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# **Regional East Texas Food Bank**

## **Independent Auditor's Report and Financial Statements**

**June 30, 2023**

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# Regional East Texas Food Bank

## June 30, 2023

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## Independent Auditor's Report

Board of Directors  
Regional 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, 2023, 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, 2023, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 the 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2023, 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.

**FORVIS, LLP**

**Fort Worth, Texas  
December 1, 2023**

**Regional East Texas Food Bank**  
**Statement of Financial Position**  
**June 30, 2023**

**Assets**

**Current Assets**

Cash and cash equivalents	
Cash	\$ 381,312
Board designated	6,709,760
With donor restrictions	<u>3,048,210</u>
Total cash and cash equivalents	<u>10,139,282</u>
Receivables	
Trade	186,378
Grants	2,230,402
Pledges receivable - restricted for capital campaign	<u>20,000</u>
Total receivables	<u>2,436,780</u>
Inventory	
Purchased	1,042,857
Donated food and commodities - USDA	787,605
Donated food and commodities - other	<u>751,170</u>
Total inventory	<u>2,581,632</u>
Prepays	
Insurance	8,995
Expense	<u>23,810</u>
Total prepays	<u>32,805</u>
Total current assets	<u>15,190,499</u>

**Noncurrent Assets**

Investments - Board designated	<u>5,150,408</u>
Property, plant, and equipment, net	12,638,819
Beneficial interest in ETFB Foundation	<u>3,491,676</u>
Total noncurrent assets	<u>21,280,903</u>
Total assets	<u>\$ 36,471,402</u>

**Liabilities and Net Assets**

**Current Liabilities**

Accounts payable	1,171,566
Accrued expenses	256,513
Advanced conditional contributions	<u>882,822</u>
Total current liabilities	<u>2,310,901</u>
Total liabilities	<u>2,310,901</u>

**Net Assets**

Without donor restrictions	32,919,883
With donor restrictions	<u>1,240,618</u>
Total net assets	<u>34,160,501</u>
Total liabilities and net assets	<u>\$ 36,471,402</u>

**Regional East Texas Food Bank**  
**Statement of Activities**  
**Year Ended June 30, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Support and Revenues</b>			
Support			
Donated food and commodities	\$ 40,194,695	\$ -	\$ 40,194,695
USDA commodities	7,300,101	-	7,300,101
Contributions	4,859,596	3,168,508	8,028,104
Total public support	<u>52,354,392</u>	<u>3,168,508</u>	<u>55,522,900</u>
Revenues			
Shared maintenance	643,939	-	643,939
Purchased food recovery	2,299,205	-	2,299,205
Federal grant revenues	7,614,471	-	7,614,471
Other revenue	37,132	-	37,132
Total revenues	<u>10,594,747</u>	<u>-</u>	<u>10,594,747</u>
Total support and revenue	<u>62,949,139</u>	<u>3,168,508</u>	<u>66,117,647</u>
<b>Expenses</b>			
Program	59,777,570	-	59,777,570
Management and general	2,137,478	-	2,137,478
Fundraising	909,534	-	909,534
Total expenses	<u>62,824,582</u>	<u>-</u>	<u>62,824,582</u>
<b>Income from Operations</b>	<u>124,557</u>	<u>3,168,508</u>	<u>3,293,065</u>
<b>Non-Operating Revenue and Expense</b>			
Change in beneficial interest in ETFB Foundation	242,907	-	242,907
Net investment return	616,800	324	617,124
Net assets released from restrictions	2,440,582	(2,440,582)	-
Loss on sale of property and equipment	(5,298)	-	(5,298)
Total non-operating revenue (expense)	<u>3,294,991</u>	<u>(2,440,258)</u>	<u>854,733</u>
<b>Change in Net Assets</b>	3,419,548	728,250	4,147,798
<b>Net Assets, Beginning of Year</b>	<u>29,500,335</u>	<u>512,368</u>	<u>30,012,703</u>
<b>Net Assets, End of Year</b>	<u>\$ 32,919,883</u>	<u>\$ 1,240,618</u>	<u>\$ 34,160,501</u>

