



**Financial Statements  
June 30, 2020 and 2019**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors of  
Regional East Texas Food Bank  
Tyler, Texas

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Regional East Texas Food Bank (Food Bank) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020 and 2019, and the related 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 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.

### **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 financial statements are free of material misstatement.

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

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

### **OPINION**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2020 and 2019, 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.

### **EMPHASIS OF MATTER**

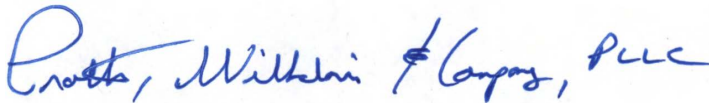
The financial statements for the year ended June 30, 2019 reflect certain prior period adjustments as described further in Note 2 to the financial statements. Our opinion is not modified with respect to this matter.

**OTHER INFORMATION**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

**OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2020, 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 solely 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 the effectiveness of the Food Bank's 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.



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas  
November 11, 2020

**REGIONAL EAST TEXAS FOOD BANK**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019 (Restated)</b>
<b>ASSETS</b>		
Cash and cash equivalents		
Without donor restrictions	\$ 5,496,428	\$ 1,277,494
Board designated	420,249	313,924
With donor restrictions	560,730	256,783
Total cash and cash equivalents	6,477,407	1,848,201
Receivables		
Trade	91,944	139,513
Grants	168,149	255,649
Unconditional promises to give - without donor restrictions	15,000	15,000
Total receivables	275,093	410,162
Inventory		
Purchased	843,276	734,214
Donated food and commodities - USDA	1,315,995	1,394,044
Donated food and commodities - other	583,053	688,928
Total inventory	2,742,324	2,817,186
Assets restricted for capital campaign		
Cash - restricted for capital expense	-	106,724
Unconditional promises to give - restricted for new building	168,500	365,750
Total assets restricted for capital campaign	168,500	472,474
Property, plant, and equipment, net	6,066,029	5,922,000
Beneficial interest in ETFB Foundation	2,982,462	3,004,585
Total assets	\$ 18,711,815	\$ 14,474,608
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 192,731	\$ 281,885
Accrued expenses	117,671	87,343
Deferred revenues	1,421,243	-
Capital lease payable	15,714	22,235
Current portion of paycheck protection program (PPP) loan	195,860	-
Total current liabilities	1,943,219	391,463
Non-current liabilities		
Non-current portion of PPP loan	249,500	-
Total non-current liabilities	249,500	-
Total liabilities	2,192,719	391,463
<b>NET ASSETS</b>		
Without donor restrictions:	15,789,866	13,353,888
With donor restrictions:	729,230	729,257
Total net assets	16,519,096	14,083,145
Total liabilities and net assets	\$ 18,711,815	\$ 14,474,608

See the accompanying independent auditors' report and notes to the financial statements.

**REGIONAL EAST TEXAS FOOD BANK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
<b>SUPPORT AND REVENUES</b>			
Support:			
Donated food and commodities	\$ 22,055,621	\$ -	\$ 22,055,621
USDA commodities	9,800,385	-	9,800,385
Contributions	3,692,834	1,788,191	5,481,025
Total support	<u>35,548,840</u>	<u>1,788,191</u>	<u>37,337,031</u>
Revenues:			
Shared maintenance	814,708	-	814,708
Purchased food recovery	1,633,063	-	1,633,063
Federal grant revenues	2,563,730	924,747	3,488,477
Other	68,595	-	68,595
Total revenues	<u>5,080,096</u>	<u>924,747</u>	<u>6,004,843</u>
Total support and revenues	<u>40,628,936</u>	<u>2,712,938</u>	<u>43,341,874</u>
<b>EXPENSES</b>			
Program	39,180,881	-	39,180,881
Management and general	977,281	-	977,281
Fundraising	748,843	-	748,843
Total expenses	<u>40,907,005</u>	<u>-</u>	<u>40,907,005</u>
<b>(LOSS) INCOME FROM OPERATIONS</b>	(278,069)	2,712,938	2,434,869
<b>NON-OPERATING REVENUE AND EXPENSE</b>			
Change in beneficial interest in ETFB Foundation	(22,123)	-	(22,123)
Interest income	21,016	2,189	23,205
Net assets released from restrictions	2,715,154	(2,715,154)	-
Total non-operating revenue (expenses)	<u>2,714,047</u>	<u>(2,712,965)</u>	<u>1,082</u>
<b>CHANGE IN NET ASSETS</b>	2,435,978	(27)	2,435,951
<b>NET ASSETS AT THE BEGINNING OF PERIOD</b>	<u>13,353,888</u>	<u>729,257</u>	<u>14,083,145</u>
<b>NET ASSETS AT END OF PERIOD</b>	<u>\$ 15,789,866</u>	<u>\$ 729,230</u>	<u>\$ 16,519,096</u>

See the accompanying independent auditors' report and notes to the financial statements.

**REGIONAL EAST TEXAS FOOD BANK**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019 (RESTATED)**

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
<b>SUPPORT AND REVENUES</b>			
Support:			
Donated food and commodities	\$ 21,751,298	\$ -	\$ 21,751,298
USDA commodities	5,823,375	-	5,823,375
Contributions	2,016,029	622,476	2,638,505
Total support	29,590,702	622,476	30,213,178
Revenues:			
Shared maintenance	804,628	-	804,628
Purchased food recovery	1,970,567	-	1,970,567
Federal grant revenues	2,036,156	-	2,036,156
Other	57,294	-	57,294
Total revenues	4,868,645	-	4,868,645
Total support and revenues	34,459,347	622,476	35,081,823
<b>EXPENSES</b>			
Program	34,391,266	-	34,391,266
Management and general	797,991	-	797,991
Fundraising	653,419	-	653,419
Total expenses	35,842,676	-	35,842,676
<b>(LOSS) INCOME FROM OPERATIONS</b>	(1,383,329)	622,476	(760,853)
<b>NON-OPERATING REVENUE AND EXPENSE</b>			
Change in beneficial interest in ETFB Foundation	164,284	-	164,284
Interest income	41,869	6,189	48,058
Net assets released from restrictions	2,092,511	(2,092,511)	-
Total non-operating revenue (expenses)	2,298,664	(2,086,322)	212,342
<b>CHANGE IN NET ASSETS</b>	915,335	(1,463,846)	(548,511)
<b>NET ASSETS AT THE BEGINNING OF PERIOD</b>	12,438,553	2,193,103	14,631,656
<b>NET ASSETS AT END OF PERIOD</b>	\$ 13,353,888	\$ 729,257	\$ 14,083,145

See the accompanying independent auditors' report and notes to the financial statements.

