

SOUTH TEXAS FOOD BANK

FINANCIAL STATEMENTS &
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2021



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
South Texas Food Bank
Laredo, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of South Texas Food Bank (the Organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of September 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

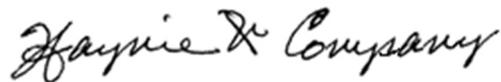
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our 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 schedule of expenditures of federal awards 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 May 31, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



San Antonio, Texas
May 31, 2022

Financial Statements

South Texas Food Bank
Statement of Financial Position
September 30, 2021

Current Assets	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Cash and Cash Equivalents	\$ 3,075,552	\$ -	\$ 3,075,552
Investments	8,328,248	-	8,328,248
Agency and Grant Receivables	832,060	-	832,060
Donated Food Inventory	381,308	4,769,200	5,150,508
Total Current Assets	12,617,168	4,769,200	17,386,368
Property and Equipment, Net of Accumulated Depreciation	7,001,471	-	7,001,471
Total Assets	\$ 19,618,639	\$ 4,769,200	\$ 24,387,839
Liabilities			
Accounts Payable and Accrued Expenses	\$ 454,314	\$ -	\$ 454,314
Total Current Liabilities	454,314	-	454,314
Total Liabilities	454,314	-	454,314
Net Assets	19,164,325	4,769,200	23,933,525
Total Liabilities and Net Assets	\$ 19,618,639	\$ 4,769,200	\$ 24,387,839

The accompanying notes are an integral part of the financial statements.

South Texas Food Bank
Statement of Activities
For the Year Ended September 30, 2021

	Net Assets without Donor	Net Assets with Donor Restrictions	Total
Revenue and Other Support			
Federal Grants:			
USDA/CSFP Commodities	\$ -	\$ 6,595,546	\$ 6,595,546
USDA/TEFAP Commodities	-	12,490,746	12,490,746
TDA - CSFP (Administrative Costs)	1,037,284	-	1,037,284
TDA - TEXCAP (Administrative Costs)	782,592	-	782,592
TDA - TRDMIT (Administrative Costs)	47,154	-	47,154
TDA - CACFP	440,938	-	440,938
TDA - SFSP	317,400	-	317,400
SNAP	143,376	-	143,376
FEMA	5,012,525	-	5,012,525
Total Federal Grants	<u>7,781,269</u>	<u>19,086,292</u>	<u>26,867,561</u>
Other Support:			
Value of Donated Food Inventory	28,488,890	-	28,488,890
PPP Loan Forgiveness Income	302,600	-	302,600
Service Fees	533,908	-	533,908
Private and State Grants	537,058	-	537,058
Donations	11,712,138	-	11,712,138
Special Events	139,655	-	139,655
Miscellaneous Income	94,751	-	94,751
Dividend and Interest Income	379,427	-	379,427
Net Assets released from Restrictions	17,005,996	(17,005,996)	-
Total Other Support	<u>59,194,423</u>	<u>(17,005,996)</u>	<u>42,188,427</u>
Total Revenue	<u><u>66,975,692</u></u>	<u><u>2,080,296</u></u>	<u><u>69,055,988</u></u>
Expenses			
Program	53,864,587	-	53,864,587
Support Services:			
Administrative	1,207,379	-	1,207,379
Fundraising	164,713	-	164,713
Total Expenses	<u>55,236,679</u>	<u>-</u>	<u>55,236,679</u>
Increase in Net Assets	11,739,013	2,080,296	13,819,309
Net Assets at the Beginning of Year	<u>7,425,312</u>	<u>2,688,904</u>	<u>10,114,216</u>
Net Assets at the Ending of Year	<u><u>\$ 19,164,325</u></u>	<u><u>\$ 4,769,200</u></u>	<u><u>\$ 23,933,525</u></u>

The accompanying notes are an integral part of the financial statements.

