



Financial Statements

June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Regional East Texas Food Bank (Food Bank) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

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

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

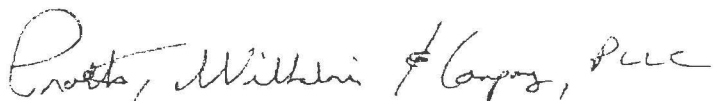
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OTHER INFORMATION

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019, on our consideration of the Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Food Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.



PROTHRO, WILHELMI AND COMPANY, PLLC

Tyler, Texas

December 4, 2019

REGIONAL EAST TEXAS FOOD BANK
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Cash and cash equivalents - without donor restrictions	\$ 1,277,494
Cash and cash equivalents - board designated	313,924
Cash and cash equivalents - with donor restrictions	256,783
Total cash and cash equivalents	<u>1,848,201</u>
Receivables	
Trade	139,513
Grants	255,649
Unconditional promises to give - without donor restrictions	15,000
Total receivables	<u>410,162</u>
Inventory	
Purchased	734,214
Donated food and commodities - USDA	1,394,044
Donated food and commodities - other	688,928
Total inventory	<u>2,817,186</u>
Assets restricted for capital campaign	
Cash - restricted for new building	106,724
Unconditional promises to give - restricted for new building	365,750
Total assets restricted for capital campaign	<u>472,474</u>
Property, plant, and equipment, net	5,804,530
Beneficial interest in ETFB Foundation	3,004,585
Total assets	<u><u>\$ 14,357,138</u></u>

LIABILITIES

Accounts payable	\$ 163,657
Accrued expenses	87,343
Capital lease payable	22,235
Total liabilities	<u>273,235</u>

NET ASSETS

Without donor restrictions:	13,354,646
With donor restrictions:	729,257
Total net assets	<u>14,083,903</u>
Total liabilities and net assets	<u><u>\$ 14,357,138</u></u>

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUES			
Support:			
Donated food and commodities	\$ 21,751,298	\$ -	\$ 21,751,298
USDA commodities	5,823,375	-	5,823,375
Contributions	2,016,029	622,476	2,638,505
Total support	<u>29,590,702</u>	<u>622,476</u>	<u>30,213,178</u>
Revenues:			
Shared maintenance	804,628	-	804,628
Purchased food recovery	1,970,567	-	1,970,567
Federal grant revenues	2,036,156	-	2,036,156
Other	57,294	-	57,294
Total revenues	<u>4,868,645</u>	<u>-</u>	<u>4,868,645</u>
Total support and revenues	<u>34,459,347</u>	<u>622,476</u>	<u>35,081,823</u>
EXPENSES			
Program	34,390,508	-	34,390,508
Management and general	797,991	-	797,991
Fundraising	653,419	-	653,419
Total expenses	<u>35,841,918</u>	<u>-</u>	<u>35,841,918</u>
(LOSS) INCOME FROM OPERATIONS	<u>(1,382,571)</u>	<u>622,476</u>	<u>(760,095)</u>
NON-OPERATING REVENUE AND EXPENSE			
Change in beneficial interest in EFTB Foundation	164,284	-	164,284
Interest income	41,869	6,189	48,058
Net assets released from restrictions	2,092,511	(2,092,511)	-
Total non-operating revenue (expenses)	<u>2,298,664</u>	<u>(2,086,322)</u>	<u>212,342</u>
CHANGE IN NET ASSETS	<u>916,093</u>	<u>(1,463,846)</u>	<u>(547,753)</u>
NET ASSETS AT THE BEGINNING OF PERIOD	<u>12,438,553</u>	<u>2,193,103</u>	<u>14,631,656</u>
NET ASSETS AT END OF PERIOD	<u>\$ 13,354,646</u>	<u>\$ 729,257</u>	<u>\$ 14,083,903</u>