**REGIONAL EAST TEXAS FOOD BANK**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Programs and Services				Total Programs and Services	Supporting Services		Total Expenses
	Warehouse (Dept 50)	Food Distribution (Dept 70)	Other Programs (Dept 35)	Communication and Marketing (Dept 80)		Management and General (Dept 10)	Fundraising (Dept 30)	
Salaries and benefits	\$ 860,119	\$ 10,125	\$ 649,543	\$ 123,727	\$ 1,643,514	\$ 594,219	\$ 202,440	\$ 2,440,173
Payroll taxes	64,068	761	48,750	9,389	122,968	40,982	14,767	178,717
Employee benefits and 401(k)	133,102	8,580	122,242	6,983	270,907	114,354	42,243	427,504
Total salaries and related expenses	1,057,289	19,466	820,535	140,099	2,037,389	749,555	259,450	3,046,394
Food purchases	-	-	2,724,500	-	2,724,500	-	-	2,724,500
Free food purchases	-	-	245,180	-	245,180	-	-	245,180
Donated food and commodities	-	-	22,161,496	-	22,161,496	-	-	22,161,496
USDA inventory distributed	-	-	9,878,434	-	9,878,434	-	-	9,878,434
Supplies	207,031	727	6,110	233	214,101	20,813	2,389	237,303
Telephone, answering service	15,250	3,109	1,837	706	20,902	(4,645)	1,812	18,069
Postage	1,255	605	2,155	604	4,619	1,708	6,236	12,563
Occupancy	239,033	-	-	-	239,033	10,012	-	249,045
Local transportation	5,820	4,567	50,424	-	60,811	2,442	146	63,399
Professional development/training & travel	3,707	-	6,086	945	10,738	16,979	3,388	31,105
Marketing and advertising	-	-	-	111,739	111,739	-	-	111,739
Fundraising campaigns	-	-	-	-	-	-	430,060	430,060
Truck	315,005	-	26,756	-	341,761	-	-	341,761
Program services	-	-	237,245	-	237,245	-	-	237,245
Board liability, workers' compensation, building and contents insurance	43,853	252	252	252	44,609	17,165	252	62,026
Membership dues, fees, printing	7,607	4,963	5,444	7,813	25,827	9,373	17,394	52,594
Equipment maintenance	103,676	8,533	28,318	12,299	152,826	21,977	27,716	202,519
Uniforms	761	-	-	-	761	23,965	-	24,726
Freight	8,286	-	-	-	8,286	-	-	8,286
Contract labor	132,148	-	-	-	132,148	25,038	-	157,186
Professional fees	-	-	-	-	-	63,800	-	63,800
Solid waste disposal	8,332	-	-	-	8,332	-	-	8,332
Interest	-	771	-	-	771	-	-	771
Restricted grant	64,230	-	96,195	-	160,425	11,998	-	172,423
Total expenses before depreciation	2,213,283	42,993	36,290,967	274,690	38,821,933	970,180	748,843	40,540,956
Depreciation	312,790	23,079	23,079	-	358,948	7,101	-	366,049
<b>Total expenses</b>	<b>\$ 2,526,073</b>	<b>\$ 66,072</b>	<b>\$ 36,314,046</b>	<b>\$ 274,690</b>	<b>\$ 39,180,881</b>	<b>\$ 977,281</b>	<b>\$ 748,843</b>	<b>\$ 40,907,005</b>

See the accompanying independent auditors' report and notes to the financial statements.