**Regional East Texas Food Bank**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2023**

	<b>Program Food Distribution</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Salaries and benefits	\$ 2,561,838	\$ 747,998	\$ 374,934	\$ 3,684,770
Payroll taxes	184,039	64,911	27,594	276,544
Employee benefits and 401(k)	488,513	198,066	74,372	760,951
Total salaries and related expenses	<u>3,234,390</u>	<u>1,010,975</u>	<u>476,900</u>	<u>\$4,722,265</u>
Food purchases	5,314,792	-	-	5,314,792
Donated food and commodities	40,307,967	-	-	40,307,967
USDA inventory distributed	7,450,260	-	-	7,450,260
Supplies	167,812	15,757	3,829	187,398
Telephone and answering service	11,998	17,524	-	29,522
Postage	4,348	2,158	8,447	14,953
Occupancy	284,140	113,658	11,276	409,074
Local transportation	136,458	28,519	10,195	175,172
Professional development, training and travel	9,507	7,894	1,752	19,153
Marketing and advertising	290,307	-	-	290,307
Fundraising campaigns	-	-	374,245	374,245
Truck	440,760	-	-	440,760
Educational materials	46,734	-	-	46,734
Board liability, workers' compensation, building and contests insurance	52,022	27,523	-	79,545
Membership dues, fees and printing	19,738	45,998	19,890	85,626
Equipment maintenance	66,898	-	-	66,898
Uniforms	-	26,793	-	26,793
Freight	10,586	-	-	10,586
Contract labor	357,146	9,757	-	366,903
Professional fees	1,575	323,998	3,000	328,573
Solid waste disposal	6,470	-	-	6,470
Miscellaneous expense	31	-	-	31
Grants to agencies	853,829	910	-	854,739
Produce for agencies	567,726	-	-	567,726
Total expenses before depreciation	<u>59,635,494</u>	<u>1,631,464</u>	<u>909,534</u>	<u>62,176,492</u>
Depreciation	<u>142,076</u>	<u>506,014</u>	<u>-</u>	<u>648,090</u>
<b>Total Expenses</b>	<u><u>\$ 59,777,570</u></u>	<u><u>\$ 2,137,478</u></u>	<u><u>\$ 909,534</u></u>	<u><u>\$ 62,824,582</u></u>

**Regional East Texas Food Bank**  
**Statement of Cash Flows**  
**Year Ended June 30, 2023**

<b>Cash Flows from Operating Activities</b>	
Changes in net assets	\$ 4,147,798
Items not requiring (providing) cash:	
Depreciation expense	648,090
Change in beneficial interest in ETFB Foundation	(242,907)
Net realized and unrealized gain on investments	(265,926)
Contributions of donated food and commodities	(47,494,796)
Distributions of donated food and commodities	47,758,227
Loss on sale of property and equipment	5,298
Changes in:	
Trade accounts receivable	89,093
Grants receivable	(1,361,070)
Pledges receivable	-
Purchased inventory	203,598
Prepays	6,346
Accounts payable	2,349
Advanced conditional contributions	(268,688)
Accrued expenses	32,730
	<hr/>
Net cash provided by operating activities	3,260,142
	<hr/>
<b>Cash Flows from Investing Activities</b>	
Capital expenditures	(5,151,062)
Purchases of investments	(2,703,127)
Sale of investments	2,430,975
Transfers received from beneficial interest in ETFB Foundation	4,322
	<hr/>
Net cash used in investing activities	(5,418,892)
	<hr/>
<b>Cash Flows from Financing Activities</b>	
Contributions received for capital campaign	11,250
	<hr/>
Net cash provided by financing activities	11,250
	<hr/>
<b>Net Decrease in Cash and Cash Equivalents</b>	(2,147,500)
<b>Cash, Cash Equivalents, and Restricted Cash, Beginning of Year</b>	<hr/>
	12,286,782
<b>Cash, Cash Equivalents, and Restricted Cash, End of Year</b>	<hr/>
	\$ 10,139,282
	<hr/>



# Regional East Texas Food Bank

## Notes to Financial Statements

June 30, 2023

### 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, 2023

#### 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, 2023, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit. At June 30, 2023, the Organization's cash accounts exceeded federally insured limits by approximately \$6,453,000.