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

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

	Program Services	Supporting Services		Total
	Food Distribution	Management and General	Fundraising	Expenses
Salaries and benefits	\$ 1,497,838	\$ 477,475	\$ 142,552	\$ 2,117,865
Payroll taxes	111,662	31,938	10,363	153,963
Employee benefits and 401(k)	243,147	91,712	35,298	370,157
Total salaries and related expenses	1,852,647	601,125	188,213	2,641,985
Food purchases	2,677,834	-	-	2,677,834
Free food purchases	284,040	-	-	284,040
Donated food and commodities	22,814,485	-	-	22,814,485
USDA inventory distributed	4,786,153	-	-	4,786,153
Supplies	162,105	16,131	3,989	182,225
Telephone, answering service	29,074	4,185	3,532	36,791
Postage	3,997	1,193	3,930	9,120
Occupancy	203,147	9,969	-	213,116
Local Transportation	69,049	6,589	406	76,044
Professional development/training & travel	9,777	15,110	7,305	32,192
Marketing and advertising	162,406	-	100	162,506
Fundraising campaigns	-	-	411,711	411,711
Truck expense	293,687	-	-	293,687
Program services	307,186	-	-	307,186
Board liability, workers' compensation, building and contents insurance	39,284	22,800	337	62,421
Membership dues, fees, printing	31,794	7,869	18,002	57,665
Equipment maintenance	139,481	20,756	15,894	176,131
Uniforms	362	8,735	-	9,097
Freight	16,490	-	-	16,490
Contract labor	94,225	17,186	-	111,411
Professional fees	-	59,643	-	59,643
Solid waste disposal	6,595	-	-	6,595
Miscellaneous expense	69,204	-	-	69,204
Interest expense	992	-	-	992
Restricted grant	73,881	-	-	73,881
Total expenses before depreciation	34,127,895	791,291	653,419	35,572,605
Depreciation expense	262,613	6,700	-	269,313
Total expenses	\$ 34,390,508	\$ 797,991	\$ 653,419	\$ 35,841,918

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

**REGIONAL EAST TEXAS FOOD BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

CASH FLOW FROM OPERATING ACTIVITIES:

Decrease in net assets	\$ (547,753)
Depreciation expense	269,313
Change in beneficial interest in ETFB Foundation	(164,284)
Contributions of donated food and commodities	(27,574,673)
Distributions of donated food and commodities	27,600,638
Change in valuation of donated food and commodities inventory	(391)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:	
Increase in trade accounts receivable	(75,944)
Decrease in grants receivable	154,749
Decrease in prepaid expenses	14,453
Decrease in purchased inventory	212,865
Decrease in accounts payable	(220,329)
Increase in accrued expenses	37,866
Net cash provided by operating activities	<u>(293,490)</u>

CASH FLOW FROM INVESTING ACTIVITIES:

Capital expenditures	(1,779,239)
Transfers received from beneficial interest in ETFB Foundation	38,862
Net cash used in investing activities	<u>(1,740,377)</u>

CASH FLOW FROM FINANCING ACTIVITIES:

Principal payments on capital lease payable	(5,354)
Contributions received for capital campaign	327,000
Net cash used in financing activities	<u>321,646</u>

Net decrease in cash and cash equivalents	(1,712,221)
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**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH
AT BEGINNING OF YEAR**

3,667,146

**CASH, CASH EQUIVALENTS, AND RESTRICTED CASH
AT END OF YEAR**

\$ 1,954,925

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:

Cash paid for interest	<u><u>\$ 992</u></u>
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RECONCILIATION TO STATEMENT OF FINANCIAL POSITION:

Cash and cash equivalents	\$ 1,848,201
Cash - restricted for new building	106,724
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	
- STATEMENT OF CASH FLOWS	<u><u>\$ 1,954,925</u></u>

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS

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

The Food Bank's principal programs include:

General Food Distribution

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

BackPack Program

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

Kids Cafe/Snack Program

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

Summer Food Program

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

Senior Box Program

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

Mobile Pantry

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

Fresh Produce Program

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

East Texas Food Bank Garden

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ORGANIZATION AND NATURE OF OPERATIONS - CONTINUED

Nutrition Education

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

SNAP/Food Stamps

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

Child and Adult Care Food Program

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

RECENTLY ADOPTED ACCOUNTING STANDARDS

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The ASU was adopted in the year ended June 30, 2019. The ASU requires significant changes to the financial reporting model, including moving from three classes of net assets down to two classes: net assets with donor restrictions and net assets without donor restrictions and expanded disclosures concerning expenses and liquidity. The ASU also requires changes to the way certain information is aggregated and reported.