**REGIONAL EAST TEXAS FOOD BANK**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019 (RESTATED)**

	<u>Programs and Services</u>				<u>Total Programs and Services</u>	<u>Supporting Services</u>		<u>Total Expenses</u>
	<u>Warehouse (Dept 50)</u>	<u>Food Distribution (Dept 70)</u>	<u>Other Programs (Dept 35)</u>	<u>Communication and Marketing (Dept 80)</u>		<u>Management and General (Dept 10)</u>	<u>Fundraising (Dept 30)</u>	
Salaries and benefits	\$ 729,730	\$ 76,876	\$ 570,887	\$ 120,345	\$ 1,497,838	\$ 477,475	\$ 142,552	\$ 2,117,865
Payroll taxes	54,167	5,855	42,480	9,160	111,662	31,938	10,363	153,963
Employee benefits and 401(k)	122,298	11,299	101,504	8,046	243,147	91,712	35,298	370,157
Total salaries and related expenses	<u>906,195</u>	<u>94,030</u>	<u>714,871</u>	<u>137,551</u>	<u>1,852,647</u>	<u>601,125</u>	<u>188,213</u>	<u>2,641,985</u>
Food purchases	-	2,677,834	-	-	2,677,834	-	-	2,677,834
Free food purchases	-	284,040	-	-	284,040	-	-	284,040
Donated food and commodities	-	22,814,485	-	-	22,814,485	-	-	22,814,485
USDA inventory distributed	-	4,786,153	-	-	4,786,153	-	-	4,786,153
Supplies	158,602	136	2,901	466	162,105	16,131	3,989	182,225
Telephone, answering service	17,937	5,118	4,757	1,262	29,074	4,185	3,532	36,791
Postage	1,324	438	1,798	437	3,997	1,193	3,930	9,120
Occupancy	203,147	-	-	-	203,147	9,969	-	213,116
Local transportation	4,921	6,238	57,738	152	69,049	6,589	406	76,044
Professional development/training & travel	1,302	(91)	8,486	80	9,777	15,110	7,305	32,192
Marketing and advertising	-	-	-	162,406	162,406	-	100	162,506
Fundraising campaigns	-	-	-	-	-	-	411,711	411,711
Truck	283,797	-	9,890	-	293,687	-	-	293,687
Program services	-	-	307,186	-	307,186	-	-	307,186
Board liability, workers' compensation, building and contents insurance	38,473	270	270	271	39,284	22,800	337	62,421
Membership dues, fees, printing	9,845	5,820	7,523	8,606	31,794	7,869	18,002	57,665
Equipment maintenance	86,478	7,817	36,763	8,423	139,481	20,756	15,894	176,131
Uniforms	362	-	-	-	362	8,735	-	9,097
Freight	16,490	-	-	-	16,490	-	-	16,490
Contract labor	86,557	-	7,668	-	94,225	17,186	-	111,411
Professional fees	-	-	-	-	-	59,643	-	59,643
Solid waste disposal	6,595	-	-	-	6,595	-	-	6,595
Miscellaneous	-	69,204	-	-	69,204	-	-	69,204
Interest	-	992	-	-	992	-	-	992
Restricted grant	-	-	73,881	-	73,881	-	-	73,881
Total expenses before depreciation	<u>1,822,025</u>	<u>30,752,484</u>	<u>1,233,732</u>	<u>319,654</u>	<u>34,127,895</u>	<u>791,291</u>	<u>653,419</u>	<u>35,572,605</u>
Depreciation	<u>219,821</u>	<u>21,775</u>	<u>21,775</u>	<u>-</u>	<u>263,371</u>	<u>6,700</u>	<u>-</u>	<u>270,071</u>
<b>Total expenses</b>	<u><u>\$ 2,041,846</u></u>	<u><u>\$ 30,774,259</u></u>	<u><u>\$ 1,255,507</u></u>	<u><u>\$ 319,654</u></u>	<u><u>\$ 34,391,266</u></u>	<u><u>\$ 797,991</u></u>	<u><u>\$ 653,419</u></u>	<u><u>\$ 35,842,676</u></u>

See the accompanying independent auditors' report and notes to the financial statements.

**REGIONAL EAST TEXAS FOOD BANK  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<b>2020</b>	<b>2019 (Restated)</b>
<b><u>CASH FLOW FROM OPERATING ACTIVITIES:</u></b>		
Increase (Decrease) in net assets	\$ 2,435,951	\$ (548,511)
Depreciation expense	366,049	270,071
Change in beneficial interest in ETFB Foundation	(17,646)	(164,284)
Contributions of donated food and commodities	(31,856,006)	(27,574,673)
Distributions of donated food and commodities	32,039,930	27,600,638
Change in valuation of donated food and commodities inventory	-	(391)
Adjustments to reconcile the increase (decrease) in net assets to net cash provided by operating activities:		
Decrease (Increase) in trade accounts receivable	47,569	(75,944)
Decrease in grants receivable	87,500	154,749
Decrease in prepaid expenses	-	14,453
(Increase) Decrease in purchased inventory	(109,062)	212,865
Decrease in accounts payable	(89,154)	(220,329)
Increase in deferred revenues	1,421,243	-
Increase in accrued expenses	30,328	37,866
Net cash provided by (used in) operating activities	<u>4,356,702</u>	<u>(293,490)</u>
<b><u>CASH FLOW FROM INVESTING ACTIVITIES:</u></b>		
Capital expenditures	(510,078)	(1,779,239)
Transfers received from beneficial interest in ETFB Foundation	39,769	38,862
Net cash used in investing activities	<u>(470,309)</u>	<u>(1,740,377)</u>
<b><u>CASH FLOW FROM FINANCING ACTIVITIES:</u></b>		
Principal payments on capital lease payable	(6,521)	(5,354)
Funds received for paycheck protection program loan	445,360	-
Contributions received for capital campaign	197,250	327,000
Net cash provided by financing activities	<u>636,089</u>	<u>321,646</u>
Net increase (decrease) in cash and cash equivalents	4,522,482	(1,712,221)
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<u>1,954,925</u>	<u>3,667,146</u>
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH AT END OF YEAR</b>	<u>\$ 6,477,407</u>	<u>\$ 1,954,925</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash paid for interest	<u>771</u>	<u>992</u>
<b>RECONCILIATION TO STATEMENT OF FINANCIAL POSITION:</b>		
Cash and cash equivalents	\$ 6,477,407	\$ 1,848,201
Cash - restricted for new building	-	106,724
<b>CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - STATEMENT OF CASH FLOWS</b>	<u>\$ 6,477,407</u>	<u>\$ 1,954,925</u>

See the accompanying independent auditors' report and notes to the financial statements.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION AND NATURE OF OPERATIONS**

The Regional East Texas Food Bank (Food Bank) is a Texas nonprofit corporation whose mission is to fight hunger and feed hope in East Texas.

The Food Bank's principal programs include:

General Food Distribution

The Food Bank accumulates food from various sources including purchases, donations and food received through grant programs. The Food Bank distributes the accumulated food to charitable organizations throughout the East Texas area for ultimate distribution to the end-recipients.

BackPack Program

The Backpack Program helps to alleviate child hunger by providing hungry children with nutritious and easy to prepare food at times when other resources are not available, such as weekends and school vacations.

Kids Cafe/Snack Program

The Kids Cafe and Afterschool Snack Program helps alleviate child hunger by providing hungry children with nutritious meals at times when other resources are not available, such as afterschool.

Summer Food Program

The Summer Food Program serves children in low-income communities who participate in free and reduced feeding programs during the school year.

