

SOUTHEAST TEXAS FOOD BANK, INC.

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
A PROFESSIONAL CORPORATION

August 24, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southeast Texas Food Bank, Inc.
Beaumont, Texas 77705

Report on the Financial Statements

We have audited the accompanying financial statement of Southeast Texas Food Bank, Inc. ("the Food Bank") (a Texas non-profit organization) which comprise the statement of financial position as of December 31, 2016, 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.

Auditor's 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 our audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the Board of Directors
Southeast Texas Food Bank, Inc.

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 December 31, 2016, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 (CFR) 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 August 24, 2017, on our consideration of the Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.

Very truly yours,



EDGAR, KIKER, & CROSS, PC
Certified Public Accountants and Consultants

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**SOUTHEAST TEXAS FOOD BANK, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016**

ASSETS

	12/31/2016
CURRENT ASSETS	
Cash and cash equivalents, unrestricted	\$ 788,160
Accounts receivable	45,954
Awards and grants receivable (Note 3)	179,109
Inventory (Note 6)	966,900
Prepaid expenses	11,980
Total Current Assets	1,992,103
FIXED ASSETS	
Property and equipment, net (Note 2)	909,894
Total Fixed Assets	909,894
NONCURRENT ASSETS	
Cash and cash equivalents, restricted	155,832
Investments	305,388
Total Noncurrent Assets	461,220
Total Assets	\$ 3,363,217

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 57,755
Accrued liabilities	-
Total Current Liabilities	57,755
NET ASSETS	
Unrestricted	
Board designated operating reserves	1,358,825
Undesignated	1,790,805
Total unrestricted net assets	3,149,630
Temporarily restricted (Note 4)	155,832
Total Net Assets	3,305,462
Total Liabilities and Net Assets	\$ 3,363,217

The accompanying notes are an integral part of this financial statement.

SOUTHEAST TEXAS FOOD BANK, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT, REVENUE, AND RECLASSIFICATIONS:			
Donations - cash	\$ 1,862,196	\$ 560,713	\$ 2,422,909
Donation - goods for distribution	6,071,187	-	6,071,187
Grants - USDA emergency food assistance program	3,219,772	-	3,219,772
Grants - other	-	131,980	131,980
Service Fees	452,571	-	452,571
Interest income	5,068	-	5,068
Other income	4,448	-	4,448
Net assets released from restrictions	660,917	(660,917)	-
	<u>12,276,159</u>	<u>31,776</u>	<u>12,307,935</u>
FUNCTIONAL EXPENSES:			
Program Services	11,701,756	-	11,701,756
Support Services:			
General and administrative	323,005	-	323,005
Fundraising	259,746	-	259,746
	<u>12,284,507</u>	<u>-</u>	<u>12,284,507</u>
Total Functional Expenses	<u>12,284,507</u>	<u>-</u>	<u>12,284,507</u>
Increase in Net Assets	(8,348)	31,776	23,428
NET ASSETS, beginning of year	<u>3,157,978</u>	<u>124,056</u>	<u>3,282,034</u>
NET ASSETS, end of year	<u>\$ 3,149,630</u>	<u>\$ 155,832</u>	<u>\$ 3,305,462</u>

The accompanying notes are an integral part of this financial statement.