BASIS OF PRESENTATION

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

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

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

Due to the adoption of ASU 2016-14 during the fiscal year ended June 30, 2019, the accompanying financial statements are presented in a single year format as the previously issued financial statements as of and for the year ended June 30, 2018, were prepared under prior guidance and are not comparative.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIS OF PRESENTATION - CONTINUED

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

ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

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

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

The Food Bank maintains receivables due from customers and government agencies. Additionally, the Food Bank maintains unconditional promises to give due from various contributors. The allowance for doubtful accounts is established through a provision for bad debts charged to expense and represents management's best estimate of possible losses due to bad debts that have been incurred within the accounts receivable portfolio. In establishing the allowance, management considers historical write-offs, current economic conditions and the financial stability of the debtors. As of June 30, 2019, no allowance for doubtful accounts was considered necessary to properly reflect the realizable value of accounts receivable or unconditional promises to give.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

INVENTORY

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

Donated food and commodities received from the United States Department of Agriculture (USDA) are valued based on amounts assigned to products by the USDA. At June 30, 2019 there were approximately 1,751,195 pounds of donated food and household commodities on hand received from the USDA. During the year ended June 30, 2019 the Food Bank distributed approximately 22.5 million pounds of food and household commodities. Inventories of USDA donated food and commodities are valued on a first-in, first-out basis.

Donated food and commodities – other is comprised of food and household commodities contributed to the Food Bank in-kind from individuals, businesses, and organizations other than the USDA. At June 30, 2019 there were approximately 425,364 pounds of donated food and household commodities on hand not received from the USDA. Donated food and household commodities have been recorded in the financial statements at fair market value, as determined by Feeding America, a third-party nonprofit organization. The average of national wholesale price per pound used to value donated inventory was \$1.62 for the year ended June 30, 2019. The Food Bank utilizes this value to determine the amount of donated food and commodities support and donated food and commodities expense in the accompanying financial statements. Inventories of donated food and commodities are valued on a first-in, first-out basis.

PROPERTY, PLANT, AND EQUIPMENT

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

Donated property, plant, and equipment are recorded as contributions in the accompanying statements at their estimated fair values. Such donations are reported as support without donor restrictions, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as support with donor restrictions. The Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Food Bank reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BENEFICIAL INTEREST IN ETFB FOUNDATION

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

CONTRIBUTIONS AND REVENUE RECOGNITION

Contributions, including unconditional promises to give by donors, are recorded when received and are immediately available for use unless specifically restricted by the donor.

Conditional promises to give are recognized when the conditions on which such promises depend are substantially met.

INCOME TAXES

The Food Bank is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent the entity has unrelated business income. The Food Bank had no taxable unrelated business income during the year ended June 30, 2019. The Food Bank believes it is no longer subject to income tax examinations for years prior to fiscal year ended June 30, 2016.

ALLOCATION OF EXPENSES

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

MARKETING AND ADVERTISING

The Food Bank uses marketing and advertising to promote its programs and services among the audience it serves, increase hunger awareness, spread nutrition education, and conduct social marketing campaigns. The costs of marketing and advertising are expensed as incurred. Marketing and advertising costs totaled \$162,506, which included \$118,959 of contributed goods and services, for the year ended June 30, 2019.

NEW ACCOUNTING GUIDANCE NOT YET ADOPTED

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. This standard is effective for fiscal years beginning after December 15, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Food Bank is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Food Bank has not yet selected a transition method, nor has it determined the effect of the standard on its ongoing financial reporting.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

NEW ACCOUNTING GUIDANCE NOT YET ADOPTED – CONTINUED

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

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

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

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

The FASB has officially voted to approve delaying the effective date for this standard from December 15, 2019 to December 15, 2020. The Food Bank is currently evaluating the potential impact of adopting this guidance on its financial statements.

NOTE 2 - CONTRIBUTED AND DONATED GOODS AND SERVICES

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

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

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

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

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

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

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

Purpose	
Without donor restrictions	\$ 15,000
Capital campaign	<u>365,750</u>
Total	<u>\$ 380,750</u>

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT

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

Land	\$ 237,677
Buildings	7,461,315
Furniture and fixtures	783,826
Equipment	166,494
Warehouse equipment	1,873,477
Accumulated depreciation	<u>(4,718,259)</u>
	<u>\$ 5,804,530</u>

Depreciation expense was \$269,313 for the year ended June 30, 2019. Also, during the year ended June 30, 2019, the Food Bank completed the construction of its expanded warehouse and administrative facilities at a cost of \$2,540,391.

