

EMERGENCY FOOD NETWORK OF
TACOMA AND PIERCE COUNTY

FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Emergency Food Network of Tacoma and Pierce County
Lakewood, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Emergency Food Network of Tacoma and Pierce County, a nonprofit organization, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, and functional expenses for the year ended December 31, 2014, and cash flows for the years ended December 31, 2014 and 2013, 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 audits. We conducted our audits 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 from 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emergency Food Network of Tacoma and Pierce County as of December 31, 2014 and 2013, and the changes in its net assets and functional expenses for the year ended December 31, 2014, and its cash flows for the years ended December 31, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Schedule of Expenditures of Federal Awards

Our audits were 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 Matter – Report on Summarized Comparative Information

We have previously audited the Emergency Food Network of Tacoma and Pierce County's 2013 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 28, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2015, on our consideration of Emergency Food Network of Tacoma and Pierce County'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 Emergency Food Network of Tacoma and Pierce County's internal control over financial reporting and compliance.



Tacoma, Washington
August 12, 2015

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENTS OF FINANCIAL POSITION December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 891,518	\$ 957,916
Certificates of deposit	---	13,753
Grants receivable	190,044	328,277
Inventory - donated	941,934	749,994
Inventory - purchased	71,391	71,462
TOTAL CURRENT ASSETS	2,094,887	2,121,402
Property and Equipment:		
Building	1,281,225	1,162,129
Land	76,608	76,608
Equipment	547,065	547,065
	1,904,898	1,785,802
Less accumulated depreciation	970,988	887,172
TOTAL PROPERTY AND EQUIPMENT	933,910	898,630
Other Assets:		
Option to buy real property	25,000	---
TOTAL OTHER ASSETS	25,000	---
TOTAL ASSETS	\$ 3,053,797	\$ 3,020,032
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 67,042	\$ 5,061
Accrued wages and payroll taxes	13,018	14,316
Accrued sick and vacation	111,917	82,323
TOTAL CURRENT LIABILITIES	191,977	101,700
Net Assets:		
Unrestricted	2,649,494	2,591,755
Temporarily restricted	204,826	319,077
Permanently restricted	7,500	7,500
TOTAL NET ASSETS	2,861,820	2,918,332
TOTAL LIABILITIES AND NET ASSETS	\$ 3,053,797	\$ 3,020,032

See accompanying notes.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2014

(With comparative totals for 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
SUPPORT AND REVENUE					
Monetary Support and Revenue:					
Government grants	\$ 437,109	\$ 280,487	\$ ---	\$ 717,596	\$ 756,242
Community contributions and special events	929,946	20,000	---	949,946	826,188
Private foundations	190,519	243,500	---	434,019	630,697
Interest income	1,383	---	---	1,383	1,132
Net assets released from restrictions	658,238	(658,238)	---	---	---
TOTAL MONETARY SUPPORT AND REVENUE	2,217,195	(114,251)	---	2,102,944	2,214,259
In-Kind Support and Revenue:					
Community contributions	20,550,694	---	---	20,550,694	18,434,394
Government grants	1,162,200	---	---	1,162,200	1,247,947
Rent	28,800	---	---	28,800	28,800
TOTAL IN-KIND SUPPORT AND REVENUE	21,741,694	---	---	21,741,694	19,711,141
TOTAL SUPPORT AND REVENUE	23,958,889	(114,251)	---	23,844,638	21,925,400
EXPENSES					
Program Services:					
Food banks	22,998,872	---	---	22,998,872	21,369,120
Farm	200,472	---	---	200,472	158,030
Supporting Services:					
Management and general	289,651	---	---	289,651	280,149
Fundraising	412,155	---	---	412,155	345,503
TOTAL EXPENSES	23,901,150	---	---	23,901,150	22,152,802
CHANGE IN NET ASSETS	57,739	(114,251)	---	(56,512)	(227,402)
NET ASSETS, Beginning	2,591,755	319,077	7,500	2,918,332	3,145,734
NET ASSETS, Ending	\$ 2,649,494	\$ 204,826	\$ 7,500	\$ 2,861,820	\$2,918,332

