNMF Sub-CDE VIII, LLC, matures on June 30, 2042, with principal payments commencing in October 2019	9,557,167	9,557,167
Note payable to NNMF Sub-CDE VIII, LLC, matures on June 30, 2042, with principal payments commencing in June 2019	<u>3,182,833</u>	<u>3,182,833</u>
	26,530,000	26,530,000
Less current maturities	<u>-</u>	<u>-</u>
	<u>\$ 26,530,000</u>	<u>\$ 26,530,000</u>

Aggregate maturities required on long-term debt at June 30, 2015 were as follows:

Year ending June 30,	
2016	\$ -
2017	-
2018	-
2019	240,000
2020	796,769
Thereafter through 2042	<u>25,493,231</u>
	<u>\$ 26,530,000</u>

Interest expense totaled \$175,060 and \$154,375 for the years ended June 30, 2015 and 2014, respectively.

9. Leases

The Food Bank leases equipment pursuant to noncancellable operating lease agreements expiring through 2019. Rental expense totaled approximately \$115,200 for the year ended June 30, 2015 (approximately \$74,200 in 2014).

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

Future minimum lease payments under noncancellable operating leases were as follows:

Year ending June 30,	
2016	\$ 72,862
2017	42,612
2018	42,612
2019	31,959
	<u>\$ 190,045</u>

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	June 30,	
	2015	2014
Food Distribution Programs	\$ 37,248	\$ -
Healthy Eating for Healthy Families	-	600,000
	<u>\$ 37,248</u>	<u>\$ 600,000</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	June 30,	
	2015	2014
Capital Improvements	\$ 68,539	\$ 5,002,500
Food Distribution Programs	666,114	770,806
Transportation of Food	22,500	250,000
Children's Programs	618,329	217,714
Nutrition	200,555	200,000
Grocery Rescue Program	262,000	55,000
Equipment	-	50,000
SNAP	-	50,000
Advocacy	15,000	-
Community Garden	45,075	-
Healthy Eating for Healthy Families	600,000	-
Other	9,620	-
	<u>\$ 2,507,732</u>	<u>\$ 6,596,020</u>

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

11. Assets Limited as to Use

Assets limited to use are comprised of board-designated endowments, two individual endowment funds established for a variety of purposes, board-designated investments, and restricted debt reserve funds. The endowments include both donor-restricted funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including board-designated endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The board-designated investments are designated for a six month reserve. Restricted cash debt reserve funds include certain reserve funds related to the New Market Tax Credits Financing Commitment.

	June 30,	
	2015	2014
Board-designated endowments	\$ 4,685,923	\$ -
Endowment	400,000	200,000
Board-designated investments	9,543,055	12,645,628
Restricted cash – debt reserve funds	<u>1,081,898</u>	<u>1,165,002</u>
	<u>\$ 15,710,876</u>	<u>\$ 14,010,630</u>

12. Employee Benefit Plans

The Food Bank has a qualified retirement plan for the benefit of eligible employees. The plan is available to employees who work at least 20 hours per week and is available immediately after beginning employment. The plan has an employer match provision of up to 7% of employee salary deferrals. The Food Bank's contributions to the plan were \$374,288 and \$105,983 for the years ended June 30, 2015 and 2014, respectively.

Effective May 15, 2009, the Food Bank created an unqualified, unfunded retirement plan to encourage executive personnel to remain with the Food Bank for a ten-year period. The plan stipulates that Board-selected personnel accumulated an initial unvested benefit of \$100,000 on May 15, 2009 and an additional benefit of 10% of base pay each July 31, beginning in 2009 and extending through 2018. Vesting in the benefit was 30% through July 31, 2011, and then increases 10% per year through July 31, 2018. Selected personnel are entitled to 100% of eligible benefits to date upon involuntary termination, or to vested eligible benefits upon voluntary termination. The Food Bank may terminate the retirement plan at any time. The plan is currently unfunded.

The Food Bank has entered into an agreement for an unqualified, unfunded 457(b) retirement plan. This plan was intended to add additional retirement benefits for only the key personnel at the Food Bank. Selected personnel are entitled to 100% of eligible benefits to date upon involuntary termination or to eligible benefits upon voluntary termination. Contributions to the plan are voluntary and the Food Bank may terminate the retirement plan at any time.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to the Combined Financial Statements

13. Significant Estimates and Concentrations

The Food Bank is the recipient of federal, state, and local assistance monies to operate its programs. Grants are subject to review and audit by grantor agencies. Such audits could result in noncompliance findings and disallowance of expenditures resulting in requests for reimbursement by the grantor agency. In the opinion of the Food Bank's management, such disallowance, if any, will not be significant.

For the years ended June 30, 2015 and 2014, federal and state government agencies accounted for approximately 5% and 6% of the Food Bank's revenues, respectively. Federal and state government agencies accounted for 63% and 69%, respectively, of the Food Bank's receivables at June 30, 2015 and 2014.

Corporate and individual contributions are dependent upon various factors, such as grant writing, financial markets, and individual capacity for giving. Donated food revenue is subject to various factors not within the control of the Food Bank.

The Food Bank maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation up to a maximum of \$250,000. The Food Bank has not experienced any losses in such accounts.

Supplementary Information



Padgett Stratemann

Independent Auditor's Report on Supplementary Information

To the Board of Directors
San Antonio Food Bank, Inc.
and SAFB Real Estate, Inc.
San Antonio, Texas

We have audited the combined financial statements of San Antonio Food Bank, Inc. and SAFB Real Estate, Inc. as of and for the year ended June 30, 2015 and 2014, and have issued our report thereon dated November 16, 2015, which contained an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements taken as a whole.

Padgett, Stratemann & Co., L.L.P.

San Antonio, Texas
November 16, 2015

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San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Schedule of Functional Expenses

Year Ended June 30, 2015

(With Summarized Financial Information for the Year Ended June 30, 2014)

		Supporting Services			
	Program Expenses	Fundraising and Development	General and Administration	Total 2015	2014
Distributed food	\$ 104,053,022	\$ -	\$ -	\$ 104,053,022	\$ 99,879,436
Salaries	6,629,191	467,872	699,036	7,796,099	7,262,628
Benefits	1,187,209	28,052	35,878	1,251,139	975,250
Taxes and workers' compensation	543,087	38,406	59,603	641,096	602,923
Total salaries and benefits	8,359,487	534,330	794,517	9,688,334	8,840,801
Affiliation dues	71,177	253	3,346	74,776	70,860
Depreciation and amortization	869,786	16,107	724,822	1,610,715	1,399,183
Insurance	240,572	4,859	19,106	264,537	249,473
Interest	123,253	35,385	17,626	176,264	-
Occupancy and product storage	779,353	43,125	35,029	857,507	824,670
Other expenses	605,294	70,106	209,160	884,560	1,295,537
Postage and shipping	45,907	260,779	409	307,095	319,683
Printing and publications	136,423	13,921	164,639	314,983	255,829
Professional fees and dues	32,979	155,883	11,174	200,036	137,038
Rental and maintenance of equipment	623,662	11,224	18,010	652,896	659,786
Supplies and food items	517,209	21,205	240,995	779,409	683,421
Telephone	63,926	3,093	34,572	101,591	168,766
Travel and transportation	138,583	4,582	44,428	187,593	155,348
	<u>\$ 116,660,633</u>	<u>\$ 1,174,852</u>	<u>\$ 2,317,833</u>	<u>\$ 120,153,318</u>	<u>\$ 114,939,831</u>