SOUTHEAST TEXAS FOOD BANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Program Services	Management and General	Fund Raising	Total
Personnel				
Salaries	\$ 89,890	\$ 48,262	\$ 9,892	\$ 148,044
Payroll taxes	7,811	3,988	-	11,799
Fringe benefits	106,106	39,444	-	145,550
Leased employees	354,718	171,569	-	526,287
Contract labor	1,603	-	-	1,603
Worker's compensation	6,904	708	-	7,612
Total Personnel Expenses	<u>567,032</u>	<u>263,971</u>	<u>9,892</u>	<u>840,895</u>
Direct Program Expenses				
Food	9,550,635	-	-	9,550,635
Backpack program	166,857	-	-	166,857
School tools	941,153	-	-	941,153
Other	106,729	-	-	106,729
Total Direct Program Expenses	<u>10,765,374</u>	<u>-</u>	<u>-</u>	<u>10,765,374</u>
Other Program Expenses				
Auto expense	3,323	2,019	-	5,342
Dues and fees	11,770	157	-	11,927
Insurance	39,160	1,061	-	40,221
Office expense	16,757	12,598	3,124	32,479
Supplies	27,990	-	-	27,990
Professional service	31,961	31,961	211,476	275,398
Public relations	24,998	653	24,345	49,996
Repair and maintenance	54,531	266	-	54,797
Fundraising	-	-	10,909	10,909
Miscellaneous	3,739	-	-	3,739
Seminars and travel	12,244	2,479	-	14,723
Telephone	8,949	2,983	-	11,932
Utilities	48,774	1,769	-	50,543
Total Other Expenses	<u>284,196</u>	<u>55,946</u>	<u>249,854</u>	<u>589,996</u>
Total expenses before depreciation	11,616,602	319,917	259,746	12,196,265
Depreciation	<u>85,154</u>	<u>3,088</u>	<u>-</u>	<u>88,242</u>
Total Expenses	<u>\$ 11,701,756</u>	<u>\$ 323,005</u>	<u>\$ 259,746</u>	<u>\$ 12,284,507</u>

The accompanying notes are an integral part of this financial statement.

SOUTHEAST TEXAS FOOD BANK, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOW FROM OPERATING ACTIVITIES

Increase in net assets		\$ 23,428
Adjustments to reconcile changes in net assests to net cash provided (used) by operating activities -		
Depreciation	88,242	
Decrease in accounts receivable	(4,016)	
Increase awards and grants receivable	(10,406)	
Increase in inventory	(134,366)	
Increase in prepaid expense	(2,105)	
Increase in accounts payable	31,553	
Increase in accrued liabilities	(3,953)	
Net Cash Provided (Used) by Operating Activities		(11,623)

CASH FLOW FROM INVESTING ACTIVITIES

Dividends reinvested	(3,145)	
Purchase of equipment	(37,450)	
Net Cash Provided (Used) by Investing Activities		(40,595)

NET INCREASE IN CASH AND CASH EQUIVALENTS

(52,218)

CASH AND CASH EQUIVALENTS - AT BEGINNING OF YEAR

996,210

CASH AND CASH EQUIVALENTS - AT END OF YEAR

\$ 943,992

Supplemental Cash Flow Information

Interest paid during the year		\$ -
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The accompanying notes are an integral part of this financial statement.

SOUTHEAST TEXAS FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization –

Southeast Texas Food Bank, Inc., (“the Food Bank”), is a private not-for-profit entity. The Food Bank was established in June 1991 in order to provide a clearinghouse to receive and sort donated salvage food to be provided to needy organizations. The Food Bank serves 8 counties.

Description of Programs and Services –

The Food Bank operates as a clearinghouse where donated and purchased food is sorted, packaged, and distributed to approximately 150 partner distribution agencies and schools to provide food for thousands of needy people. The Food Bank also contracts with the U.S. Department of Agriculture, through the Texas Department of Agriculture to provide commodities to eligible agencies. In addition to providing salvaged products and U.S.D.A. commodities to agencies, the Food Bank has established a “School Tools” program which provides school supplies to teachers in area schools which meet specified poverty guidelines and a “Backpack” program which provides sacks of kid-friendly, healthy snack food to some of the neediest children in qualifying schools throughout Southeast Texas. The Food Bank charges nominal service fees for handling the items it disburses. In addition, contributions from the public, private entities, grants from the United Way and governmental grants also support the Food Bank.

Basis of accounting-

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and liabilities are recorded when incurred.

Financial Statement Presentation –

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-for-Profit Organizations.” Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. In addition, the Organization is required to present a statement of cash flows.