South Texas Food Bank
Statement of Functional Expenses
For the Year Ended September 30, 2021

	Program Services	Supporting Services			Total Expenses
		Administrative	Fundraising	Total	
Distributed Food	\$ 45,777,162	\$ -	\$ -	\$ -	\$ 45,777,162
Salaries	1,466,336	152,161	65,041	217,202	1,683,538
Taxes and Workers' Compensation	58,067	87,221	5,028	92,249	150,316
Communication Expense	2,610	9,621	-	9,621	12,231
Contract Labor	16,700	-	8,000	8,000	24,700
Depreciation	-	420,800	-	420,800	420,800
Equipment Lease	21,919	46,408	-	46,408	68,327
Facilities	721	259,993	-	259,993	260,714
Food Purchases	6,038,820	-	-	-	6,038,820
Insurance	221,038	107,793	3,869	111,662	332,700
Interest Expense	-	3,046	-	3,046	3,046
Office	84,504	97,942	12,386	110,328	194,832
Payroll Fees	1,301	633	84	717	2,018
Professional Fees	-	8,361	-	8,361	8,361
Special Events	-	-	70,305	70,305	70,305
Transportation	173,479	-	-	-	173,479
Travel & Training	1,930	13,400	-	13,400	15,330
	<u>\$ 53,864,587</u>	<u>\$ 1,207,379</u>	<u>\$ 164,713</u>	<u>\$ 1,372,092</u>	<u>\$ 55,236,679</u>

The accompanying notes are an integral part of the financial statements.

South Texas Food Bank
Statement of Cash Flows
For the Year Ended September 30, 2021

Cash Flows From Operating Activities:

Change in Net Assets	\$ 13,819,309
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	420,800
Non-cash PPP Loan Forgiveness	(302,600)
(Increase) Decrease in:	
Agency and Grant Receivable	(582,378)
Inventories	(1,807,642)
Increase in:	
Accounts Payable and Accrued Expenses	105,287
Net Cash Provided by Operating Activities	11,652,776

Cash Flows From Investing Activities:

Purchase of Investments	(8,328,248)
Proceeds from Sale of Property and Equipment	8,900
Cash Paid for Property and Equipment	(1,348,866)
Net Cash Used by Investing Activities	(9,668,214)

Cash Flows From Financing Activities:

Net Change in Line of Credit	(797,857)
Net Cash Used by Financing Activities	(797,857)
Net Increase in Cash and Cash Equivalents	1,186,705
Cash and Cash Equivalents at Beginning of Year	1,888,847
Cash and Cash Equivalents at End of Year	\$ 3,075,552

Supplemental Information:

Interest Paid	\$ 3,046
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The accompanying notes are an integral part of the financial statements.

South Texas Food Bank

Notes to Financial Statements (continued)

September 30, 2021

1. Nature of Activities

The South Texas Food Bank (Food Bank) is a Texas non-profit organization that began operations in 1989. The Food Bank's mission is to alleviate hunger in South Texas by collecting and distributing food through partner agencies and programs while creating awareness and educating the community on the realities of hunger. The Food Bank collects and warehouses salvageable food, which has been donated by organizations and business, and distributes it to other non-profit agencies (agencies) which feed and distribute food to low-income families and individuals. The Food Bank services agencies within eight county areas of South Texas. Funding is provided primarily by donated commodities obtained from a nationwide network of sources including supermarket chains, the United States Department of Agriculture and food drives.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Food Bank prepares its financial statements using the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Financial Statement Presentation

The Food Bank has adopted FASB Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities Presentation of Financial Statements*. ASC 958 establishes external financial reporting for not-for-profit organizations regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions as applicable. Net assets of the Food Bank and changes therein are classified and reported according to class of net assets as follows:

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the Food Bank. Net assets without donor restrictions may be designated for specific purposes by actions of the Food Bank.

Net Assets with Donor Restrictions – Net assets that are subject to donor-imposed stipulations imposed by donors and grantors. Donors' restrictions are temporary in nature and can be fulfilled by actions of the Food Bank pursuant to those stipulations or the expire by the passage of time.

South Texas Food Bank
Notes to Financial Statements (continued)
September 30, 2021

2. Summary of Significant Accounting Policies (Continued)

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year financial statement presentation.

Cash and Cash Equivalents

For purposes of cash flows, the Food Bank considers investments available for current use with an initial maturity date of three months or less to be cash equivalents. The Food Bank maintains its cash in bank deposit accounts. As of year-end, deposits in excess of federally insured amounts up to \$250,000 under the Federal Deposit Insurance Corporation (FDIC) totaled \$1,473,134. Management believes it is not exposed to any significant risk on cash accounts and has not experienced any historical losses.

