

**EMERGENCY FOOD NETWORK OF
TACOMA AND PIERCE COUNTY**

Audited Financial Statements and
Supplementary Information and Reports
on Compliance and Internal Control

December 31, 2017

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

Audited Financial Statements and Supplementary Information and
Reports on Compliance and Internal Control

December 31, 2017

INDEPENDENT AUDITOR'S REPORT 1-2

AUDITED FINANCIAL STATEMENTS

Statement of Financial Position 3-4

Statement of Activities and Changes in Net Assets 5

Statement of Functional Expenses 6

Statement of Cash Flows 7-8

Notes to Financial Statements 9-14

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards 15

Notes to Schedule of Expenditures of Federal Awards 16-17

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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* 18-19

Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by the Uniform Guidance 20-21

Schedule of Findings and Questioned Costs and Prior Year Audit Findings 22-23

Corrective Action Plan 24



1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report

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) (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Emergency Food Network of Tacoma and Pierce County as of December 31, 2017, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 8 to the financial statements, certain errors resulting in overstatement of amounts previously reported for property and equipment as of December 31, 2016, were discovered by management during the current year. Accordingly, amounts reported for property and equipment and contributions have been restated in the 2016 financial statements now presented to correct the error. Our opinion is not modified with respect to that matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited Emergency Food Network of Tacoma and Pierce County's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements as restated, from which it has been derived.

Supplementary and Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018 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.



JOHNSON, STONE & PAGANO, P.S.

September 26, 2018

AUDITED FINANCIAL STATEMENTS

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF FINANCIAL POSITION

December 31, 2017 with Comparative Totals for 2016 (Restated)

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,467,550	\$ 1,492,050
Grants receivable	250,361	177,019
Pledges receivable, net	102,130	516,540
Inventory - donated	1,183,430	895,526
Inventory - purchased	<u>74,823</u>	<u>86,125</u>
Total Current Assets	3,078,294	3,167,260
PROPERTY AND EQUIPMENT		
Building and improvements	1,535,776	1,236,225
Land	485,259	76,608
Land improvements	426,654	
Farm equipment	103,687	93,802
Vehicles	574,331	522,264
Warehouse equipment	291,368	280,853
Construction in progress	<u>330</u>	<u>12,726</u>
	3,417,405	2,222,478
Less accumulated depreciation	<u>1,213,688</u>	<u>1,092,667</u>
Total Property and Equipment	2,203,717	1,129,811
OTHER ASSETS		
Land held for development	<u> </u>	<u>408,651</u>
TOTAL ASSETS	<u>\$ 5,282,011</u>	<u>\$ 4,705,722</u>

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

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF FINANCIAL POSITION (Continued)

December 31, 2017 with Comparative Totals for 2016 (Restated)

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 33,837	\$ 49,266
Accrued wages and payroll taxes	36,539	40,602
Accrued sick and vacation	<u>163,053</u>	<u>156,841</u>
Total Current Liabilities	233,429	246,709
NET ASSETS		
Unrestricted	4,202,111	3,020,590
Temporarily restricted	838,971	1,430,923
Permanently restricted	<u>7,500</u>	<u>7,500</u>
Total Net Assets	<u>5,048,582</u>	<u>4,459,013</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,282,011</u>	<u>\$ 4,705,722</u>

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

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2017 with Comparative Totals for 2016 (Restated)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<u>SUPPORT AND REVENUE</u>					
MONETARY SUPPORT AND REVENUE					
Government grants	\$ 253,045	\$ 703,525		\$ 956,570	\$ 891,980
Community contributions and special events	989,786			989,786	964,125
Private foundations	698,481			698,481	555,979
Capital campaign contributions, net		464,702		464,702	871,309
Interest income	3,347			3,347	1,417
Other income	1,513			1,513	20,462
Net assets released from restrictions	1,760,179	(1,760,179)			
Total Monetary Support and Revenue	3,706,351	(591,952)		3,114,399	3,305,272
IN-KIND SUPPORT AND REVENUE					
Community contributions	19,813,522			19,813,522	20,305,509
Government grants	1,185,200			1,185,200	1,383,194
Rent	28,800			28,800	28,800
Total In-kind Support and Revenue	21,027,522			21,027,522	21,717,503
Total Support and Revenue	24,733,873	(591,952)		24,141,921	25,022,775
<u>EXPENSES</u>					
PROGRAM SERVICES					
Food banks	22,182,337			22,182,337	23,812,045
Farm	251,253			251,253	248,004
SUPPORTING SERVICES					
Management and general	613,288			613,288	293,067
Fundraising	505,474			505,474	516,542
Total Expenses	23,552,352			23,552,352	24,869,658
CHANGE IN NET ASSETS	1,181,521	(591,952)		589,569	153,117
Net Assets at Beginning of Year	3,020,590	1,430,923	\$ 7,500	4,459,013	4,305,896
NET ASSETS END OF YEAR	\$ 4,202,111	\$ 838,971	\$ 7,500	\$ 5,048,582	\$ 4,459,013