Contributions –

The Organization has adopted SFAS No. 116, “Accounting for Contributions Received and Contributions Made,” whereby contributions received are recoded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restricted restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

Long-Term Investments –

The Organization has adopted SFAS No. 124, “Accounting for Certain Investments Held by Not-for-Profit Organizations.” Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets, if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. During the year ended December 31, 2016, the Organization had investments consisting of several certificate of deposits which are reported at cost, which approximates fair value (level one input).

Contributed Services –

During the year ended December 31, 2016, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization. The Organization received contributed services from more than 1,800 volunteers in 2016.

SOUTHEAST TEXAS FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Use of Estimates –

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and actual results could differ from those estimates.

Cash and Cash Equivalents –

For purpose of reporting cash flows, the Organization considers all cash accounts to be cash and cash equivalents.

Property and Equipment –

The Food Bank's approved policy is to capitalize all expenditures for property and equipment in the amount of \$1,200 or more. Donations of property and equipment are recorded as support at their estimated fair values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with the explicit restriction that their cash must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. Depreciation is provided over the estimated useful lives of the assets and computed on the straight-line method. Depreciation expense recognized in the statement of activities for the year ended December 31, 2016 was \$88,242.

Income Taxes –

The Organization is exempt from federal income tax under provisions of Section 501(c)(3) of the Internal Revenue Code and has been determined to be an organization that is not a private foundation. Accordingly, no provision for income taxes has been made. As of December 31, 2016, the Food Banks's tax years of 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they are filed.

Functional Expenses –

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Costs are allocated among fund raising, management and general or appropriate program based on evaluations of the related benefits. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Compensated Absences –

Employees of the Organization are entitled to paid vacation and sick days. It is the policy of the Organization that no more than 10 days of unused vacation can be carried over to the following year. Upon termination, unused sick days expire. It is the policy of the Organization to recognize the costs of compensated absences when actually paid to employees.

**SOUTHEAST TEXAS FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

**NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Inventories –

Donated materials including food and related items that are sorted and distributed by the Food Bank to other non-profit organizations serving the needy. Donated food is recorded at estimated fair value when received, charged to cost of goods donated when distributed and the remaining food on hand at year end is reported as inventory. A service fee is charged to these local non-profit organizations.

The Food Bank values their contributed non-USDA inventory according to the most current available Feeding America Network’s annual valuation of a pound of donated food. The value is calculated by an analysis of the mix of products being donated through the Feeding America Network as well as a determination of the fair market value of those products. The value per pound used for 2016 was \$1.70. The USDA inventory is valued at the cost per pound, which was paid by the USDA to obtain the commodity for distribution. Items in inventory, which were purchased for distribution, are valued at the actual purchase price.

NOTE 2 – LAND, PROPERTY AND EQUIPMENT

Land, property and equipment consisted of the following at December 31, 2016.

Land	\$ 49,614
Leasehold land improvements	8,878
Building and improvements	1,507,013
Equipment / Vehicles / Furniture & Fixtures	889,415
Less: Accumulated depreciation	<u>(1,545,026)</u>
	<u>\$ 909,894</u>

No property or equipment is pledged, subject to a lien or restricted by a third party.

NOTE 3 – AWARDS AND GRANT RECEIVABLES

The Food Bank has been awarded certain grants from fundraising agencies, foundations, and corporations, which are receivable in a subsequent period. The receivables at December 31, 2016, were as follows:

Grant receivables	
TEFAP	\$ 69,036
HHSC - Food Stamp	14,057
HHSC - Snap Education	13,016
United Way	<u>83,000</u>
Total Grant Receivables	<u>\$ 179,109</u>