Shared Maintenance Fees

The Food Bank receives fees from participating agencies to assist in the costs of distributing food. These shared maintenance fees are based on predetermined rates from \$0.00 to \$0.18 per pound.

Agency and Grants Receivable

Agency and grants receivable represent amounts due from agencies and others and are stated at the amount the Food Bank expects to collect for shared maintenance fees and grants from government agencies. Provisions for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Food Bank determines that payments will not be received. Any subsequent receipts are credited to the allowance.

As of September 30, 2021, management estimates that no reserve for losses on receivables is required.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Gifts or contributions of property and equipment are recorded at the asset's fair market value at the time received. Depreciation is calculated using the straight-line method over useful lives of the assets, ranging from three to fifteen years for vehicles, office furniture and equipment and seven to thirty-nine years for buildings and building improvements. Maintenance and repairs that do not increase the useful life of the asset are expensed as incurred while major additions and improvements that do increase the useful life of the asset are capitalized. It is in the Food Bank's policy to capitalize property and equipment over \$5,000. Lesser amounts are expensed. When items are disposed of, the cost and accumulated depreciation are eliminated from the records of accounts and any gains or losses are reported in the change in net assets.

Inventory

Inventory is stated at lower of cost or market determined by the first-in, first-out method. Inventory consists of donated food and non-food items, purchased food, and commodities received from the United States Department of Agriculture (USDA). USDA and donated food and non-food items were valued at \$1.74 and \$1.79 pounds for the year ended September 30, 2021, respectively. This valuation is based on published fair market value derived from cost studies conducted by Feeding America. Purchased food is valued at the latest purchase price. USDA commodity inventory amounts as of September 30, 2021 are restricted to distribution programs serving low-income families and individuals. Therefore, the value of these ending inventories is reflected as net assets with donor restrictions in the statement of financial position. Accordingly, the distribution of these commodities is reflected in the statement of activities as assets released from restriction.

Allocation of Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. For the year ended September 30, 2021, approximately 98% of costs have been allocated to program services.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

2. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Employees of the Food Bank are entitled to paid time off depending on length of service and other factors. The Food Bank cannot reasonably estimate the amount of compensation for future absences. Accordingly, no liability has been recorded in the accompanying financial statements. The Food Bank's policy is to recognize the cost of compensated absences when paid to employees.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-9, Revenue from Contracts with Customers (Topic 606), which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Food Bank adopted this new revenue recognition standard along with the related amendments on October 1, 2020, with retrospective application. The adoption of the new standard resulted in no adjustment to net assets.

The Food Bank determines revenue recognition by: (1) Identifying the contract with the customer; (2) Identifying the performance obligations in the contract; (3) Determining the transaction price; (4) Allocating the transaction price to performance obligations in the contract; and (5) Recognizing revenue when, or as the Food Bank satisfies performance obligations by transferring the promised goods or services. Performance obligations are met by the Food Bank at various times throughout the year, thus revenue is not recognized until the event takes place.

Contributions

The Food Bank recognizes contributions as revenue when they are received or unconditionally pledged and records these revenues as with donor restrictions or without donor restrictions according to donor stipulations that limit the use of these assets due to either a time or purpose restriction.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

2. Summary of Significant Accounting Policies (Continued)

Contributions (continued)

Contributions received with donor restrictions that are met in the year of receipt are recorded as revenues without donor restrictions. When a restriction expires or is met in a subsequent year, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities and changes in net assets. Conditional contributions or promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts on multi-year pledges is recorded as additional contribution revenue as either with or without donor restrictions based on any donor-imposed restrictions, if any, on the related contributions.

The Food Bank has adopted Accounting Standards Update (“ASU”) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions made* (Topic 605) during the year with retrospective application, as management believes the standard improves the usefulness and understandability of the Food Bank’s financial reporting.

Analysis of various provisions of this standard resulted in no significant changes in the way the Food Bank recognizes contributions, and therefore no changes to the previously issued audited financial statements were required. The presentation and disclosure of contributions have been enhanced in accordance with the standard.