See accompanying notes.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2014

(With comparative totals for 2013)

	Program Services			Supporting Services			2014	2013
	Food Banks	Farm	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Government Grants:								
EFAP program	\$ 340,874	\$ ---	\$ 340,874	\$ ---	\$ ---	\$ ---	\$ 340,874	\$ 383,543
EFSP program	67,784	---	67,784	---	---	---	67,784	---
TEFAP program	33,000	---	33,000	---	---	---	33,000	24,454
TOTAL GOVERNMENT GRANTS	441,658	---	441,658	---	---	---	441,658	407,997
Salaries and payroll taxes	412,797	127,015	539,812	232,860	285,783	518,643	1,058,455	1,005,958
Food	407,730	---	407,730	---	1,381	1,381	409,111	472,961
Events	9,516	---	9,516	---	80,425	80,425	89,941	66,802
Depreciation	75,434	3,353	78,787	5,029	---	5,029	83,816	86,834
Vehicle expenses	49,515	2,732	52,247	19	---	19	52,266	55,979
Supplies	8,621	11,905	20,526	10,398	2,707	13,105	33,631	28,615
Utilities	22,101	4,008	26,109	3,626	705	4,331	30,440	24,831
Uncollectible grants	18,057	---	18,057	---	9,050	9,050	27,107	---
Professional services	8,113	3,245	11,358	8,911	6,490	15,401	26,759	20,750
Insurance	6,029	2,192	8,221	3,836	4,384	8,220	16,441	17,289
Technology	2,346	821	3,167	4,743	7,084	11,827	14,994	15,684
Contracts	---	11,840	11,840	---	---	---	11,840	13,179
Communications	4,684	2,057	6,741	2,046	2,286	4,332	11,073	10,416
Printing	597	---	597	6,102	4,279	10,381	10,978	9,651
Miscellaneous	1,451	446	1,897	4,871	1,119	5,990	7,887	7,567
Meetings	1,086	582	1,668	2,109	2,330	4,439	6,107	6,048
Postage	1,118	453	1,571	2,875	895	3,770	5,341	5,979
Training and education	1,149	697	1,846	928	2,131	3,059	4,905	3,484
Repairs and maintenance	4,869	---	4,869	---	---	---	4,869	2,833
Licenses and dues	976	326	1,302	1,298	1,106	2,404	3,706	4,216
Refuse	---	---	---	---	---	---	---	822
TOTAL BEFORE IN-KIND EXPENSES	1,477,847	171,672	1,649,519	289,651	412,155	701,806	2,351,325	2,267,895
IN-KIND EXPENSES								
Food	20,379,203	---	20,379,203	---	---	---	20,379,203	18,621,405
Government Grants:								
TEFAP program	1,141,822	---	1,141,822	---	---	---	1,141,822	1,234,702
Rent	---	28,800	28,800	---	---	---	28,800	28,800
TOTAL IN-KIND EXPENSES	21,521,025	28,800	21,549,825	---	---	---	21,549,825	19,884,907
TOTAL EXPENSES	\$ 22,998,872	\$ 200,472	\$ 23,199,344	\$ 289,651	\$ 412,155	\$ 701,806	\$ 23,901,150	\$ 22,152,802