Senior Box Program

The Senior Box Program is designed to improve the health and nutrition of senior citizens. The goal of the Senior Box Program is to provide a free box of nutritious food to approximately 3,600 people each month in identified communities within the Food Bank's service area where seniors may have little or no access to food assistance.

Mobile Pantry

The Mobile Pantry program reaches out to feed hungry East Texans who live in isolated, rural communities without access to emergency food assistance.

Fresh Produce Program

The Fresh Produce Program distributes fresh fruits and vegetables to clients through partner agencies.

East Texas Food Bank Garden

The East Texas Food Bank Garden program provides an additional source of fresh produce for hungry East Texans through partnership with the Smith County Sheriff's Office and the Smith County Agricultural Extension Office.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

ORGANIZATION AND NATURE OF OPERATIONS - CONTINUED

Nutrition Education

The Nutrition Education program offers nutrition education classes and information to low-income community members by partnering with community organizations and social service agencies serving limited-resource clients.

SNAP/Food Stamps

The SNAP (Supplemental Nutritional Assistance Program) program works to ensure that all eligible East Texans have the knowledge and benefits of the SNAP program, formerly known as the Food Stamp Program.

Child and Adult Care Food Program

The Child and Adult Care Food Program (CACFP) is a federal child nutrition program that provides reimbursement for meals and snacks served at at-risk afterschool programs. The program follows specific child nutrition guidelines and operates in afterschool programs such as the Boys and Girls Club of East Texas.

TEXAS DIVISION OF EMERGENCY MANAGEMENT

The Texas Division of Emergency Management (TDEM) applied for federal assistance funding to provide financial support to Texas' network of food banks. These funds are to be used to purchase and distribute food inventory in response to the COVID-19 pandemic. Seventy-five percent of the funds received by the Food Bank in the fiscal year ended June 30, 2020 were from the Department of Homeland Security and twenty-five percent of the funds received were from the Department of the Treasury.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU No. 2014-09, "*Revenue from Contracts with Customers*," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in U.S. GAAP. This standard was implemented for the fiscal year ended June 30, 2020.

The majority of the Food Bank's revenues come from grants and public support. Grant revenues are currently recognized when performance obligations are met. Additionally, the public support is considered contribution revenue and is not subject to bifurcation to apply the ASU to any exchange-like portions of the revenue. Because of this, there was no material change in revenue recognition due to the implementation of ASU No. 2014-09.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

In accordance with the FASB Accounting Standards Codification (ASC) No. 958-205, *Not-for-Profit Entities, Presentation of Financial Statements* (ASC No. 958), the Food Bank is required to report its information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

- Net Assets Without Donor Restrictions are net assets that are not subject to or are no longer subject to donor-imposed stipulations.
- Net Assets With Donor Restrictions are net assets whose use is limited by donor-imposed time and/or purpose restrictions.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**BASIS OF PRESENTATION - CONTINUED**

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Food Bank has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contribution was received.

**ESTIMATES**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. A significant estimate in the accompanying financial statements is the valuation of its donated food and commodities inventory as described in the inventory policy footnote below. Actual results could differ from those estimates.

**CASH AND CASH EQUIVALENTS**

The Food Bank considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

Cash equivalents consist primarily of investments held at The Vanguard Group, Inc. (Vanguard). The entire amount of these balances was invested in short-term U.S. treasury bills backed by the full faith and credit of the U.S. government. At June 30, 2020 and 2019, the carrying amount of these funds was \$1,536,062 and \$1,410,205, respectively.

**ACCOUNTS RECEIVABLE, UNCONDITIONAL PROMISES TO GIVE, AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Food Bank maintains receivables due from customers and government agencies. Additionally, the Food Bank maintains unconditional promises to give due from various contributors. The allowance for doubtful accounts is established through a provision for bad debts charged to expense and represents management's best estimate of possible losses due to bad debts that have been incurred within the accounts receivable portfolio. In establishing the allowance, management considers historical write-offs, current economic conditions, and the financial stability of the debtors. As of June 30, 2020, no allowance for doubtful accounts was considered necessary to properly reflect the realizable value of accounts receivable or unconditional promises to give.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**INVENTORY**

Inventory comprised of purchased food items made available to the Food Bank's partner agencies is stated at the lower of cost or net realizable value under the first-in, first-out method.

Donated food and commodities received from the United States Department of Agriculture (USDA) are valued based on amounts assigned to products by the USDA. At June 30, 2020 and 2019 there were approximately 1.32 million and 1.75 million pounds of donated food and household commodities on hand received from the USDA, respectively. During the years ended June 30, 2020 and 2019 the Food Bank distributed approximately 25.63 million and 22.50 million pounds of food and household commodities, respectively. Inventories of USDA donated food and commodities are valued on a first-in, first-out basis.

Donated food and commodities – other is comprised of food and household commodities contributed to the Food Bank in-kind from individuals, businesses, and organizations other than the USDA. At June 30, 2020 and 2019 there were approximately 335 thousand and 425 thousand pounds of donated food and household commodities on hand not received from the USDA, respectively. Donated food and household commodities have been recorded in the financial statements at fair market value, as determined by Feeding America, a third-party nonprofit organization. The average of national wholesale price per pound used to value donated inventory was \$1.74 and \$1.62 for the years ended June 30, 2020 and 2019, respectively. The Food Bank utilizes this value to determine the amount of donated food and commodities support and donated food and commodities expense in the accompanying financial statements. Inventories of donated food and commodities are valued on a first-in, first-out basis.

**PROPERTY, PLANT, AND EQUIPMENT**

The Food Bank capitalizes all expenditures for property, plant, and equipment in excess of \$2,500. Expenditures for maintenance and repairs that do not materially extend the useful lives of assets are charged to expense. Property, plant, and equipment is stated at cost if purchased, or at fair value if donated, less accumulated depreciation.

