

Regional East Texas Food Bank

Independent Auditor's Reports and Financial Statements

June 30, 2022

Regional East Texas Food Bank

June 30, 2022

Contents

Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position.....	3
Statement of Activities	4
Statement of Functional Expenses.....	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Supplementary Information	
Schedule of Expenditures of Federal Awards	23
Notes to the Schedule of Expenditures of Federal Awards	24
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 – Independent Auditor's Report	25
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance – Independent Auditor's Report	27
Schedule of Findings and Questioned Costs.....	29
Summary Schedule of Prior Audit Findings.....	32

Independent Auditor's Report

Board of Directors
East Texas Food Bank
Tyler, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Regional East Texas Food Bank (Organization) which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flow for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Organization's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, including the 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*, are presented for purposes of additional analysis and are 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.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2022, the Organization adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 the effectiveness of the Organization'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 Organization's internal control over financial reporting and compliance.

Regional East Texas Food Bank
Statement of Financial Position
June 30, 2022

Assets

Current Assets

Cash and cash equivalents	
Cash	\$ 1,215,980
Board designated	9,484,270
With donor restrictions	<u>1,586,532</u>
Total cash and cash equivalents	<u>12,286,782</u>
Receivables	
Trade	275,471
Grants	824,332
Pledges receivable	43,000
Pledges receivable - restricted for capital campaign	<u>11,250</u>
Total receivables	<u>1,154,053</u>
Inventories	
Purchased	1,246,455
Donated food and commodities - USDA	937,764
Donated food and commodities - other	<u>864,442</u>
Total inventory	<u>3,048,661</u>
Prepays	
Insurance	9,384
Expense	<u>29,767</u>
Total prepaids	39,151
Total current assets	<u>16,528,647</u>

Noncurrent Assets

Investments - Board designated	<u>4,612,330</u>
Receivables	
Pledges receivable	2,000
Pledges receivable - restricted for capital campaign	<u>20,000</u>
Total receivables	22,000
Property, plant, and equipment, net	7,470,108
Beneficial interest in ETFB Foundation	<u>3,253,091</u>
Total noncurrent assets	<u>15,357,529</u>
Total assets	<u>\$ 31,886,176</u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	498,180
Accrued expenses	223,783
Advanced conditional contributions	<u>1,151,510</u>
Total current liabilities	<u>1,873,473</u>
Total liabilities	<u>1,873,473</u>

Net Assets

Without donor restrictions	29,500,335
With donor restrictions	<u>512,368</u>
Total net assets	<u>30,012,703</u>
Total liabilities and net assets	<u>\$ 31,886,176</u>

Regional East Texas Food Bank
Statement of Activities
Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenues			
Support			
Donated food and commodities	\$ 37,521,802	\$ -	\$ 37,521,802
USDA commodities	8,645,060	-	8,645,060
Contributions	3,799,280	1,118,303	4,917,583
Total public support	<u>49,966,142</u>	<u>1,118,303</u>	<u>51,084,445</u>
Revenues			
Shared maintenance	800,568	-	800,568
Purchased food recovery	1,537,591	-	1,537,591
Federal grant revenues	4,215,032	-	4,215,032
Other revenue	57,734	-	57,734
Total revenues	<u>6,610,925</u>	<u>-</u>	<u>6,610,925</u>
Total support and revenue	<u>56,577,067</u>	<u>1,118,303</u>	<u>57,695,370</u>
Expenses			
Program	56,156,582	-	56,156,582
Management and general	1,515,782	-	1,515,782
Fundraising	1,123,342	-	1,123,342
Total expenses	<u>58,795,706</u>	<u>-</u>	<u>58,795,706</u>
Income from Operations	<u>(2,218,639)</u>	<u>1,118,303</u>	<u>(1,100,336)</u>
Non-Operating Revenue and Expense			
Change in beneficial interest in ETFB Foundation	(401,440)	-	(401,440)
Net investment return	(595,487)	450	(595,037)
Net assets released from restrictions	2,122,649	(2,122,649)	-
Total non-operating revenue (expense)	<u>1,125,722</u>	<u>(2,122,199)</u>	<u>(996,477)</u>
Change in Net Assets	<u>(1,092,917)</u>	<u>(1,003,896)</u>	<u>(2,096,813)</u>
Net Assets, Beginning of Year	<u>30,593,252</u>	<u>1,516,264</u>	<u>32,109,516</u>
Net Assets, End of Year	<u>\$ 29,500,335</u>	<u>\$ 512,368</u>	<u>\$ 30,012,703</u>