#### ***Restricted Cash***

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

# **Regional East Texas Food Bank**

## **Notes to Financial Statements**

### **June 30, 2023**

#### ***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.

#### ***Employee Retention Credit (ERC)***

In 2023, the Organization filed for refundable Employee Retention Credits authorized by *The Taxpayer Certainty and Disaster Tax Relief Act of 2020* for certain payroll periods in 2020 and 2021. During the year ended June 30, 2023, the Organization filed for total amount of \$600,720, which \$267,252 was received subsequent to June 30, 2023. At June 30, 2023, the Organization's ERC refundable credit receivable was \$600,720, which this amount has been reflected as grant receivable in the accompanying statement of financial position. The revenue of \$600,720 is reflected as federal grant revenue in the accompanying statement of activities.

#### ***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.

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

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 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, 2023.

***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.

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

**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:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<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

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.

# **Regional East Texas Food Bank**

## **Notes to Financial Statements**

### **June 30, 2023**

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. Products donated by USDA are valued utilizing a cost-per-pound price as determined by USDA donated foods catalog, found in the FNS electronic USDA donated foods ordering system, Web-Based Supply Chain Management (WBSCM). 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.

# **Regional East Texas Food Bank**

## **Notes to Financial Statements**

### **June 30, 2023**

#### ***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.

#### ***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, 2023. 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, 2023. 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 \$290,307 for the year ended June 30, 2023.

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

**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, 2023, 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.

Following are the grant commitments that extend beyond June 30, 2023:

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Earned Through 2023</u>	<u>Funding Available</u>
Capacity Building Grant	11/8/2021- 4/30/2025	\$ 6,085,806	\$ 4,720,611	\$ 1,365,195
		<u>\$ 6,085,806</u>	<u>\$ 4,720,611</u>	<u>\$ 1,365,195</u>

**Note 3: Pledges Receivable**

Pledges receivable for the year ended June 30, 2023, consisted of \$20,000 restricted for capital campaign. The Organization expects to receive the June 30, 2023, pledge balance during 2024 therefore has provided no discount on the pledge balance and no allowance for uncollectible accounts.

**Note 4: Conditional Gifts**

The Organization has received the following conditional promises to give at June 30, 2023, 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	\$ 699,413	\$ 2,688,084	\$ 3,387,497
Conditional promise to give to staff support for the multi-service resource centers in Longview, TX and Tyler, TX	\$ 125,000	\$ 125,000	\$ 250,000



**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

**Note 5: Property, Plant, and Equipment**

Property, plant, and equipment consisted of the following at June 30, 2023:

Buildings and improvements	\$	9,957,093
Furniture and fixtures		956,048
Warehouse equipment		<u>3,022,867</u>
Total depreciable assets		13,936,008
Land		282,103
Construction in progress		<u>3,953,751</u>
		18,171,862
Accumulated depreciation		<u>(5,533,043)</u>
		<u><u>\$ 12,638,819</u></u>

Depreciation expense was \$648,090 for the year ended June 30, 2023.

**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.

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.

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

At June 30, 2023, 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, 2023:

Cash and cash equivalents	\$	79,558
Interest receivable		3,344
Investments, at fair value		<u>3,408,774</u>
	\$	<u><u>3,491,676</u></u>

**Note 7: Net Assets**

***Net Assets Without Donor Restrictions***

Net assets without donor restrictions at June 30, 2023, consist of the following:

Undesignated	\$	20,688,172
Board Designated - Agency support fund		202,362
Board Designated - Operating reserve		<u>11,860,168</u>
	\$	<u><u>32,750,702</u></u>

***Net Assets With Donor Restrictions***

Net assets with donor restrictions were restricted for the following purposes at June 30, 2023:

Outreach/Agency Pantry	\$	743,531
Healthcare partnership		42,689
BackPack program		21,500
Summer Feeding		28,862
Deep ET Resource Center		17,500
Resource centers - Longview, Tyler, Texarkana		<u>731,158</u>
	\$	<u><u>1,585,240</u></u>