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

NOTE 5 – BENEFICIAL INTEREST IN EAST TEXAS FOOD BANK FOUNDATION (QUASI-ENDOWMENT)

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

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

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

	(Unaudited)
Cash and cash equivalents	\$ 82,659
Interest receivable	4,882
Investments, at fair value	2,917,044
	<u>\$ 3,004,585</u>

NOTE 6 – CAPITAL LEASES

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

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

Year ended June 30:	
2020	\$ 6,516
2021	6,516
2022	6,516
2023	4,344
2024	-
2025 and thereafter	-
Total	<u>\$ 23,892</u>

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

NOTE 7 - RESTRICTIONS ON NET ASSETS

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

Capital campaign	\$ 472,474
Fresh produce	110,739
Healthcare partnership	45,911
Kids Café	10,859
Disaster relief	70,505
Senior box	18,769
Net assets with donor restrictions	<u>\$ 729,257</u>

Releases from restrictions on net assets for the year ended June 30, 2019:

Capital campaign	\$ 1,705,901
Outreach	139,457
Mobile pantry	16,532
Fresh produce	64,371
BackPack program	131,411
Summer Feeding	29,548
Senior box	5,291
Net assets released from donor restrictions	<u>\$ 2,092,511</u>

BOARD DESIGNATIONS – The Food Bank’s Board of Directors has designated cash and cash equivalents aggregating \$313,924 to be used for various purposes. During the year ended June 30, 2019, the Board released \$79,159 of designated cash. Such releases by the Board were made for the purpose of supporting certain Food Bank partner agencies through capacity building grants and support through Agency Institute program.

NOTE 8 - FUNDRAISING

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

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

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Food Bank has a defined contribution plan covering substantially all full-time employees. Under the Plan, the Food Bank provides a matching component to the employees' contributions on a discretionary basis. Additional year-end contributions may be made at the Board of Directors' discretion. Plan expenses incurred during the year ended June 30, 2019 totaled \$28,791.

NOTE 10 - CONCENTRATIONS

Approximately twenty-five percent of the foods donated during the year ended June 30, 2019 were received from the USDA under a contract with the Texas Department of Agriculture.

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

Additionally, the underlying assets held by the ETFB Foundation for the benefit of the Food Bank are held entirely at Merrill Lynch.

NOTE 11 – CONTINGENCIES

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

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

NOTE 12 - FAIR VALUE MEASUREMENTS

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

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets liabilities in active markets that the Food Bank has the ability to access

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

NOTE 12 - FAIR VALUE MEASUREMENTS – CONTINUED

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

CHANGE IN VALUATION HIERARCHY LEVEL

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

The following summarizes investment valuation methods:

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

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

NOTE 12 - FAIR VALUE MEASUREMENTS – CONTINUED

The following summarizes the change Level 3 fair value measurements:

	Beneficial interest in ETFB Foundation - Level 3
Balance, beginning of period	\$ -
Reclassification from Level 1 and 2	2,879,163
Balance, beginning of period, as reclassified	2,879,163
Investment income	79,778
Net realized and unrealized gain/(loss)	113,286
Transfer to Food Bank	(38,862)
Investment expense	(28,780)
Balance, end of period	\$ 3,004,585

NOTE 13 - SUBSEQUENT EVENTS

The Food Bank has evaluated subsequent events through December 4, 2019, the date on which the financial statements were available to be issued.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Food Bank, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

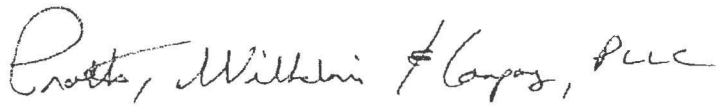
As part of obtaining reasonable assurance about whether the Food Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

6855 OAK HILL BLVD • TYLER, TEXAS 75703 • TEL 903 534 8811 • FAX 903 534 8891 • WWW.PW-TX.COM

PURPOSE OF THIS REPORT

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

A handwritten signature in cursive script that reads "Prothro, Wilhelmi & Company, PLLC".