Donated Services

The Food Bank receives services donated from its members in carrying out the Food Bank's operations. However, no amounts have been recognized in the statement of activities since they do not meet the criteria for recognition. The Food Bank received 82,464 hours of service from 4,836 volunteers for the year ending September 30, 2021. Volunteers assisted in sorting food items.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

2. Summary of Significant Accounting Policies (Continued)

Donated Services (continued)

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in net assets 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 and equipment are reported as restricted contributions. Absent donor stipulations on how long those donated assets must be maintained, the Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as unrestricted net assets at that time.

Income Taxes

The Food Bank is exempt from federal income taxes pursuant to section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes had been made in the accompanying statements. The Food Bank, generally, is no longer subject to income tax examination authorities for years prior to September 30, 2018.

3. Contingencies

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Food Bank for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date. The Food Bank expects such amounts, if any, to be immaterial.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

4. Property and Equipment

Property and equipment consisted of the following:

Description	Balance 09/30/20	Additions	Deletions	Balance 09/30/21
Land	\$ 741,291	\$ -	\$ -	\$ 741,291
Construction in Progress	-	212,225	-	212,225
Total Non-Depreciable Assets	741,291	212,225	-	953,516
Building	4,985,708	560,464	-	5,546,172
Furniture & Equipment	230,510	214,004	-	444,514
Transportation Equipment	913,662	223,544	-	1,137,206
Vehicles	157,671	158,731	(104,497)	211,905
Total Depreciable Assets	6,287,551	1,156,743	(104,497)	7,339,797
Less Accumulated Depreciation	(966,672)	(420,800)	95,630	(1,291,842)
Total Depreciable Assets, Net	5,320,879	735,943	(8,867)	6,047,955
Total	\$ <u>6,062,170</u>	\$ <u>948,168</u>	\$ <u>(8,867)</u>	\$ <u>7,001,471</u>

Depreciation expense for the year ended September 30, 2021 totaled \$420,800.

5. Concentrations

The Food Bank receives a large portion of its food supplies from the U.S. Department of Agriculture via the Emergency Food Assistance Programs. For the year ended September 30, 2021, these commodities comprised approximately 36% of the total value of all donated food received. A grant to reimburse administrative costs with the U.S. Department of Agriculture provided approximately 9% of the assistance necessary to fund the operation activity of the Food Bank for the year ended September 30, 2021.

During the fiscal year ended June 30, 2021, the Food Bank received \$9 million from an anonymous donor to be used for the Food Bank's tax exempt purposes.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

6. Inventory

Inventory consisted of the following as of September 30, 2021:

	Pounds	Dollars
Donated Inventory		
Donated Inventory	\$ 191,610	\$ 342,982
USDA/TEFAP Commodities	941,208	1,684,762
USDA/TDEM Commodities	70,269	125,782
USDA/FFCRA Commodities	110,122	197,118
USDA/COSUP Commodities	413,608	740,358
USDA/CSFP Commodities	1,129,151	2,021,180
	2,855,968	5,112,182
Purchased Inventory	3,755	38,326
Total Inventory \$	2,859,723	\$ 5,150,508

7. Risk and Uncertainties

The Food Bank invests in various investment securities. Financial instruments which potentially subject the Food Bank to concentrations of credit risk consist primarily of securities in which the Food Bank invests. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect the Food Bank's account balances and the amounts reported in Balance Sheet section of the financial statements.

8. Fair Value Measurements

The Food Bank's investments are reported at fair value in the accompanying Statement of Net Position section of the financial statements. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Food Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

8. Fair Value Measurements (Continued)

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. 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 asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Mutual Funds: Shares of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Food Bank at year-end. There are not unfunded commitments as of September 30, 2021.

Exchange Traded Funds: Shares of exchange traded funds are valued at quoted market prices which represent the purchases or redemptions at the end of each trading day at its net asset value per share held by the Food Bank at year-end. There are not unfunded commitments as of September 30, 2021.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

8. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Food Bank's investments at fair value as of September 30, 2021:

	Assets measured at fair value	Fair value hierarchy level		
		Level 1	Level 2	Level 3
Mutual funds	\$ 7,305,306	\$ 7,305,306	\$ -	\$ -
Exchange traded funds	1,022,942	1,022,942	-	-
Total assets at fair value	\$ 8,328,248	\$ 8,328,248	\$ -	\$ -

9. Employee Benefit Plan

The South Texas Food Bank 401(k) Plan (the Plan) is a defined contribution Plan with an effective date of October 1, 2020, and period ending September 30th. The Plan covers all employees meeting the eligibility requirements of the Plan. Under the terms of the Plan, employees are entitled to contribute within the limitations established by the Internal Revenue Code. The Food Bank matches employee contributions. Participants are fully vested after five years of services in employer-matching contributions. The Company makes contributions equal to 7% of the first 4% deferrals and 3% discretionary profit sharing. The Food Bank contributed to the Plan \$164,922 during the year ended September 30, 2021.