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

***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, 2023, as follows:

Outreach/Agency Pantry	\$ 382,367
Fresh Produce	391,853
BackPack program	128,048
Summer Feeding	25,646
Equipment	25,656
Deep ET Resource Center	775,410
Disaster relief	10,000
Resource centers - Longview, Tyler, Texarkana	<u>356,980</u>
	<u>\$ 2,095,960</u>

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

**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, 2023, comprise the following:

Financial assets at year end	
Cash and cash equivalents	\$ 10,139,282
Trade receivable	186,378
Grants receivables	2,230,402
Pledges receivables	20,000
Investments	5,150,408
Beneficial interest in ETFB Foundation	<u>3,491,676</u>
 Total financial assets at year end	 <u>21,218,146</u>
 Less: Donor-imposed restrictions	
Funds subject to purpose restrictions	3,048,210
Beneficial interest in ETFB Foundation	3,491,676
Pledges receivables - restricted for capital campaign	<u>20,000</u>
Total Donor-imposed restrictions	<u>6,559,886</u>
 Net financial assets after donor-imposed restrictions	 14,658,260
 Less: Internal designations	
Cash	6,709,760
Investments	<u>5,150,408</u>
Board designated net assets	11,860,168
 Financial assets available to meet general expenditures within one year	 <u><u>\$ 2,798,092</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, 2023**

**Note 9: Fundraising**

During the year ended June 30, 2023, the Organization incurred costs of \$432,634 for fundraising activities, which included the cost of appeals and development support. In addition, \$476,900 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, 2023, totaled \$55,613.

**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

***Recurring Measurements***

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

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

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, 2023:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 5,150,408	\$ 3,839,352	\$ 1,311,056	\$ -
Beneficial interest in assets held at the East Texas Food Bank Foundation	\$ 3,491,676	\$ -	\$ -	\$ 3,491,676

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, 2023.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

***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, 2023. 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.

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

The following summarizes the change in fair value measurements:

		<u>Beneficial Interest in ETFB Foundation</u>
Balance, beginning of year	\$	3,253,091
Investment income		90,293
Net realized and unrealized gain		184,773
Transfer to East Texas Food Bank		(4,322)
Investment expense		(32,159)
		<hr/>
Balance, end of year	\$	<u>3,491,676</u>

**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, 2023, approximately 15 percent of total support was received from these grants.

Approximately 25 percent of all contributions were received from one donor in 2023.

***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.

**Regional East Texas Food Bank**  
**Notes to Financial Statements**  
**June 30, 2023**

**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, 2023.

The exchange portion of shared maintenance revenue and purchased food recovery was \$643,939 and \$2,299,205, respectively, during the year ended June 2023. For the year ended June 30, 2023, 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 \$275,471 and \$186,378 at the end of the year.

**Note 14: Contributed Nonfinancial Assets**

For the year ended June 30, 2023, 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 contributions donated by individuals, businesses, and organizations are valued per pound at an average of the national wholesale prices as determined by Feeding America. In-kind contributions donated by USDA are valued utilizing a cost-per-pound price as determined by USDA donated foods catalog, found in the FNS electronic USDA donated foods ordering system, Web-Based Supply Chain Management (WBSCM).



# Regional East Texas Food Bank

## Notes to Financial Statements

### June 30, 2023

The Organization received approximately 6.3 million unrestricted pounds valued at \$7,300,101 of donated food and household commodities from the USDA during the year ended June 30, 2023. The Organization received approximately 20.8 million valued at \$40,194,695 of donated food and household commodities from individuals, businesses, and organizations other than the USDA, during the year ended June 30, 2023.

It is the Organization's policy to distribute the food and household commodities received through partnership agencies located in areas of need and through the use of mobile food pantries. During the year ended June 30, 2023, the Organization distributed approximately 27.4 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.