**SOUTHEAST TEXAS FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following specific program services:

BBVA Compass Foundation	\$ 2,500
Blue Cross Blue Shield	10,000
Dishman Charitable Foundation	11,000
ExxonMobil Foundation	2,779
Feeding America - Backpack Program Grant	14,625
Feeding America - Red Nose Day Fund Grant	6,869
Nelda C. and H.J. Lutcher Stark Foundation	15,000
St. Mark's Episcopal Church	338
Tegna Foundation	2,779
Valero Children's Benefit	6,944
United Way of Beaumont & North Jefferson County	83,000
Total Temporarily Restricted Net Assets	<u>\$ 155,834</u>

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

Purpose restriction accomplished	
School tools program	\$ 20,900
Food purchases and distribution costs	225,166
Staff training and development	123,450
Backpack program	162,561
25th Anniversary Gala	86,240
Fundraising - Golf Tournament	42,600
Total Restrictions Released	<u>\$ 660,917</u>

NOTE 5 – RESTRICTED AND UNRESTRICTED REVENUE

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

SOUTHEAST TEXAS FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6 – INVENTORIES

Inventories consisted of the following:

Inventory - Non-USDA	\$ 358,856
Inventory - USDA	608,044
Total Inventory	<u>\$ 966,900</u>

NOTE 7 – RETIREMENT PLANS

The Food Bank maintains a 401(k) deferred compensation plan for the benefit of its employees (and leased employees), substantially all of whom are eligible to participate after meeting minimum qualifying standards. The Food Bank has elected to make matching contributions to the plan up to 4% of their eligible wages. The Food Bank made matching contributions to the plan totaling \$24,053 for 2016.

NOTE 8 – OPERATING LEASE

The Food Bank leases a 1.183-acre tract of land adjacent to their existing property under an operating lease expiring on May 31, 2101. Under the arrangement, the Food Bank agreed to pay the owners an annual rental of \$1 for the entire term of the lease agreement. The lessor retains the right to terminate the lease after the initial twenty-five (25) years of the term by giving the Food Bank at least one (1) year written notice. Lessor may not terminate the lease during the first twenty-five (25) years of the lease. All improvements made by the Food Bank to the leased property, except those items which may be removable from the property, shall become the property of the lessor and remain upon and be surrendered with the leased property as a part thereof upon the termination of the lease.

NOTE 9 – MAJOR SOURCES OF SUPPORT

The majority of goods distributed by the Food Bank come from donations passed through and purchased through Feeding America and wholesale distributors, donations from local retailers, USDA allocations, food drives and other direct purchases.

Non-USDA (Local Retailers, Feeding America, Others)	\$ 5,148,322
USDA	3,078,875
Direct Purchases	798,970
Total	<u>\$ 9,026,167</u>

NOTE 10 – CONCENTRATION OF CREDIT RISK

At December 31, 2016, the aggregate bank balance of the demand, certificate of deposit and money market accounts at BBVA Compass Bank was \$506,282 which was \$256,282 in excess of the FDIA \$250,000 coverage.

**SOUTHEAST TEXAS FOOD BANK, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE 11 – CONTINGENCIES

The Food Bank participates in numerous grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the Food Bank as not complied with the rules and regulations governing the grants, *if any*, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 12 – LEASED EMPLOYEES

Beginning April 1, 2016, R & P Employer Solutions of Texas, Inc. (R&P) hired all current Food Bank employees of the Food Bank and began leasing same personnel back to the Food Bank. The Food Bank provides retirement and insurance benefits and pays these costs directly to the vendors (receiving a credit from R&P for the employees' share of insurance and 401K deferrals). The Food Bank paid R&P \$539,432 for leased employees for the nine months ended December 31, 2016.

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events were evaluated through August 24, 2017, which is the date the financial statements were available to be issued.