10. Net Assets with Donor Restrictions

Net assets with donor restrictions as of September 30, 2021 were available for the following purposes:

Federal Commodities for Distribution:

USDA/CSFP Commodities	\$ 2,021,180
USDA/TEFAP Commodities	1,684,762
USDA/TDEM Commodities	125,782
USDA/FFCRA Commodities	197,118
USDA/COSUP Commodities	740,358
	<u>\$ 4,769,200</u>

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

11. Functional Expenses

The Food Bank provides services to alleviate hunger in the South Texas community the Food Bank serves. The methods of allocating expenses related to providing these services are as follows:

<u>Expense</u>	<u>Method of Allocation</u>
Distributed Food	Charged as incurred by program
Salaries	Time & effort by program
Taxes and Workers' Compensation	Time & effort by program
Bad Debt Expense	Charged as incurred by program
Communication Expense	Charged as incurred by program
Contract Labor	Full time equivalent
Depreciation	Charged as incurred by program
Equipment Lease	Charged as incurred by program
Facilities	Charged as incurred by program
Food Purchases	Charged as incurred by program
Fundraising Expense	Charged as incurred by program
Interest Expense	Charged as incurred by program
Insurance	Charged as incurred by program
Office	Charged as incurred by program
Payroll Fees	Charged as incurred by program
Professional Fees	Charged as incurred by program
Special Events	Charged as incurred by program
Transportation	Charged as incurred by program

12. Liquidity and Availability

The Food Bank manages liquidity needed for operations primarily through budgeted cash inflows and outflows. Cash inflows can be easily estimated since they are comprised mostly of grant awards, donations, contributions, and fundraising. Cash outflows are planned accordingly so as not to exceed those expected inflows. Excess operating cash is on hand in the event of unexpected outflows.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

13. Recently Issued Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which requires lessees to recognize on the statement of financial position a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2016-02 is effective for the Food Bank beginning July 1, 2022 and management is currently evaluating the impact that ASU 2016-02 will have on the financial statements.

14. Special Events

During the fiscal year, the Food Bank had two main fundraising events. The following is a schedule of revenues, expenses, and net profit from these events:

	Mail Out	Holiday Raffle	Total
Revenues	\$ 15,380	\$ 124,275	\$ 139,655
Expenses	(290)	(70,015)	(70,305)
Net Profit (Loss)	<u>\$ 15,090</u>	<u>\$ 54,260</u>	<u>\$ 69,350</u>

15. COVID-19 Impact

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Food Bank characterized COVID-19 as a pandemic, in addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Food Bank's operations. Future potential impacts may include disruptions or restrictions on our employees' ability to work, collecting and distributing food through partner agencies and programs, or the community's ability to use our services. Operating functions that may be changed include, but not limited to, intake. Additional impacts may include federal, state, and private grant funding. The future effects of these issues are unknown.

South Texas Food Bank
Notes to Financial Statements (Continued)
September 30, 2021

16. Paycheck Protection Program Loan

In April 2020, the Food Bank received a loan (the Loan) from IBC Bank in the aggregate amount of \$302,600, pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The Loan was fully forgiven in February 2021. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred. The Food Bank used the entire Loan amount for qualifying expenses.

17. Evaluation of Subsequent Events

The Food Bank evaluated all events or transactions that occurred after September 30, 2021, through May 31, 2022, the date these financial statements were available to be issued. During this period, the Food Bank was not aware of any material recognizable subsequent events that require disclosure.

Single Audit Compliance Information

**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 of
South Texas Food Bank
Laredo, 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 South Texas Food Bank (a nonprofit organization), which comprise the statement of financial position as of September 30, 2021, 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 May 31, 2022.