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: Subsequent Events**

Subsequent events have been evaluated through December 1, 2023, 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, 2023

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
<b>U.S. Department of Agriculture</b>				
Passed through Texas Department of Agriculture Child and Adult Care Food Program	10.558	01544	\$ 529,670	\$ 529,670
Child Nutrition Programs Cluster Summer Food Service Program for Children (SFSF)	10.559	01544	163,327	163,327
Food Distribution Cluster Commodity Supplemental Food Program (Administrative Costs)	10.565	None Provided	-	511,148
Commodity Supplemental Food Program (Food Commodities)	10.565	01544	1,701,960	1,701,960
Total Commodity Supplemental Food Program			1,701,960	2,213,108
Emergency Food Assistance Program (Administrative Costs)	10.568	None Provided	-	499,194
Emergency Food Assistance Program (Food Commodities)	10.569	01544	4,818,856	4,818,856
COVID-19 Emergency Food Assistance Program (Food Commodities)	10.569	01544	9,141	9,141
Total Emergency Food Assistance Program			4,827,997	5,327,191
Total Food Distribution Cluster			6,529,957	7,540,299
The Emergency Food Assistance Program Commodity Credit Corporation Eligible Recipient Funds (Administrative Commodities)	10.187	01544	-	48,870
The Emergency Food Assistance Program Commodity Credit Corporation Eligible Recipient Funds (Food Commodities)	10.187	01544	929,444	929,444
Total The Emergency Food Assistance Program Commodity Credit Corporation Eligible Recipient Funds			929,444	978,314
COVID-19 Pandemic Relief Activities: Local Food Purchase Agreements with States, Tribes, and Local Governments	10.182	None Provided	-	103,183
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	-	272,829
Total U.S. Department of Agriculture			8,152,398	9,587,622
<b>U.S. Department of Treasury</b>				
Passed through from Texas Department of Agriculture COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	None Provided	-	4,497,442
Total U.S. Department of Treasury			-	4,497,442
<b>U.S. Department of Health and Human Services</b>				
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421	None Provided	-	61,500
Temporary Assistance for Needy Families	93.558	None Provided	-	88,118
Total U.S. Department of Health and Human Services			-	149,618
<b>U.S. Department of Homeland Security</b>				
Passed through from Texas Health & Human Services Commission Emergency Food and Shelter National Board Program	97.024	None Provided	-	4,500
Total U.S. Department of Homeland Security			-	4,500
Total Federal Awards Expended			\$ 8,152,398	\$ 14,239,182

\* Amount represents noncash food commodities

The accompanying notes are an integral part of this Schedule.

**Regional East Texas Food Bank**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2023**

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (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, 2023. 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, 2023.



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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  
Regional 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 (*Government Auditing Standards*), the financial statements of Regional East Texas Food Bank (Organization) which comprise the statement of financial position as of June 30, 2023, 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 December 1, 2023.

***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  
December 1, 2023**



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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  
Regional East Texas Food Bank  
Tyler, Texas

#### Report on Compliance for Each Major Federal Program

##### *Opinion on Each Major Federal Program*

We have audited Regional East Texas Food Bank's 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, 2023. 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, 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, 2023.

##### *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 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 the 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 the 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 the 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 the 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 the 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 the 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.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Organization's is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The Organization's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.



## Report on Internal Control Over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be significant deficiency.

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization’s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. The Organization is responsible for preparing a corrective action plan to address each audit finding included in our auditor’s report. The Organization’s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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  
December 1, 2023**

**Regional East Texas Food Bank**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2023**

**Summary of Auditor's Results**

*Financial Statements*

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified       Qualified       Adverse       Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?       Yes       None reported  
Material weakness(es)?       Yes       No

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes       No

*Federal Awards*

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?       Yes       None reported  
Material weakness(es)?       Yes       No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards programs was:

Unmodified       Qualified       Adverse       Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes       No

**Regional East Texas Food Bank**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2023**

7. The Organization's major federal programs were:

<b>Cluster/Program</b>	<b>Assistance Listing</b>
The Emergency Food Assistance Program Commodity Credit Corporation Eligible Recipient Funds	10.187
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027
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

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, 2021**

**Section II – Financial Statement Findings**

<b>Reference Number</b>	<b>Finding</b>
No reportable matters	

**Regional East Texas Food Bank**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2023**

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

<b>Reference Number</b>	<b>Finding</b>
2023-001	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds AL 21.027 U.S. Department of Treasury Passed through Texas Department of Agriculture Award GFB202203 Program year November 8, 2021 – April 30, 2025

**Criteria:** Procurement, Suspension and Debarment (2 CFR section 300.324)

**Condition:** Federal regulations prohibit the cost plus a percentage of cost and percentage of construction costs methods of contracting.