See accompanying notes.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENTS OF CASH FLOWS For the years ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and public support	\$ 2,239,794	\$ 2,082,006
Cash paid to suppliers and employees	(2,177,232)	(2,171,090)
Interest received	1,383	1,132
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	63,945	(87,952)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in certificates of deposit	13,753	(66)
Purchased property and equipment	(119,096)	(17,642)
Deposit on option to buy real property	(25,000)	---
NET CASH USED BY INVESTING ACTIVITIES	(130,343)	(17,708)
CASH FLOWS FROM FINANCING ACTIVITIES		
NET DECREASE IN CASH AND CASH EQUIVALENTS	(66,398)	(105,660)
CASH AND CASH EQUIVALENTS, Beginning	957,916	1,063,576
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 891,518</u>	<u>\$ 957,916</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in net assets	\$ (56,512)	\$ (227,402)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	83,816	86,834
Inventory - donated:		
Donated food	(21,712,894)	(19,682,341)
Distribution of donated food	21,520,954	19,856,107
(Increase) decrease in:		
Grants receivable	138,233	(131,121)
Inventory - purchased	71	11,935
Prepaid expenses	---	6,932
Increase (decrease) in:		
Accounts payable	61,981	(41,237)
Accrued wages and payroll taxes	(1,298)	387
Accrued sick and vacation	29,594	31,954
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 63,945</u>	<u>\$ (87,952)</u>

SUPPLEMENTAL DISCLOSURE OF ACCOUNTING POLICY AND NONCASH TRANSACTIONS

For purposes of these financial statements, the Organization considers all highly-liquid instruments with maturity of three months or less to be cash equivalents. See Note 1 for noncash transactions.

See accompanying notes.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS For the years ended December 31, 2014 and 2013

NOTE 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities:

Emergency Food Network of Tacoma and Pierce County (the Organization) became an independent 501(c)(3) non-profit organization in 1991. The Organization began as a program in 1982 when the leadership of FISH Food Banks, The Rescue Mission, Salvation Army, and Associated Ministries recognized a great need in the community to resource emergency food collectively. In 1985 the Organization was transferred as a program to Associated Ministries. Originally designed to meet a temporary need caused by the economic recession of the 1980s, it became apparent in the early 1990s that the need for such a community service had grown. The Organization collects donated food and purchased food using federal grants and private contributions. The Organization distributes food to other food banks and feeding centers in Pierce County.

The Organization has the following programs:

Food Banks - Collection and distribution of food to food banks and feeding centers throughout Pierce County.

Farm - Farming produce for distribution in the food bank program.

Basis of Presentation:

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates:

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

Grants Receivable:

Grants receivables are carried at cost. The Organization considers all receivables to be fully collectible; therefore, no allowance for doubtful accounts has been established.

NOTE 1. (Continued)**Inventory:**

Inventory consists of food donated to the Organization and food purchased by the Organization. Purchased inventory is stated at average cost. For the years ended December 31, 2014 and 2013, donated inventory is stated at an industry standard of \$1.66 per pound. Government surplus commodities are stated at prices established by the U.S. Department of Agriculture. As of December 31, 2014 and 2013, inventory consists of the following:

	<u>2014</u>	<u>2013</u>
Donated	\$ 762,688	\$ 591,127
Government grants – TEFAP	<u>179,246</u>	<u>158,867</u>
	941,934	749,994
Purchased	<u>71,391</u>	<u>71,462</u>
TOTAL	<u>\$ 1,013,325</u>	<u>\$ 821,456</u>

Property and Equipment:

Property and equipment are stated at cost at date of purchase or at fair value at the date of gift, if donated. Expenditures for major additions and improvements over \$1,000 are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided for equipment on the straight-line method over the estimated useful lives of the assets, which range from five to fifteen years. Depreciation for the building and improvements is provided using the straight-line method over its estimated useful life of ten to thirty years. Depreciation expense for the years ended December 31, 2014 and 2013 was \$83,816 and \$86,834, respectively.

Contributions:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-Kind Donations:

In accordance with the provisions of FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, the Organization records the value of the donation as a contribution at the time of the donation. Donated services are recognized as contributions in accordance with FASB ASC 958, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Volunteers providing services in the warehouse throughout the year are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958 were not met. Total volunteer hours at December 31, 2014 and 2013, were 21,303 and 20,949, respectively.

The value of donated food from community contributions included as in-kind donations for the years ended December 31, 2014 and 2013, are \$20,550,694 and \$18,434,394, respectively, and are correspondingly valued at \$1.66 per pound. Community contributions for the same years then ended represent 86 and 84 percent of total support and revenue, respectively.