Regional East Texas Food Bank
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Food Distribution	Management and General	Fundraising	Total Expenses
Salaries and benefits	\$ 2,271,760	\$ 649,674	\$ 414,554	\$ 3,335,988
Payroll taxes	167,228	56,450	31,425	255,103
Employee benefits and 401(k)	384,410	172,516	56,706	613,632
Total salaries and related expenses	<u>2,823,398</u>	<u>878,640</u>	<u>502,685</u>	<u>4,204,723</u>
Food purchases	3,802,594	-	-	3,802,594
Free food purchases	-	-	-	-
Donated food and commodities	37,702,972	-	-	37,702,972
USDA inventory distributed	9,087,104	-	-	9,087,104
Supplies	148,223	10,636	3,183	162,042
Telephone, answering service	9,262	20,288	-	29,550
Postage	4,536	1,448	10,056	16,040
Occupancy	287,518	103,758	22,825	414,101
Local transportation	90,354	17,963	9,000	117,317
Professional development/training & travel	10,619	18,251	10,580	39,450
Marketing and advertising	152,617	-	-	152,617
Fundraising campaigns	24	433	530,021	530,478
Truck	384,737	-	-	384,737
Educational materials	84,143	-	-	84,143
Board liability, workers' compensation, building and contests insurance	47,447	11,975	-	59,422
Membership dues, fees, printing	42,463	10,385	26,708	79,556
Equipment maintenance	72,432	52	-	72,484
Uniforms	100	34,991	-	35,091
Freight	9,699	-	-	9,699
Contract labor	314,760	5,003	8,283	328,046
Professional fees	3,865	132,958	-	136,823
Solid waste disposal	5,763	-	-	5,763
Miscellaneous expense	-	750	-	750
Grants to agencies	167,241	-	-	167,241
Produce for agencies	636,977	-	-	636,977
Total expenses before depreciation	<u>55,888,848</u>	<u>1,247,531</u>	<u>1,123,342</u>	<u>58,259,720</u>
Depreciation	<u>267,735</u>	<u>268,251</u>	<u>-</u>	<u>535,986</u>
Total Expenses	<u><u>\$ 56,156,583</u></u>	<u><u>\$ 1,515,782</u></u>	<u><u>\$ 1,123,342</u></u>	<u><u>\$ 58,795,706</u></u>

Regional East Texas Food Bank
Statement of Cash Flows
Year Ended June 30, 2022

Cash Flows from Operating Activities	
Changes in net assets	\$ (2,096,813)
Items not requiring (providing) cash:	
Depreciation expense	535,986
Change in beneficial interest in ETFB Foundation	401,440
Net realized and unrealized loss on investments	595,037
Contributions of donated food and commodities	(46,166,862)
Distributions of donated food and commodities	46,790,076
Changes in:	
Trade accounts receivable	(231,089)
Grants receivable	36,223
Pledges receivable	(30,000)
Purchased inventory	78,601
Prepays	(39,151)
Accounts payable	276,339
Advanced conditional contributions	1,151,510
Deferred revenues	(11,429)
Accrued expenses	31,461
	<u>1,321,329</u>
Net cash provided by operating activities	<u>1,321,329</u>
Cash Flows from Investing Activities	
Capital expenditures	(1,481,426)
Purchases of investments	(5,242,971)
Transfers received from beneficial interest in ETFB Foundation	35,604
	<u>(6,688,793)</u>
Net cash used in investing activities	<u>(6,688,793)</u>
Cash Flows from Financing Activities	
Principal payments on capital lease payable	(15,714)
Contributions received for capital campaign	84,500
	<u>68,786</u>
Net cash provided by financing activities	<u>68,786</u>
Net Decrease in Cash and Cash Equivalents	(5,298,678)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	<u>17,585,460</u>
Cash, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 12,286,782</u>