Donated property, plant, and equipment are recorded as contributions in the accompanying statements at their estimated fair values. Such donations are reported as support without donor restrictions 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 are reported as support with donor restrictions. The Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Food Bank reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Depreciation of property, plant, and equipment is provided on a straight-line basis over the following useful lives:

Buildings	7- 39 years
Furniture and fixtures	3 - 7 years
Equipment	5 - 7 years
Warehouse equipment	5 - 7 years

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**BENEFICIAL INTEREST IN ETFB FOUNDATION**

The beneficial interest in ETFB Foundation represents investments held by the East Texas Food Bank Foundation (Foundation) and consists primarily of government securities and publicly traded funds. The beneficial interest is reflected in the accompanying financial statements at the net asset value of the Foundation.

**DEFERRED REVENUES**

Deferred revenues are comprised of funds received from TDEM that have not yet been earned. A stipulation of the receipt of these funds is that the funds must be spent on food purchases that are then distributed in response to COVID-19. TDEM specifies that the funds are to be returned if not spent. At June 30, 2020, the amount listed as deferred revenues refers to the funds that have been received and not spent and, therefore, have not been earned. The Food Bank expects that the remaining funds will be spent during the year ending June 30, 2021 and will not need to be returned.

**PAYCHECK PROTECTION PROGRAM LOAN**

The Paycheck Protection Program (PPP), established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) and facilitated by the Small Business Administration (SBA), provides for loans to qualifying entities for amounts up to 2.5 times the average monthly payroll expenses of the qualifying entity. Under the terms of the PPP, certain amounts of the loan may be forgiven if the funds are utilized for allowed expenses. The Food Bank has not applied for loan forgiveness as of the date of these financial statements; however, management believes that the loan will be forgiven.

**CONTRIBUTIONS AND REVENUE RECOGNITION**

Contributions, including unconditional promises to give by donors, are recorded when received and are immediately available for use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which such promises depend are substantially met.

**INCOME TAXES**

The Food Bank is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent the entity has unrelated business income. The Food Bank had no taxable unrelated business income during the years ended June 30, 2020 and 2019. The Food Bank believes it is no longer subject to income tax examinations for years prior to fiscal year ended June 30, 2017.

**ALLOCATION OF EXPENSES**

The costs of providing programs and services have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain expenses have been allocated among the programs and supporting services based on management estimates. These expenses are summarized in the statement of functional expenses.

**MARKETING AND ADVERTISING**

The Food Bank uses marketing and advertising to promote its programs and services among the audience it serves, increase hunger awareness, spread nutrition education, and conduct social marketing campaigns. The costs of marketing and advertising are expensed as incurred. Marketing and advertising costs totaled \$111,739 and \$162,506, for the years ended June 30, 2020 and 2019, respectively.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**NEW ACCOUNTING GUIDANCE NOT YET ADOPTED**

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (except for short-term leases) at the commencement date:

- Lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Additional qualitative and quantitative disclosures will be required so users can understand more about the nature of an entity’s leasing activities. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

ASU 2016-02 will be effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Food Bank is evaluating the potential future impact of adopting this guidance on its financial statements.

**NOTE 2 - RESTATEMENT**

Financial statements issued for the year ended June 30, 2019 were restated to include certain property, plant, and equipment activity. Certain construction costs incurred for projects completed during the year ended June 30, 2019 were capitalized during the beginning of the year ended June 30, 2020. As a result, the Food Bank’s carrying value of its buildings was understated by approximately \$118,000 for the year ended June 30, 2019. To correct this timing difference, these construction costs and the related accumulated depreciation and accounts payable were moved from the year ended June 30, 2020 to the year ended June 30, 2019.

**NOTE 3 - CONTRIBUTED AND DONATED GOODS AND SERVICES**

Certain contributed goods and services have been recorded in the financial statements as support for the years ended June 30, 2020 and 2019. The contributed goods and services were recorded at values indicated by donors and included as programs and services expenses or capitalizable assets. The services were primarily for special marketing and advertising.

A substantial number of volunteers have donated significant amounts of their time to the Food Bank and its programs; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.



**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 4 – UNCONDITIONAL PROMISES TO GIVE**

Unconditional promises to give are recognized in the period when an unconditional promise to give is made. Conditional contributions are recognized when the condition on which they depend are substantially met. Unconditional contributions receivable from capital campaigns and other endeavors at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Amounts (net) due in:		
Less than one year	\$ 95,000	\$ 195,750
One to five years	88,500	185,000
	<u>\$ 183,500</u>	<u>\$ 380,750</u>

Purpose restrictions for unconditional contributions receivable from capital campaigns and other endeavors at June 30, 2020 and 2019 are as follows:

<u>Purpose</u>	<u>2020</u>	<u>2019</u>
Without donor restrictions	\$ 15,000	\$ 15,000
Capital campaign	168,500	365,750
Total	<u>\$ 183,500</u>	<u>\$ 380,750</u>

**NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u> <u>(Restated)</u>
Land	\$ 237,677	\$ 237,677
Buildings	7,672,538	7,579,543
Furniture and fixtures	796,007	783,826
Equipment	166,494	166,494
Warehouse equipment	2,278,379	1,873,477
Accumulated depreciation	<u>(5,085,066)</u>	<u>(4,719,017)</u>
	<u>\$ 6,066,029</u>	<u>\$ 5,922,000</u>

Depreciation expense was \$366,049 and \$270,071 for the years ended June 30, 2020 and 2019, respectively.

**NOTE 6 – BENEFICIAL INTEREST IN ETFB FOUNDATION (QUASI-ENDOWMENT)**

The East Texas Food Bank Foundation was organized as a Texas nonprofit corporation to be operated exclusively to benefit the Food Bank. The Food Bank made an initial grant in the amount of \$1,039,285 to the Foundation. The Foundation has not been granted variance power by the Food Bank. All property of the Foundation is restricted by the donor to be a quasi-endowment. The bylaws of the Foundation permit it to distribute annually to the Food Bank up to, but not more than, five percent of the average of the fair market value of the endowment assets as of the end of the most recent twelve calendar quarters immediately preceding such year, or if greater, the minimum amount required to be distributed by law.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 6 – BENEFICIAL INTEREST IN ETFB FOUNDATION (QUASI-ENDOWMENT) - CONTINUED**

The Food Bank reports its interest in the assets held by the Foundation in accordance with ASC 958-605, *Not-for-profit Entities*, which requires it to be reported at the fair value of the assets under the caption of beneficial interest receivable.