NOTE 1. (Continued)

The value of donated food from The Emergency Food Assistance Program (TEFAP) included as in-kind contributions for the years ended December 31, 2014 and 2013 are \$1,162,200 and \$1,247,947, respectively. The value is established by the TEFAP, a government program that supplements the diets of some low-income Americans by providing them with emergency food and nutrition assistance at no cost. TEFAP donations represent 5 and 6 percent of total support and revenues, respectively, for the years ended December 31, 2014 and 2013.

The annual value of donated use of farmland in Puyallup, Washington included as contributions and rent expense in the financial statements for the years ended December 31, 2014 and 2013 is \$28,800.

Advertising Costs:

Advertising costs consists of events, marketing, and fundraising cost and are charged to operations when incurred. The Organization incurred advertising costs of \$86,404 and \$76,453 in 2014 and 2013, respectively.

Federal Income Taxes:

No provision for income taxes has been made in the financial statements since the Organization is exempt from federal income taxes under Internal Revenue Code, Section 501(c)(3). Additionally, the Organization has determined it has no uncertain tax positions to record as a liability at December 31, 2014 and 2013.

Form 990, filed by the Organization, is subject to examinations by the Internal Revenue Service up to three years from the extended due date of each return. Generally, the Organization is no longer subject to examinations by the U.S. federal, state and local tax authorities for years before 2011.

Comparative Totals:

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Date through Which Subsequent Events Evaluated:

The date to which events occurring after December 31, 2014, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is August 12, 2015, which is the date on which the financial statements were available to be issued.

NOTE 2. Concentration of Credit Risk

The Organization maintains its cash at several financial institutions and may, at times, maintain balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts.

NOTE 3. Certificates of Deposit

Certificates of deposit totaled \$13,753 at December 31, 2013, consisting of one account bearing interest at .70 percent. During the year ended December 31, 2014, the account was closed out and the funds transferred into the Organization's savings account.

NOTE 4. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2014</u>	<u>2013</u>
Other programs	\$ 10,769	\$ 5,023
Purchase of food	194,057	219,054
Purchase of new cooler	<u>---</u>	<u>95,000</u>
TOTAL	<u>\$ 204,826</u>	<u>\$ 319,077</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from the assets can be used to purchase infant food.

NOTE 5. Endowment Funds

Greater Tacoma Community Foundation holds and maintains the Emergency Food Endowment Fund with variance and is therefore not reflected on the statement of financial position. The Organization receives earnings from this fund which are distributed to the Organization annually. In 2014 and 2013, the distribution amount was \$600. The balance of the fund as of December 31, 2014 and 2013 was \$15,993 and \$16,397, respectively.

NOTE 6. Employee Benefits

The Organization maintains a deferred contribution plan under Section 403(b) of the Internal Revenue Code for all employees. This plan allows employees to make contributions and the Organization may, in its sole discretion, make contributions to the Plan. For the years ended December 31, 2014 and 2013, \$46,138 and \$34,265, respectively, was contributed on behalf of the employees.

NOTE 7. Option to Real Property

During October 2014, the Organization paid \$25,000 for an option to purchase land that they intend to develop into a new parking lot. The land is located in Lakewood, Washington near the Organization's office and warehouse. The full purchase price of \$400,000, which includes the payment for the option, is payable as all cash at closing with no financing contingency. The option term expires on January 4, 2016, and the option payment shall be retained by the Seller in the event that the option is not exercised. The Organization has no further obligations to the Seller, and as of our report date the option has not been exercised.