Regional East Texas Food Bank

Notes to Financial Statements

June 30, 2022

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

The Organization's principal program is to accumulate food from various sources and distribute the accumulated food to charitable organizations throughout the East Texas area for ultimate distribution to the end recipients. Subprograms within food distribution include:

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.

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.

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.

Regional East Texas Food Bank

Notes to Financial Statements

June 30, 2022

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.

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.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents. The Organization does not consider uninvested cash equivalents held in investment accounts as cash equivalents. At June 30, 2022, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit. At June 30, 2022, the Organization's cash accounts exceeded federally insured limits by approximately \$10,923,000.

Restricted Cash

Restricted cash represents cash restricted by donor restrictions and board designations.

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Grant Receivables

Grant receivables consist primarily of reimbursements from federal and state contracts and grants. Grant receivables are stated at the amount that management expects to collect. Grant receivables are considered fully collectible by management.

Investments and Net Investment Return

Investments are carried at fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation, if purchased, and at fair value if donated. The Organization capitalizes all expenditures for property, plant, and equipment in excess of \$2,500 which have a useful life greater than one year. Expenditures for maintenance and repairs that do not materially extend the useful lives of assets are charged to expense. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property, plant and equipment are as follows:

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

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2022.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets to be utilized for future expansion and an operating reserve in accordance with the Organization’s strategic plan. Net assets with donor restrictions are subject to donor restrictions, and are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

Regional East Texas Food Bank

Notes to Financial Statements

June 30, 2022

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Inventory Pricing

Inventories consist of donated and purchased products for distribution. Donated products are valued per pound at an average of the national wholesale prices as determined by Feeding America. Purchased products are valued at the lower of cost or net realizable value as determined by the first-in, first-out method.

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.

Statement of Activities

The Organization defines operating activities, as included in the accompanying statement of activities, as the revenue and expenses resulting from its food programs and other core mission activities. Changes in the beneficial interest in East Texas Food Bank Foundation, interest income, and net assets released from restrictions are excluded from operating activities and separately reported as non-operating activities in the accompanying statement of activities.

Government Grants

Support funded by grants is recognized as the Organization meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Regional East Texas Food Bank

Notes to Financial Statements

June 30, 2022

Income Taxes

The Organization is exempt from Federal income tax under Section 501 of the Internal Revenue Code (IRC) and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business income as defined by the IRC. The Organization had no unrelated business income during the year ended June 30, 2022. The Organization files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services based on management estimates. The statement of functional expenses present the natural classification detail of expenses by function for the year ended June 30, 2022. Certain costs have been allocated among the program, management and general and fundraising categories based on relative payroll, headcount or square footage occupied and other methods.

Marketing and Advertising

The Organization 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 \$152,617 for the year ended June 30, 2022.

Change in Accounting Principle

In 2022, the Organization, adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* on a retrospective basis. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash or other financial assets in the statements of activities and disclosures within the notes to the financial statements about the valuation methodology for, use of, and donor-imposed restrictions associated with contributed nonfinancial assets. Adoption of ASU 2020-07 had no impact on previously reported total change in net assets.

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Note 2: Grant Commitments

The Organization receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. As of June 30, 2022, the Organization had a grant from the Texas Department of Agriculture for \$6,085,806, of which the first \$500,000 was received in advance, and the remaining will be received on a reimbursement basis.

Note 3: Pledges Receivable

Pledges receivable for the year ended June 30, 2022, consisted of the following:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Due within one year	\$ -	\$ 54,250	\$ 54,250
Due in one to five years	15,000	7,000	22,000
	<u>\$ 15,000</u>	<u>\$ 61,250</u>	<u>\$ 76,250</u>

The Organization expects to receive the June 30, 2022 pledge receivables, and therefore, has provided no allowance for uncollectible accounts.