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

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017 with Comparative Totals for 2016 (Restated)

	Program Services			Supporting Services			2017	2016
	Food Banks	Farm	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
GOVERNMENT GRANTS								
EFAP program	\$ 434,770		\$ 434,770				\$ 434,770	\$ 510,691
EFSP program	123,800		123,800				123,800	61,831
TEFAP program	164,075		164,075				164,075	111,497
Total Government Grants	722,645		722,645				722,645	684,019
Salaries and payroll taxes	305,827	\$ 169,862	475,689	\$ 514,170	\$ 269,179	\$ 783,349	1,259,038	1,177,541
Food and related expenses	189,481		189,481				189,481	188,983
Food bank expense	5,805		5,805				5,805	38,865
Depreciation	121,021		121,021				121,021	116,374
Facility and equipment expense	72,238		72,238	23,365	23	23,388	95,626	74,661
Office expenses	13,942		13,942	17,838	7,230	25,068	39,010	32,039
Insurance and other fees	27,758	35	27,793	29,638	4,641	34,279	62,072	47,003
Contracts services	2,313		2,313	20,209		20,209	22,522	24,569
Marketing and events	8,752	692	9,444	4,156	99,878	104,034	113,478	110,707
Travel, training and meeting expense	1,737		1,737	3,777	598	4,375	6,112	6,440
Farm expenses		51,864	51,864	135		135	51,999	61,442
Capital fund expenses					123,925	123,925	123,925	70,710
Total Before In-kind Expenses	1,471,519	222,453	1,693,972	613,288	505,474	1,118,762	2,812,734	2,633,353
IN-KIND EXPENSES								
Food	19,330,352		19,330,352				19,330,352	20,851,397
Government grants								
TEFAP program	1,380,466		1,380,466				1,380,466	1,356,108
Rent		28,800	28,800				28,800	28,800
Total In-kind Expenses	20,710,818	28,800	20,739,618				20,739,618	22,236,305
TOTAL EXPENSES	\$ 22,182,337	\$ 251,253	\$ 22,433,590	\$ 613,288	\$ 505,474	\$ 1,118,762	\$ 23,552,352	\$ 24,869,658

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

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017 with Comparative Totals for 2016 (Restated)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and public support	\$ 3,408,568	\$ 3,160,390
Cash paid to suppliers and employees	(2,650,139)	(2,442,646)
Interest received	<u>3,347</u>	<u>1,417</u>
Net Cash Provided by Operating Activities	761,776	719,161
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchased property and equipment	(786,276)	(65,931)
Purchase of real property	<u>(786,276)</u>	<u>(283,651)</u>
Net Cash Used by Investing Activities	(786,276)	(349,582)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,500)	369,579
Cash and Cash Equivalents at Beginning of Year	<u>1,492,050</u>	<u>1,122,471</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,467,550</u>	<u>\$ 1,492,050</u>

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

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF CASH FLOWS (Continued)

Year Ended December 31, 2017 with Comparative Totals for 2016 (Restated)

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 589,569	\$ 153,117
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	121,021	116,374
Inventory - donated		
Donated food	(20,998,722)	(21,688,703)
Distribution of donated food	20,710,818	22,207,505
(Increase) decrease in		
Grants receivable	(73,342)	8,809
Pledges receivable	414,410	(152,275)
Inventory - purchased	11,302	(30,504)
Increase (decrease) in		
Accounts payable	(15,429)	22,601
Accrued wages and payroll taxes	(4,063)	25,084
Accrued sick and vacation	6,212	57,153
	<u>761,776</u>	<u>719,161</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>761,776</u>	\$ <u>719,161</u>

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

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 1 - 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 purchases 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 Accounting

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

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.