SUPPLEMENTAL INFORMATION

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2014

<u>Agency Name</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Agriculture:		
Passed through State of Washington:		
The Emergency Food Assistance Program (Administrative Costs)	10.568	\$ 153,682
Passed through State of Washington:		
The Emergency Food Assistance Program (Food Commodities)	10.569	<u>1,141,822</u>
TOTAL DEPARTMENT OF AGRICULTURE		<u>1,295,504</u>
Department of Housing and Urban Development:		
Community Development Block Grant:		
Passed through Pierce County	14.218	<u>50,000</u>
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		<u>50,000</u>
Department of Homeland Security		
Passed through United Way of America: EFSP		
Emergency Food and Shelter National Board Program	97.024	<u>67,784</u>
TOTAL DEPARTMENT OF HOMELAND SECURITY		<u>67,784</u>
TOTAL FEDERAL EXPENDITURES		<u>\$ 1,413,288</u>

NOTE 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Emergency Food Network of Tacoma and Pierce County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



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
Emergency Food Network of Tacoma and Pierce County
Lakewood, Washington

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 Emergency Food Network of Tacoma and Pierce County, a nonprofit organization, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, and functional expenses for the year ended December 31, 2014, and cash flows for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated August 12, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Emergency Food Network of Tacoma and Pierce County'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 Emergency Food Network of Tacoma and Pierce County's internal control. Accordingly, we do not express an opinion on the effectiveness of Emergency Food Network of Tacoma and Pierce County'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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies - Finding 2014-01.

Compliance and Other Matters

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

Emergency Food Network of Tacoma and Pierce County's Response to Findings

Emergency Food Network of Tacoma and Pierce County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Emergency Food Network of Tacoma and Pierce County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink, appearing to be 'DP&C', is located below the 'Purpose of this Report' section.

Tacoma, Washington
August 12, 2015



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Emergency Food Network of Tacoma and Pierce County
Lakewood Washington

Report on Compliance for Each Major Federal Program

We have audited Emergency Food Network of Tacoma and Pierce County's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Emergency Food Network of Tacoma and Pierce County's major federal programs for the year ended December 31, 2014. Emergency Food Network of Tacoma and Pierce County'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 laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for each of Emergency Food Network of Tacoma and Pierce County'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Emergency Food Network of Tacoma and Pierce County'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 Emergency Food Network of Tacoma and Pierce County's compliance.

Opinion on Each Major Federal Program

In our opinion, Emergency Food Network of Tacoma and Pierce County 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, 2014.

Report on Internal Control over Compliance

Management of Emergency Food Network of Tacoma and Pierce County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Emergency Food Network of Tacoma and Pierce County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Emergency Food Network of Tacoma and Pierce County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow for 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that we have not identified.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-02 to be significant deficiencies.

Emergency Food Network of Tacoma and Pierce County's Response to Findings

Emergency Food Network of Tacoma and Pierce County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Emergency Food Network of Tacoma and Pierce County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Tacoma, Washington
August 12, 2015

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended December 31, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency (ies) identified that are not considered to be material weaknesses? X Yes _____ No
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency (ies) identified that are not considered to be material weakness(es)? X Yes _____ No

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 Section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
10.568	Department of Agriculture Emergency Food Assistance Program (Administrative Costs)
10.569	Department of Agriculture Emergency Food Assistance Program (Food Commodities)

Dollar threshold used to distinguish between type A and B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

II. Financial Statements Findings

2014-01 Inventory Reconciliations and Oversight

Criteria: Inventory should be reconciled and recorded on a timely and accurate basis, and the Organization should have a standard oversight policy over inventory transactions and reporting.

Condition: The Organization maintains accurate and complete records for federal food commodities, donated food, and purchased food and performs regular year-end inventory counts. This inventory count is reconciled to the general ledger on an annual basis with corrections to the subsidiary ledger performed immediately on all inventory discrepancies. The results of these discrepancies are forwarded to the distributing agency for the federal food commodities. During 2014, the Organization began reconciling the inventory to the general ledger on a monthly basis based on information produced by the QuickBooks Inventory software. However, during the middle of 2014, the Organization realized that the QuickBooks Inventory software was producing incorrect information and began a process to clean up QuickBooks. Inventory was continually being posted at this time, but the inflows and outflows was not until the QuickBooks cleanup was complete. Continuous improvements and efforts were made during 2014 over inventory. However, we noted the year-end inventory balances, inflows and outflows, did not agree to the source documents, resulting in material journal entries.