Note 4: Conditional Gifts

The Organization has received the following conditional promises to give at June 30, 2022, that are not recognized in the financial statements:

	<u>Advanced contribution</u>	<u>Conditional promise to give remaining</u>	<u>Total</u>
Conditional promise to give to expand programs and services while meeting outcomes stated in the agreement	\$ 651,510	\$ 3,321,363	\$ 3,972,873

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Note 5: Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at June 30, 2022:

Buildings and improvements	\$	8,131,951
Furniture and fixtures		963,688
Equipment		29,560
Warehouse equipment		<u>3,347,454</u>
Total depreciable assets		12,472,653
Land		237,678
Construction in progress		<u>956,226</u>
		13,666,557
Accumulated depreciation		<u>(6,196,449)</u>
		<u>\$ 7,470,108</u>

Depreciation expense was \$535,986 for the year ended June 30, 2022.

Note 6: Beneficial Interest in Net Assets of ETFB Foundation (Quasi-Endowment)

The Foundation was organized as a Texas nonprofit corporation to be operated exclusively to benefit the Organization. The Organization made an initial grant in the amount of \$1,039,285 to the Foundation. The Foundation has not been granted variance power by the Organization. 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 Organization 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 Financial Statements
June 30, 2022

The Organization's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in the interest are included in the change in net assets. Transfers of assets between the Foundation and the Organization are recognized as increases or decreases in the interest in the net assets of the Foundation with corresponding decreases or increases in the assets transferred and have no effect on the change in net assets.

At June 30, 2022, the Foundation had no net assets to be held and invested in perpetuity.

The Foundation has no liabilities and only distributes assets to the Organization. Assets held by the Foundation for the benefit of the Organization consisted of the following at June 30, 2022:

Cash and cash equivalents	\$	95,530
Interest receivable		2,044
Investments, at fair value		<u>3,155,517</u>
	\$	<u><u>3,253,091</u></u>

Note 7: Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30, 2022 consist of the following:

Undesignated	\$	15,403,735
Board Designated		<u>14,096,600</u>
	\$	<u><u>29,500,335</u></u>

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes at June 30, 2022:

Outreach/Agency Pantry	\$ 309,015
Fresh Produce	31,882
Healthcare partnership	41,496
BackPack program	3,123
Summer Feeding	826
Equipment	25,656
Deep ET Resource Center	90,370
Disaster relief	10,000
	<hr/>
	\$ 512,368
	<hr/> <hr/>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes during the year ended June 30, 2022 as follows:

Capital campaign	\$ 42,940
Outreach/Agency Pantry	285,845
Fresh Produce	185,348
Healthcare partnership	11,725
BackPack program	224,661
Summer Feeding	14,864
Equipment	111,844
Employee Gift	6,700
Deep ET Resource Center	844,934
Disaster relief	393,788
	<hr/>
	\$ 2,122,649
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Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Note 8: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2022, comprise the following:

Financial assets at year end	
Cash and cash equivalents	\$ 12,286,782
Trade receivable	275,471
Grants receivables	824,332
Pledges receivables	54,250
Investments	4,612,330
Beneficial interest in ETFB Foundation	<u>3,253,091</u>
 Total financial assets at year end	 <u>21,306,256</u>
 Less: Donor-imposed restrictions	
Funds subject to purpose restrictions	1,597,782
Beneficial interest in ETFB Foundation	3,253,091
Pledges receivables	<u>22,000</u>
Total Donor-imposed restrictions	<u>4,872,873</u>
 Net financial assets after donor-imposed restrictions	 16,433,383
 Less: Internal designations	
Cash	9,484,270
Investments	<u>4,612,330</u>
Board designated net assets	14,096,600
 Financial assets available to meet general expenditures within one year	 <u><u>\$ 2,336,783</u></u>

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Note 9: Fundraising

During the year ended June 30, 2022, the Organization incurred costs of \$620,656 for fundraising activities, which included the cost of appeals and special events. In addition, \$502,685 of salaries and related expenses were allocated to fundraising.