Cash and Cash Equivalents

The Organization considers cash to be cash on hand, in checking accounts and savings accounts.

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 receivable are recognized when the grant or other conditions are satisfied. The Organization considers all receivables to be fully collectible; therefore, no allowance for doubtful accounts has been established.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable are recorded when the underlying promises are received by the Organization and are presented in the statements of financial position net of the allowance for uncollectible pledges. The allowance for uncollectible pledges is estimated based on the Organization's historical losses, the existing economic conditions and the financial stability of its donors.

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, 2017 and 2016, donated inventory is stated at an industry standard of \$1.67 and \$1.73 per pound, respectively. Government surplus commodities are stated at prices established by the United States Department of Agriculture. As of December 31, 2017 and 2016, inventory consists of the following:

	<u>2017</u>	<u>2016</u>
Donated	\$ 1,035,048	\$ 564,323
Government grants - TEFAP	<u>148,382</u>	<u>331,203</u>
	1,183,430	895,526
Purchased	<u>74,823</u>	<u>86,125</u>
Total	\$ <u>1,258,253</u>	\$ <u>981,651</u>

Property and Equipment

Property and equipment are stated at cost at the 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, 2017 and 2016 was \$121,021 and \$116,374, respectively.

Land Held for Development

In February 2016, the Organization completed the purchase of real property for development of a new parking lot. The property was developed in 2017 and added to in-service, capitalized property and equipment.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accounting principles generally accepted in the United States of America, 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 accounting principles generally accepted in the United States of America 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 accounting principles generally accepted in the United States of America were not met. Total volunteer hours at December 31, 2017 and 2016, were 22,487 and 21,377, respectively.

The value of donated food from community contributions included as in-kind donations for the years ended December 31, 2017 and 2016, are \$19,813,522 and \$20,305,509, respectively, and are correspondingly valued at \$1.67 and \$1.73 per pound. Community contributions for the same years then ended represent 82% and 81% of total support and revenue, respectively.

The value of donated food from The Emergency Food Assistance Program ("TEFAP") included as in-kind contributions for the years ended December 31, 2017 and 2016 are \$1,185,200 and \$1,383,194, 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% of total support and revenues, respectively, for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016 is \$28,800.

Advertising Costs

Advertising costs consist of event notification, marketing and fundraising costs and are charged to operations when incurred. The Organization incurred advertising costs of \$112,883 and \$105,232 in 2017 and 2016, respectively.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes

Emergency Food Network of Tacoma and Pierce County is exempt from federal income taxes under Internal Revenue Code, Section 501(c)(3).

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the presentation of net asset classifications and other information, presented or disclosed in the financial statements, regarding a not-for-profit entity's liquidity and availability of financial resources, board designations of net assets, financial performance and expenses on a functional basis. The ASU's requirements are broadly applicable, and will be effective for years beginning after December 15, 2017. Management is currently evaluating how the new requirements will affect the Organization's financial statements.

Reclassifications

Certain amounts presented in the preceding year have been reclassified to conform to the financial statement presentation in the current year. The reclassifications had no effect on total net assets or changes in net assets as previously stated.

Subsequent Events

The management of the Organization evaluated subsequent events and transactions for potential recognition and disclosure through September 26, 2018, the date 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. The Organization has not experienced any losses in such accounts.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following as of December 31, 2017:

Amounts due in	
Less than one year	\$ 86,978
One to five years	<u>17,033</u>
	104,011
Less allowance for uncollectible pledges	<u>1,881</u>
Pledges Receivable, net	\$ <u>102,130</u>

Management has evaluated the pledges and recorded an allowance for uncollectible pledges of \$1,881. Discounts on pledges receivable of more than one year are immaterial.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 4 - LINE OF CREDIT

The Organization has an available \$200,000 revolving line of credit with a bank that expires in November 2019, secured by receivables and equipment. Interest is payable monthly at prime rate with a minimum rate of 5.00%, the rate as of December 31, 2017. There was no amount outstanding on the line as of December 31, 2017.

NOTE 5 - RESTRICTIONS ON NET ASSETS

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

	<u>2017</u>	<u>2016</u>
Other programs	\$ 12,496	\$ 65,159
Purchase of food	205,408	24,508
Capital Campaign	<u>621,067</u>	<u>1,341,256</u>
Total	<u>\$ 838,971</u>	<u>\$ 1,430,923</u>

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

NOTE 6 - ENDOWMENT FUNDS

Greater Tacoma Community Foundation holds and maintains the Emergency Food Endowment Fund with variance power and it 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 2017 and 2016, the distribution amount was \$700. The balance of the fund as of December 31, 2017 and 2016 was \$15,418 and \$14,323, respectively.