Assets held by the Foundation for the benefit of the Food Bank consisted of the following at June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 104,837	\$ 82,659
Interest receivable	2,873	4,882
Investments, at fair value	2,874,752	2,917,044
	<b>\$ 2,982,462</b>	<b>\$ 3,004,585</b>

**NOTE 7 – CAPITAL LEASES**

The Food Bank leases certain communication equipment under a capital lease totaling \$29,560, which is included in machinery and equipment in accompanying statement of financial position. During the years ended June 30, 2020 and 2019, the Food Bank recorded \$771 and \$992 of interest expense and \$6,426 and \$6,426 of depreciation expense related to the capital lease assets, respectively.

The following is a schedule of future required minimum lease payments:

Year ended June 30:	
2021	\$ 6,521
2022	6,521
2023	2,671
2024	-
2025	-
2026 and thereafter	-
Total	<b>\$ 15,714</b>

**NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN**

During the year ended June 30, 2020, the Food Bank received loan proceeds in the amount of \$445,360 under the Paycheck Protection Program (PPP). The specific terms of the note are that there will be monthly payments of \$25,063, beginning on November 29, 2020 at an annual rate of 1.00%. The loan matures on April 29, 2021. The Food Bank intends to use the entire loan amount for qualifying expenses and apply for loan forgiveness during the year ended June 30, 2021.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN – CONTINUED**

Future Payments for the PPP loan are as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 195,860	\$ 4,648	\$ 200,508
2022	249,500	1,134	250,634
Total	445,360	5,782	451,142
LESS: Current Portion	(195,860)	(4,648)	(200,508)
Non-Current Portion	<u>\$ 249,500</u>	<u>\$ 1,134</u>	<u>\$ 250,634</u>

**NOTE 9 - RESTRICTIONS ON NET ASSETS**

All of the net assets with donor restrictions at June 30, 2020 and 2019 were restricted to be spent on programs and services or capital additions. Net assets with donor restrictions consist of cash in various restricted cash accounts and certain unconditional promises to give. Net assets with donor restrictions were restricted for the following purposes at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Capital campaign	\$ 168,500	\$ 472,474
Outreach	15,614	-
Fresh produce	23,114	110,739
Healthcare partnership	38,491	45,911
BackPack program	5,000	-
Kids Café	13,047	10,859
Summer Feeding	1,563	-
TDEM	371,465	-
Deep ET Resource Center	10,000	-
Disaster relief	82,436	70,505
Senior box	-	18,769
Net assets with donor restrictions	<u>\$ 729,230</u>	<u>\$ 729,257</u>

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 9 - RESTRICTIONS ON NET ASSETS - CONTINUED**

Releases from restrictions on net assets for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Capital campaign	\$ 310,934	\$ 1,705,901
Outreach	88,626	139,457
Mobile pantry	-	16,532
Fresh produce	237,439	64,371
Healthcare partnership	7,420	-
BackPack program	136,244	131,411
Kids Café	1	-
Summer Feeding	29,783	29,548
TDEM	545,292	-
Disaster relief	1,258,462	-
Capital Assets	64,474	-
Senior box	36,479	5,291
Net assets released from restrictions	<u>\$ 2,715,154</u>	<u>\$ 2,092,511</u>

**BOARD DESIGNATIONS** – The Food Bank’s Board of Directors has designated cash and cash equivalents aggregating \$420,249 and \$313,924 to be used for various purposes at June 30, 2020 and 2019, respectively.

**NOTE 10 - FUNDRAISING**

During the years ended June 30, 2020 and 2019 the Food Bank incurred costs of \$489,393 and \$465,206 for fundraising activities, respectively, which included the cost of appeals and special events. In addition, \$259,450 and \$188,213, respectively, of salaries and related expenses were allocated to fundraising.

**NOTE 11 - EMPLOYEE BENEFIT PLAN**

The Food Bank has a defined contribution plan covering substantially all full-time employees. Under the Plan, the Food Bank provides a matching component to the employees' contributions on a discretionary basis. Additional year-end contributions may be made at the Board of Directors' discretion. Plan expenses incurred during the year ended June 30, 2020 and 2019 totaled \$35,589 and \$28,761, respectively.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 12 – CONCENTRATIONS**

Approximately thirty-one percent of the foods donated during the year ended June 30, 2020 were received from the USDA under a contract with the Texas Department of Agriculture.

Financial instruments that potentially subject the Food Bank to concentrations of credit risk consist primarily of cash and cash equivalents and at times may be in excess of FDIC and SIPC insured limits. The Food Bank uses quality depository institutions and monitors their stability. The Food Bank has not experienced any losses in such accounts, and it does not believe it is exposed to any significant risk of loss related to these concentrations. The Food Bank utilizes a sweep account system for the purpose of transferring funds in excess of federal insurance limits into a fully insured investment account as established by a primary financial institution. Additionally, the underlying assets held by the ETFB Foundation for the benefit of the Food Bank are held entirely at Merrill Lynch.

**NOTE 13 – CONTINGENCIES**

The Food Bank receives funding or reimbursement from governmental agencies that are subject to specific compliance requirements and review and audit by the grantors or their representatives. Such audits could result in requests for reimbursement by the grantor agency for expenses disallowed under the terms and conditions specified in the grant agreements. The net effect of any disallowances or adjustments resulting from these activities could have a material effect on the Food Bank's financial position.

For the year ended June 30, 2020, the Food Bank's PPP loan was outstanding in its entirety. SBA has not yet determined the method for forgiveness and Food Bank has not applied for forgiveness. Because SBA has not yet determined the method for forgiveness, all or a portion of these funds may need to be repaid if applicable conditions have not been met.