Note 10: Employee Benefit Plan

The Organization has a defined contribution plan covering substantially all full-time employees. Under the Plan, the Organization 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, 2022 totaled \$47,727.

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Recurring Measurements

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities.

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2022:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 4,612,330	\$ 3,304,594	\$ 1,307,736	\$ -
Beneficial interest in assets held at the East Texas Food Bank Foundation	\$ 3,253,091	\$ -	\$ -	\$ 3,253,091

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2022.

Beneficial Interest in East Texas Food Bank Foundation

Beneficial interest has been valued at the fair value of the underlying assets as of June 30, 2022. Due to the perpetual nature of the interest, it is classified within Level 3 of the hierarchy. The lack of redeemability and liquidity in the near term are considered unobservable inputs.

The following summarizes the change in fair value measurements:

Beneficial Interest in ETFB Foundation	
Balance, beginning of year	\$ 3,654,531
Investment income	125,335
Net realized and unrealized gain (loss)	(457,566)
Transfer to East Texas Food Bank	(35,604)
Investment expense	(33,605)
Balance, end of year	<u>\$ 3,253,091</u>

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

Note 12: Significant Estimates, Concentrations, and Other Events

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

A significant portion of support and revenues is received through grants from the United States Department of Agriculture (administered by the Texas Department of Agriculture), and the Texas Department of Agriculture. For the year ended June 30, 2022, approximately 18 percent of total support was received from these grants.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement of financial position.

Note 13: Revenue from Contracts with Customers

Shared Maintenance and Purchased Food Recovery Revenue

Performance obligations are determined based on the nature of the goods or services provided by the Organization in accordance with the contract. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to customers and the Organization does not believe it is required to provide additional goods or services related to that sale.

Transaction Price & Recognition

The Organization determines the transaction price on a per pound basis on selected categories of products. There are no explicit or implicit price concession, and the contracts do not contain a significant financing component or variable consideration.

The Organization has not incurred material refunds in the past, and accordingly, has not provided for a refund liability at June 30, 2022.

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

The exchange portion of shared maintenance revenue and purchased food recovery was \$800,568 and \$1,537,591, respectively, during the year ended June 2022. For the year ended June 30, 2022, the Organization recognized revenue from goods or services that transfer to the customer at a point in time.

Contract Balances

The Organization's receivables, contract assets at the beginning of the year was \$44,382, and \$275,471 at the end of the year.

Note 14: Contributed Nonfinancial Assets

For the year ended June 30, 2022, contributed nonfinancial assets recognized within the statement of activities included:

Food and Commodities

In addition to receiving cash contributions, the Organization receives in-kind contributions of food and other products from the United States Department of Agriculture (USDA) and various donors. In-kind donations of products, the related inventory and the cost of donated food distributed are valued at an average of the national wholesale prices as determined by Feeding America. The average price per pound used was \$1.92 for the year ended June 30, 2022.

The Organization received approximately 8.1 million unrestricted pounds valued at \$8,645,060 of donated food and household commodities from the USDA during the year ended June 30, 2022. The Organization received approximately 19.5 million pounds valued at \$37,521,802 of donated food and household commodities from individuals, businesses, and organizations other than the USDA, during the year ended June 30, 2022.

During the year ended June 30, 2022, the Organization distributed approximately 28.2 million pounds unrestricted of food and household commodities to benefit the food distribution and nutrition education programs.

Volunteer Time

Contributions of services are recognized as revenue at their estimated fair value only when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. Contributions of services also include services received from personnel of an affiliate.

Regional East Texas Food Bank
Notes to Financial Statements
June 30, 2022

A substantial number of volunteers donate significant amounts of their time to enable the Organization to meet its mission. These donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Note 15: Future Change in Accounting Principle

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating, or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021.