**Questioned costs:** ALN 21.027 – Unknown questioned costs for the general contractor’s fee based on 2.5% percentage of the construction costs.

**Context:** Out of a population of 8 vendors, 2 vendors were selected for testing. Our sampling method was not, and is not intended to be, statistically valid. Of the vendors tested, one vendor contract was structured as a fee based upon the percentage of construction costs.

**Effect or potential effect:** Federal contract costs and price guidelines were not followed.

**Cause:** The Organization entered into an agreement with a previously used general contractor to oversee the construction project. The general contractor assisted in soliciting bids from subcontractors, which were brought to the Regional East Texas Food Bank for evaluation and selection. However, the general contractor’s fee was structured in the agreement as a percentage of construction costs.

**Identification as a repeated finding, if applicable:** N/A

**Recommendation:** The Organization should follow the contract cost and price guidelines as outlined in the Uniform Guidance.

**Views of responsible officials and planned corrective actions:**  
 Management does not disagree with the finding 2023-001 related to the COVID-19 Coronavirus State and Local Fiscal Recovery Funds. See separate report for key considerations and planned corrective action.

**Regional East Texas Food Bank**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2023**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
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No matters are reportable.



#### FINDING: 2023-001

ETFB management does not disagree with the Audit finding related to Section III – Federal Award Findings and Questioned Costs (Reference Number Finding 2023-001 COVID-19 Coronavirus State and Local Fiscal Recovery Funds) detailed on page 34 of the Audit report.

#### Several key considerations regarding this matter:

- In December 2020, ETFB was provided a donation of ~\$9m donation from the Mackenzie Scott Foundation. (Reference <https://www.easttexasfoodbank.org/2020/12/17/east-texas-food-bank-to-receive-philanthropic-investment-from-mackenzie-scott/>)
- In April of 2021, ETFB updated its Strategic Plan to include the expansion of the food bank’s infrastructure to add the Tyler Resource Center and Produce Distribution Center as well as additional regional resource centers throughout East Texas, in order to expand its ability to better serve those in need.
- On February 16, 2022, ETFB entered into a vendor agreement for the Master Plan including the construction of the Tyler Resource Center and Produce Distribution Center at an estimated cost of ~\$5.7million. At that point in time, ETFB expected that the majority of the funding for the Tyler Resource Center and Produce Distribution Center projects was to be provided by the Mackenzie Scott funds received in December 2020.
- On March 16, 2022, ETFB entered into an agreement with the same vendor for Tyler Administration Remodel project included in the Master Plan at an estimated cost of ~\$1.2million.
- On March 24, 2022 ETFB was awarded funding through the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) of ~\$6.1 million. These funds were subsequently directed to support the construction of the Tyler Resource Center and Produce Distribution Center. These funds also allowed us to increase the scope of our Master Plan.

**The key point here is that the contracts with the vendor were negotiated and completed before the CSLFRF funds were awarded. The 2023 audit revealed that, upon retrospect, the vendor contract included language in which the contractor fee is based on “cost plus a percentage of construction costs.” This pricing methodology is prohibited in the contract cost and price guidelines as outlined in the General Procurement Standards section of the Uniform Administration Requirements and was not identified as a problem by ETFB management nor reported to the ETFB board at the time. While a deficiency, unique circumstances prevailed in this situation given the timing of the signing of the contracts and the awarding of the CSLFRF funds.**

**Planned Corrective Action:** ETFB procurement policy to be reviewed and updated to include internal controls for compliance with contract costs and price guidelines as outlined in the Uniform Guidance.

- Add CEO or Officer review of contract costs and price guidelines for federal contracting agreements to ensure accordance with the Uniform Guidance for General Procurement Standards.
- Add obtaining and reacting to suspension and debarment certifications.

**Accountable Owner:** David Emerson, CEO

**Anticipation Completion Date:** December 31, 2023