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
December 4, 2019



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

Board of Directors
Regional East Texas Food Bank
Tyler, Texas

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the Food Bank's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Food Bank's major federal programs for the year ended June 30, 2019. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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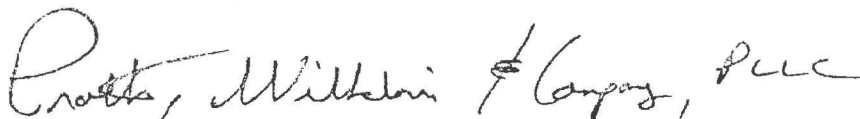
REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

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

A handwritten signature in black ink, appearing to read "Prothro, Wilhelmi & Company, PLLC". The signature is fluid and cursive, with the company name written in a stylized manner.

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
December 4, 2019

REGIONAL EAST TEXAS FOOD BANK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantors Number	Expenditures
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>			
Passed through Texas Department of Agriculture:			
Child and Adult Care Food Program			
Program Year:	10.558	01544	
2017/2018			\$ 83,185
2018/2019			461,519
Total Child and Adult Care Food Program			544,704
<u>Food Distribution Cluster:</u>			
Commodity Supplemental Food Program			
Program Year:	10.565	01544	
2017/2018			44,440
2018/2019			124,186
Total Commodity Supplemental Food Program			168,626
Commodity Supplemental Food Program			
Program Year:	10.565	01544	
2018/2019			1,094,672
Total Commodity Supplemental Food Program			1,094,672
Emergency Food Assistance Program (Administrative Costs)			
Program Year:	10.568	01544	
2018/2019			459,540
Total Emergency Food Assistance Program (Administrative Costs)			459,540
Emergency Food Assistance Program (Food Commodities)			
Program Year:	10.569	01544	
2018/2019			2,700,567
Total Emergency Food Assistance Program (Food Commodities)			2,700,567
Total Food Distribution Cluster			4,423,405
Trade Mitigation Program (Admin Costs)			
Program Year:	10.178	01544	
2018/2019			90,055
Total Trade Mitigation Program (Admin Costs)			90,055
Trade Mitigation Program (Commodities)			
Program Year:	10.178	01544	
2018/2019			1,890,720
Total Trade Mitigation Program (Commodities)			1,890,720
Total Trade Mitigation Program			1,980,775
<u>Child Nutrition Programs Cluster:</u>			
Summer Food Service Program for Children	10.559	01544	
Program Year:			
2018			81,573
2019			151,290
Total Child Nutrition Programs Cluster			232,863
Passed through Texas Health and Human Services Commission:			
<u>SNAP Cluster:</u>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			
Program Year:	10.561		
2017-2018		529-16-0002-00002	101,480
2018-2019		529-16-0002-00002	196,848
Total State Administrative Matching Grants for the SNAP			298,328
Total SNAP Cluster			298,328
Total United States Department of Agriculture:			7,480,075
<u>UNITED STATES DEPARTMENT OF HOMELAND SECURITY</u>			
Emergency Food and Shelter National Board Program	97.024		6,500
Total United States Department of Homeland Security:			6,500
Total Federal Assistance			\$ 7,486,575

**REGIONAL EAST TEXAS FOOD BANK
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED JUNE 30, 2019**

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>State Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
<u>HEALTH AND HUMANS SERVICES</u>			
Community Partner Program			<u>\$ 108,490</u>
Total Health and Human Services Commision			<u>108,490</u>
Total State Assistance			<u><u>\$ 108,490</u></u>

REGIONAL EAST TEXAS FOOD BANK
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (Schedule) presents the federal and state program activity of the Food Bank. The Schedule is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Food Bank.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. The Food Bank has not elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the USDA reported value of the commodities received, and disbursed. At year-end, the Food Bank had USDA food commodities in inventory totaling \$1,394,044.

**REGIONAL EAST TEXAS FOOD BANK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued:	<i>Unmodified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unmodified</i>

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No
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Identification of major programs:

FEDERAL

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
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10.178	Trade Mitigation Program
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Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>750,000</u>
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Auditee qualified as low-risk auditee?	Yes
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Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

None.

**REGIONAL EAST TEXAS FOOD BANK
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

None.