For the year ended June 30, 2020, TDEM funds not yet spent may be requested to be returned by TDEM if not spent in an acceptable timeframe. Because the rapid disbursement of these funds by TDEM in response to COVID-19, the terms regarding the spending these funds were changed numerous times by TDEM and have not been clearly defined.

The Food Bank is subject to certain claims and contingencies that arise in the normal course of performing its services. None of these, in the opinion of management, other than as disclosed above, are expected to have a material adverse effect on the financial position, activities or cash flows of the Food Bank.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 14 - FAIR VALUE MEASUREMENTS**

ASC 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Food Bank has 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 Food Bank uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities.

**CHANGE IN VALUATION HIERARCHY LEVEL**

Prior to June 30, 2019, the Food Bank considered its beneficial interest in the East Texas Food Bank Foundation as Level 1 and 2 fair value measurement investments based upon the fact that the assets held by the Foundation are generally Level 1 and 2 fair value measurement assets. During the year ended June 30, 2019, the Food Bank changed its classification from Level 1 and 2 to Level 3 to reflect the fact that the Food Bank is not directly holding Level 1 and 2 assets but instead is holding an interest in the net assets of the Foundation. The classification is more consistent with guidance codified in ASC 820-10-35-58 *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

The following summarizes investment valuation methods:

Beneficial interest in East Texas Food Bank Foundation – Beneficial interest has been valued, as a practical expedient, at the net asset value of the East Texas Food Bank Foundation as of the measurement date, which approximates the fair value of the underlying assets.

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2020 AND 2019**

**NOTE 14 - FAIR VALUE MEASUREMENTS – CONTINUED**

	Total	Fair Value Measurements at June 30, 2019 Using		
		Level 1	Level 2	Level 3
<u>Recurring fair value measurements:</u>				
Beneficial interest in assets held at the East Texas Food Bank Foundation	\$3,004,585	\$ -	\$ -	\$3,004,585

	Total	Fair Value Measurements at June 30, 2020 Using		
		Level 1	Level 2	Level 3
<u>Recurring fair value measurements:</u>				
Beneficial interest in assets held at the East Texas Food Bank Foundation	\$2,982,462	\$ -	\$ -	\$2,982,462

The following summarizes the change in Level 3 fair value measurements:

	<b>2019</b>
	Beneficial interest in ETFB Foundation - Level 3
Balance, beginning of period	\$ -
Reclassification from Level 1 and 2	2,879,163
Balance, beginning of period, as reclassified	2,879,163
Investment income	79,778
Net realized and unrealized gain	113,286
Transfer to Food Bank	(38,862)
Investment expense	(28,780)
Balance, end of period	<u>\$ 3,004,585</u>
	<b>2020</b>
	Beneficial interest in ETFB Foundation - Level 3
Balance, beginning of period	\$ 3,004,585
Investment income	75,990
Net realized and unrealized loss	(28,051)
Transfer to Food Bank	(39,769)
Investment expense	(30,293)
Balance, end of period	<u>\$ 2,982,462</u>

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 15 - SUBSEQUENT EVENTS**

In accordance with FASB Accounting Standards Codification Topic 740 “Subsequent Events,” the Food Bank evaluated events and transactions that occurred after the statement of financial position date, but before the financial statements were made available for issuance for potential recognition or disclosure in the financial statements. As part of this evaluation, management considered the effects of the COVID-19 pandemic, which was still in effect after year-end but prior to the issuance of the financial statements. This pandemic had no significant effect on the Food Bank’s operations, financial position, or activities, as a whole.

The Food Bank evaluated events related to significant areas through November 11, 2020 and noted no such subsequent events to be disclosed in the notes to the financial statements.





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

Board of Directors of  
Regional East Texas Food Bank  
Tyler, Texas

We 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 Food Bank, which comprise the statement of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2020.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we 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 an opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Food Bank's internal control. Accordingly, we 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Finding 2020-001**

The auditee-prepared Schedule of Expenditures of Federal Awards (SEFA) omitted programs and incorrectly reported Catalog of Federal Domestic Assistance (CFDA) titles and numbers. As these omissions were identified through the audit process, we referred management to guidance and resources that enabled them to alleviate the issues and omissions identified and present a materially correct SEFA. We believe that this significant deficiency was caused by the auditee's internal controls over financial reporting not being sufficient to detect, correct, and prevent errors in the SEFA. This breakdown in internal controls was caused by staffing and training needs in response to elevated federal award activity related to COVID-19.

We recommend that management promptly engage a consulting firm to evaluate the needs of the accounting and finance functions at the Food Bank and provide an analysis to the Board regarding the expected additional resources required to effectively manage federal and state programs, develop complete and accurate reports related to federal and state programs, and coordinate the processes of the accounting and finance functions to effectively produce, review, and maintain the documentation necessary to support reports required by relevant standards.

We believe this recommendation is necessary due to the incredible growth of the Food Bank. This growth has added to the complexity of the accounting and finance functions. This recommendation is not a negative reflection on any existing personnel.

Management has reviewed the auditor's recommendations with the Food Bank's Finance Committee and will consider engaging a consulting firm to perform the recommended analysis. Management will seek guidance through its peer network and identify Yellow Book CPE courses that will strengthen its internal controls with respect to financial reporting for federal awards.

**Finding 2020-002:**

While performing the audit, we encountered multiple instances of inconsistent documentation provided in response to our audit requests. The most significant documentation inconsistencies resulted in the identification of two instances of revenue overstatements that were corrected through the audit process. Many of the documentation inconsistencies were related to transactions that were entered into in response to COVID-19. We believe that this significant deficiency was caused by the auditee's internal controls over accounting processes not being sufficient to detect, correct, and prevent errors in key subsidiary reports and ledgers that support the general ledger balances. This breakdown in internal controls was caused by a lack of timely and effective reviews of key subsidiary reports and ledgers. We believe that the effects of any documentation inconsistencies were materially corrected through audit adjustments.