SINGLE AUDIT

SOUTHEAST TEXAS FOOD BANK, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Federal Grantor/ Pass - Through Grantor/ Program Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through Texas Department of Agriculture:</u>			
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program:			
Food Commodities - TEFAP	10.569	123-7158	\$ 988,331
Administrative Costs - TEFAP	10.568	123-7158	<u>140,903</u>
Total Emergency Food Assistance Program Cluster			<u>1,129,234</u>
 <u>Passed Through Texas Health and Human Services Commission:</u>			
Supplemental Nutrition Assistance Program (SNAP):			
Social Services Outreach	10.561	529-06-0423-0001	59,607
Food Stamp Nutrition Education	10.561	529-10-0011-00012A	<u>62,209</u>
Total Supplemental Nutrition Assistance Program (SNAP)			<u>121,816</u>
Total U.S. Department of Agriculture			<u>1,251,050</u>
 U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<u>Passed Through City of Beaumont Texas:</u>			
Community Development Block/Entitlement	14.218		<u>8,350</u>
Total Community Development Block/Entitlement			<u>8,350</u>
Total U.S. Department of Health and Human Services			<u>8,350</u>
 TOTAL FEDERAL EXPENDITURES			 <u><u>\$ 1,259,400</u></u>

SOUTHEAST TEXAS FOOD BANK, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southeast Texas Food Bank, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amount presented in, or used in the preparation of, the financial statements.

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. The Southeast Texas Food Bank has elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

Pass-through entity identifying numbers are presented where available.

NOTE 3 – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the USDA food value of the commodities received, as confirmed with the Texas Department of Agriculture, and disbursed as of December 31, 2016. At year-end the Southeast Texas Food Bank, Inc. had USDA food commodities in inventory totaling \$608,044 (revalued at the Feeding America per pound rate of \$1.70).

SOUTHEAST TEXAS FOOD BANK, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2016**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: **Unqualified**

Internal control over financial reporting

- Material weakness identified? _____ Yes X No
- Significant deficiency (ies) identified? _____ Yes X No None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness identified? _____ Yes X No
- Significant deficiency (ies) identified? _____ Yes X No None reported

Type of auditors' report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No None reported

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	EMERGENCY FOOD ASSISTANCE CLUSTER
10.568	Emergency Food Assistance Program - Administrative Costs
10.569	Emergency Food Assistance Program - Food Commodities

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards.

There were no findings to be reported.

Section III - Findings and Questioned Cost for Federal Awards.

There were no findings and questioned cost to be reported.

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
A PROFESSIONAL CORPORATION

August 24, 2017

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Southeast Texas Food Bank, Inc.
Beaumont, Texas 77705

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 Southeast Texas Food Bank, Inc. ("the Food Bank") a Texas non-profit organization, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 24, 2017.

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 our opinion on the financial statements, but not for the purpose of expressing an 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 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 weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weakness may exist that have not been identified.

To the Board of Directors
Southeast Texas Food Bank, Inc.

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 instance 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Very truly yours,



EDGAR, KIKER, & CROSS, PC
Certified Public Accountants and Consultants

CAY

Gary L. Zimmerman, CPA
Robert T. Edgar, CPA, CFP®
Charlotte A. Yates, CPA
Sheri K. DeMage, CPA
Joshua H. LeBlanc, CPA

Mark Theobald, CPA
Lauren Seaux, CPA



Wm. Tim Edgar, CPA, (1924 - 2017)
Charles A. Kiker, Jr., CPA, Emeritus
Nathan H. Cross, CPA, Emeritus
Ellis M. (Mike) Frank, CPA, Emeritus

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
A PROFESSIONAL CORPORATION

August 24, 2017

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

To the Board of Directors
Southeast Texas Food Bank, Inc.
Beaumont, Texas 77705

Report on Compliance for Each Major Federal Program

We have audited Southeast Texas Food Bank, Inc. ("the Food Bank") 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 December 31, 2016. 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 the requirements of law, regulations, contracts, and grants 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 of 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 December 31, 2016.

To the Board of Directors
Southeast Texas Food Bank, Inc.

Report on Internal Control Over Compliance

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with 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 a 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 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.

Very truly yours,



EDGAR, KIKER & CROSS, PC
Certified Public Accountants and Consultants

CAY