Report on Internal Control over Financial Reporting

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

**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* (CONTINUED)**

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Texas 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Haynie & Company

San Antonio, Texas
May 31, 2022

**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 of
the South Texas Food Bank
Laredo, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited South Texas Food Bank's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of South Texas Food Bank's major federal programs for the year ended September 30, 2021. South Texas 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.

In our opinion, South Texas 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 September 30, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to South Texas Food Bank's federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding South Texas Food Bank's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of South Texas Food Bank's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of South Texas Food Bank's internal control over compliance. Accordingly, no such opinion is expressed.

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

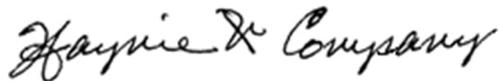
Report on Internal Control over Compliance

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

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

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

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



San Antonio, Texas
May 31, 2022

South Texas Food Bank
Single Audit Compliance Information
Federal Schedule of Findings and Questioned Costs
September 30, 2021

SECTION I – FEDERAL SUMMARY OF AUDITOR’S RESULTS

Financial Statements	
Type of Auditor’s Report Issued	Unmodified
Internal Control Over Financial Reporting:	
Material Weaknesses	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Significant Deficiencies Identified not Considered to be Material Weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None Reported
Noncompliance Material to Financial Statements Noted?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Federal Awards	
Internal Control Over Major Programs:	
Material Weakness(es) identified?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Significant Deficiencies Identified not Considered to be Material Weakness(es)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None Reported
Type of Auditor’s Report Issued on Compliance for Major Programs	Unmodified
Any Audit Findings disclosed that are Required to be Reported in accordance with the Uniform Guidance?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Identification of Major Programs:	
CFDA Number(s)	Name of Federal Program or Cluster
10.565	Commodity Supplemental Food Program
10.568	Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)
Federal Dollar Threshold used to Distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as Low-Risk Auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

South Texas Food Bank
Single Audit Compliance Information
Federal Schedule of Findings and Questioned Costs (Continued)
September 30, 2021

SECTION II – FINANCIAL STATEMENT FINDINGS

No Matters Were Reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No Matters Were Reported.

South Texas Food Bank
Single Audit Compliance Information
Federal Summary of Prior Audit Findings
September 30, 2021

FEDERAL SUMMARY OF PRIOR AUDIT FINDINGS

No Prior Year Findings.

Supplemental Information

South Texas Food Bank
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2021

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Contract Number	Disbursements
<u>U.S. Department of Agriculture</u>			
Passed Through the Texas Department of Agriculture			
<u>The Food Distribution - Cluster</u>			
Commodity Supplemental Food Program (Food Commodities)	10.565	04007	\$ 5,770,768
Commodity Supplemental Food Program (Administrative Costs)	10.565	04007	1,037,284
Emergency Food Assistance Program (Food Commodities)	10.569	04007	11,382,276
Emergency Food Assistance Program (Administrative Costs)	10.568	04007	782,592
Total Food Distribution Cluster			18,972,920
Summer Food Service Program for Children	10.559		317,400
Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178		47,154
Child and Adult Care Food Program	10.558		440,938
Supplemental Nutrition Assistance Program SNAP	10.U01		143,376
Total U.S. Department of Agriculture			19,921,788
 <u>U.S. Department of Homeland Security</u>			
Passed through the United Way of America			
Emergency Food & Shelter Program-Zapata County	97.024	836400-004	2,525
Total U.S. Department of Homeland Security			2,525
 Total Federal Awards			\$ 19,924,313

South Texas Food Bank
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2021

1. General

The accompanying Schedule of Expenditures of Federal and Awards presents the federal and grant activity for the Food Bank. The reporting entity is defined in Note 1 to the basic financial statements.

2. Basis of Presentation

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, et al Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedules present only a selected portion of the operations of the Food Bank, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general-purpose financial statements.

3. Summary of Significant Accounting Policies

Basis of Accounting – 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, where certain types of expenditures are not allowable or a limited to a reimbursement.

The Food Bank did not elect to use the 10% de minimis indirect cost rate.

4. Reconciliation of Federal Awards to the Financial Statements

Total Expenditures of Federal Awards:	\$ 19,924,313
Non-Federal Expenditures:	<u>35,312,366</u>
Total Expenditures:	<u>\$ 55,236,679</u>