Our recommendation for this finding is consistent with our recommendation for Finding 2020-001. In addition, management's response to this finding is consistent with their response to Finding 2020-001.

To reiterate, we believe this recommendation is necessary due to the incredible growth of the Food Bank. This growth has added to the complexity of the accounting and finance functions. This recommendation is not a negative reflection on any existing personnel.

**COMPLIANCE AND OTHER MATTERS**

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

**FOOD BANK'S RESPONSES TO FINDINGS**

The Food Bank's responses to the findings identified in our audit are described herein. The Food Bank's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the responses.

**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 Food Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas

November 11, 2020



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

Board of Directors  
Regional East Texas Food Bank  
Tyler, Texas

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We 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 June 30, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**AUDITOR'S RESPONSIBILITY**

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

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

**OPINION ON EACH MAJOR FEDERAL PROGRAM**

In our 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 June 30, 2020.

PROTHRO, WILHELMI AND COMPANY, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

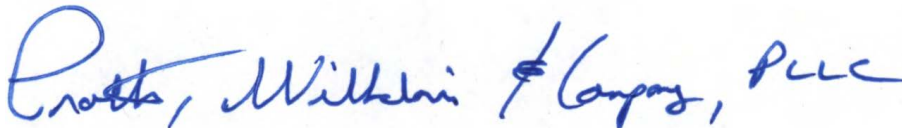
**REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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 our audit of compliance, we 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Bank’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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose



PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas  
November 11, 2020

**REGIONAL EAST TEXAS FOOD BANK  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2020**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantors Number	Expenditures
<b><u>UNITED STATES DEPARTMENT OF AGRICULTURE</u></b>			
Passed through Texas Department of Agriculture:			
Child and Adult Care Food Program			
Program Year:	10.558	01544	
2018/2019			116,813
2019/2020			371,805
Total Child and Adult Care Food Program			488,618
<b><u>Food Distribution Cluster:</u></b>			
Commodity Supplemental Food Program (Administrative Costs)			
Program Year:	10.565	01544	
2018/2019			52,678
2019/2020			169,232
Total Commodity Supplemental Food Program (Administrative Costs)			221,910
Commodity Supplemental Food Program (Food Commodities)	10.565	01544	991,970
Total Commodity Supplemental Food Program			1,213,880
Emergency Food Assistance Program (Administrative Costs)	10.568	01544	1,404,993
Emergency Food Assistance Program (Food Commodities)	10.569	01544	3,052,410
Total Emergency Food Assistance Program			4,457,403
Trade Mitigation Program - CSFP (Food Commodities)	10.565	01544	76,954
Trade Mitigation Program TEFAP (Food Commodities)	10.569	01544	5,739,110
Total Trade Mitigation Program			5,816,064
Families First Coronavirus Response Act (Food Commodities)	10.569	01544	17,991
Total Food Distribution Cluster			11,505,338
Trade Mitigation Program (Administrative Costs)	10.178	01544	346,343
<b><u>Child Nutrition Programs Cluster:</u></b>			
Summer Food Service Program for Children	10.559	01544	
Program Year:			
2019			79,965
2020			45,990
Total Child Nutrition Programs Cluster			125,955
Passed through Texas Health and Human Services Commission:			
<b><u>SNAP Cluster:</u></b>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			
Program Year:	10.561		
2018-2019		529-16-0002-00002	106,325
2019-2020		529-16-0002-00002	244,670
Total State Administrative Matching Grants for the SNAP			350,995
Total SNAP Cluster			350,995
<b>Total United States Department of Agriculture:</b>			12,817,249
<b><u>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</u></b>			
Emergency Food and Shelter National Board Program	97.024		7,990
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		687,568
<b>Total United States Department of Homeland Security:</b>			695,558
<b><u>UNITED STATES DEPARTMENT OF THE TREASURY</u></b>			
Passed through Texas Department of Emergency Management:			
Coronavirus Relief Fund	21.019		229,189
<b>Total United States Department of the Treasury:</b>			229,189
Total Federal Assistance			13,741,996

**REGIONAL EAST TEXAS FOOD BANK  
SCHEDULE OF EXPENDITURES OF STATE AWARDS  
YEAR ENDED JUNE 30, 2020**

State Grantor/Pass-Through Grantor/Program Title	State Number	Pass-Through Grantors Number	Expenditures
<b><u>HEALTH AND HUMANS SERVICES</u></b>			
Community Partner Program			209,978
Total Health and Human Services Commission			<u>209,978</u>
Total State Assistance			<u>\$ 209,978</u>

**REGIONAL EAST TEXAS FOOD BANK**  
**NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE**

**BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal and state awards (Schedule) presents the federal and state program activity of the Food Bank. The Schedule is presented on the accrual basis of accounting. The information in the 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.

**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 in the Uniform Guidance.

**DE MINIMIS INDIRECT COST RATE**

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

**FOOD DISTRIBUTION**

Non-monetary assistance is reported in the schedule at the USDA reported value of the commodities received and disbursed. At year-end, the Food Bank had USDA food commodities in inventory totaling \$1,315,995.



**REGIONAL EAST TEXAS FOOD BANK  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2020**

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditor’s report issued:	<i>Unmodified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	Yes

Identification of major programs:

<b>FEDERAL</b>	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.565, 10.568, 10.569	Food Distribution Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>750,000</u>
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Auditee qualified as low-risk auditee?	Yes
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**Section II – Financial Statement Findings**

2020-002 – Significant Deficiency in internal controls regarding several instances of incomplete, inaccurate, or inconsistent documentation provided.

**Section III – Federal Award Findings and Questioned Costs**

2020-001 – Significant Deficiency in internal controls over financial reporting related to the accuracy and completeness of the Schedule of Expenditures of Federal Awards.

**REGIONAL EAST TEXAS FOOD BANK  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2020**

None.