The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Note 16: Subsequent Events

Subsequent events have been evaluated through November 11, 2022, which is the date the financial statements were available to be issued.

Supplementary Information

Regional East Texas Food Bank
Schedule of Expenditures of Federal Awards
June 30, 2022

Federal Agency / Pass-Through Grantor / Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Passed through Texas Department of Agriculture				
Child and Adult Care Food Program	10.558	01544	\$ 450,980	\$ 450,980
COVID-19 - Child and Adult Care Food Program	10.558	01544	51,064	51,064
Child Nutrition Programs Cluster				
Summer Food Service Program for Children (SFSP)	10.559	01544	117,325	117,325
Food Distribution Cluster				
Commodity Supplemental Food Program (Administrative Costs)	10.565	None Provided	-	228,311
Commodity Supplemental Food Program (Food Commodities)	10.565	01544	1,368,146	1,368,146
Total Commodity Supplemental Food Program			1,368,146	1,596,457
Emergency Food Assistance Program (Administrative Costs)	10.568	None Provided	-	1,068,707
Emergency Food Assistance Program (Food Commodities)	10.569	01544	5,235,257	5,235,257
Total Food Distribution Cluster			6,603,403	7,900,421
Passed through Texas Health & Human Services Commission				
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	529-16-0002-00002	-	290,262
Total SNAP Cluster			-	290,262
Total U.S. Department of Agriculture			7,222,772	8,810,052
U.S Department of Treasury				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	None Provided	-	223,169
Total U.S. Department of Treasury			-	223,169
U.S Department of Health and Human Services				
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421	None Provided	-	66,600
Temporary Assistance for Needy Families	93.558	None Provided	-	96,330
Total U.S. Department of Health and Human Services			-	162,930
U.S. Department of Homeland Security				
Passed through from Texas Health & Human Services Commission				
Emergency Food and Shelter National Board Program	97.024	None Provided	-	37,500
Total U.S. Department of Homeland Security			-	37,500
U.S. Department of Housing and Urban Development				
COVID-19 - Community Development Block Grant /State's Program and Non-Entitlement Grants in Hawaii	14.228	None Provided	-	1,372,700
Total U.S. Department of Housing and Urban Development			-	1,372,700
Total Federal Awards Expended			\$ 7,222,772	\$ 10,606,351

* Amount represents noncash food commodities

Regional East Texas Food Bank
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Regional East Texas Food Bank (Organization) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organizations, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3: Indirect Cost Rate

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

Note 4: Federal Loan Programs

The Organization did not have any federal loan programs during the year ended June 30, 2022.



14241 Dallas Parkway, Suite 1100 / Dallas, TX 75254

P 972.702.8262 / F 972.702.0673

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**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**

Independent Auditor's Report

Board of Directors
East Texas Food Bank
Tyler, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Regional East Texas Food Bank (Organization) which comprise the statement of financial position as of June 30, 2022, 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, 2022, which contained an emphasis of matter paragraph regarding a change in accounting principle.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS, LLP

Fort Worth, Texas
November 11, 2022



14241 Dallas Parkway, Suite 1100 / Dallas, TX 75254

P 972.702.8262 / F 972.702.0673

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
East Texas Food Bank
Tyler, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Regional East Texas Food Bank's (Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of

laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

FORVIS,LLP

Fort Worth, Texas
November 11, 2022

Regional East Texas Food Bank
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2022

7. The Organization's major federal programs were:

Cluster/Program	Assistance Listing
Food Distribution Cluster	
Commodity Supplemental Food Program	10.565
Emergency Food Assistance Program (Administrative Costs)	10.568
Emergency Food Assistance Program (Food Commodities)	10.569
COVID-19 - Community Development Block Grant /State's Program and Non-Entitlement Grants in Hawaii	14.228

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee?

Yes

No

Regional East Texas Food Bank
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2022

Section II – Financial Statement Findings

Reference Number	Finding
	No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

Reference Number	Finding
	No matters are reportable.

Regional East Texas Food Bank
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

Reference Number	Summary of Finding	Status
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No matters are reportable.