Effect: During our audit, we noted that several discrepancies in the general ledger compared to the year-end inventory reports resulting in material adjusting journal entries. Although our testing did not result in findings or unallowed costs, including the major programs tested, the lack of oversight over inventory transactions, reconciliations and inventory reports could result in errors and potential unallowed costs. The year-end inventory discrepancies also led to an inaccurate Schedule of Expenditures of Federal Awards which required additional corrections in order to reconcile total federal expenditures.

Recommendation: We suggest the Organization continue working on integrating the inventory system with the accounting records on a monthly and annual basis. This integration should include a monthly reconciliation process between what is recorded in the inventory system, the general ledger, and the third party reports. These monthly processes and reconciliations should also be reviewed by someone independent of the accounting function. This would benefit the Organization by providing complete and accurate financial statements on a monthly basis and assist in decision making. This will also assist in the safeguarding of the physical inventory in the warehouse, including the timely recognition of waste and potential theft.

III. Federal Award Findings and Questioned Costs

2014-02 Inventory Reconciliation and Oversight (Internal Control over Compliance)

Information on the Federal Program: CFDA Number 10.568 and 10.569, Department of Agriculture Emergency Food Assistance Program, Passed through State of Washington.

Criteria: *Allowable Costs/Cost Principles* require internal controls sufficient to mitigate the risk of disallowed costs. In addition, *Special Tests and Provisions* require internal controls sufficient to ensure accurate and complete records to be maintained with respect to the receipt, distribution/use, and inventory of donated foods including end products processed from donated foods.

Condition: The Organization maintains accurate and complete records for federal food commodities, donated food, and purchased food and performs an inventory count at least once a year. This inventory count is reconciled to the general ledger on an annual basis with corrections to the subsidiary ledger performed immediately on all inventory discrepancies. The results of these discrepancies are forwarded to the distributing agency for the federal food commodities. During 2014, this process was done monthly. During our audit we noted several instances where there was no evidence of review over the monthly SDA reports and supporting invoices prior to submission to federal agencies. In addition, we noted the year-end inventory count did not agree to the general ledger which required a material adjustment.

Questioned Costs: There were no questioned costs identified in the audit.

Effect: During our audit, we noted a material adjustment that was needed over inventory to the general ledger. Although our testing did not result in findings or unallowed costs over the major programs tested, the lack of oversight over inventory transactions and inventory reports could result in errors.

Recommendation: We suggest the Organization continue improving the inventory process which includes a monthly reconciliation process between what is recorded in the inventory system, the general ledger, and the third party reports. This would benefit the Organization by providing a complete and accurate financial statement on a monthly basis. This will also assist in the safeguarding of the physical inventory in the warehouse, including the timely recognition of waste and potential theft. In addition, we recommend all SDA reports and supporting invoices be reviewed by another employee prior to being submitted to federal agencies. Documentation of the review should be made on the front of the SDA report and/or supporting invoices.

Responses to Findings 2014-01 and 2014-02: The inventory process has continued to improve throughout 2014 and the Organization has corrected these findings in 2015. The Organization receives monthly inventory count reports, including inflows and outflows. These reports are provided to the accounting department and adjusted on a monthly basis. The adjusted trial balance is maintained with the adjusting journal entries to ensure accuracy of the adjustment. During this process, the accounting department will spot check the inventory reports to ensure accuracy. The inventory adjustments spreadsheet also produces a column where variances are identified and could be investigated on a timely basis. Although not audited, the auditors have done a walkthrough of this process in 2015 to ensure these processes address the findings.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year ended December 31, 2014

I. PRIOR AUDIT FINDINGS – FINANCIAL STATEMENTS AUDIT

The finding 2013-01 for the year ended December 31, 2013, is repeated in finding 2014-01 with a response to that finding on Page 18.

II. PRIOR AUDIT FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

The finding 2013-02 for the year ended December 31, 2013, is repeated in finding 2014-02 with a response to that finding on Page 18.