NOTE 7 - 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, 2017 and 2016, \$56,042 and \$44,057, respectively, was contributed on behalf of the employees.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 with Comparative Totals for 2016

NOTE 8 - PRIOR PERIOD ADJUSTMENT

During the current year, management determined there was an error in the recording of an addition to vehicles in 2016. The accompanying financial statements for 2016 have been restated to correct this error. The effect of the restatement was to decrease vehicles in 2016 by \$67,689 net of depreciation expense of \$11,945, and decrease community contributions and special events by \$79,634.

NOTE 9 - RELATED PARTY TRANSACTIONS

A board member is the employee of an investment company in which the Organization has cash account in the amount of \$111,747 and \$18,055 at December 31, 2017 and 2016, respectively.

SUPPLEMENTARY INFORMATION

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2017

<u>Program Title</u>	<u>Federal CFDA Grantor</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
DEPARTMENT OF AGRICULTURE				
Passed through State of Washington				
Food Distribution Cluster				
The Emergency Food Assistance Program (Administrative Costs)	10.568	K1661, K2170		\$ 164,075
The Emergency Food Assistance Program (Food Commodities)	10.569	K1661, K2170	<u>\$ 1,352,229</u>	<u>1,354,918</u>
Total Department of Agriculture			1,352,229	1,518,993
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Pierce County				
Community Development Block Grants	14.218	SC-105429		<u>37,500</u>
Total Department of Housing and Urban Development				37,500
DEPARTMENT OF HOMELAND SECURITY				
Passed through United Way of America: EFSP				
Emergency Food and Shelter National Board Program	97.024	LRO891400-001		<u>123,800</u>
Total Department of Homeland Security				<u>123,800</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,352,229</u>	<u>\$ 1,680,293</u>

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Emergency Food Network of Tacoma and Pierce County under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Emergency Food Network of Tacoma and Pierce County, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of Emergency Food Network of Tacoma and Pierce County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Emergency Food Network of Tacoma and Pierce County has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Year Ended December 31, 2017

NOTE 3 - SUBAWARDS

Emergency Food Network of Tacoma and Pierce County passed through federal awards under CFDA #10.569 to the following subrecipients:

Bonny Lake Community Resources	\$ 56,003
Eatonville Family Agency	14,844
Edgewood Community Fish FB	84,678
FISH Mobile Food Bank	96,187
Food Connection	214,990
Food Connection - Lakewood	25,172
Graham	59,405
Harvest House/Community Cares	28,520
Key Peninsula Community Services	12,973
Key Peninsula Food Backpack 4 Kids	14,554
Lakes FISH	97,088
Making a Difference	141,397
NW Tacoma FISH	76,330
Orting Food Bank	25,022
Prince of Peace Food Closet	9,150
Puyallup Valley	42,587
Salvation Army Lodge	998
Salvation Army Puyallup	28,533
Salvation Army Tacoma	2,642
SE Tacoma FISH	260,002
Spanaway	24,832
St. Andrews	10,056
Tacoma Rescue Mission	<u>26,266</u>
TOTAL SUBAWARDS	\$ <u>1,352,229</u>

REPORTS ON COMPLIANCE
AND INTERNAL CONTROL



1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

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*

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) (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statement of activities and changes in net assets, 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 September 26, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Board of Directors
Emergency Food Network of Tacoma and Pierce County

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization'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.



JOHNSON, STONE & PAGANO, P.S.

September 26, 2018



1501 Regents Blvd., Suite 100
Fircrest, WA 98466-6060

Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control over Compliance
Required by the Uniform Guidance

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 (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 its major federal programs. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

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

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

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

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



JOHNSON, STONE & PAGANO, P.S.

September 26, 2018

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
AND PRIOR YEAR AUDIT FINDINGS**

Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered material weaknesses?	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 2 CFR Section 200 516(a)?	No

Identification of major programs

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 type B programs	\$ 750,000
Auditee qualified as a low-risk auditee?	No

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND PRIOR YEAR AUDIT FINDINGS (Continued)

Year Ended December 31, 2017

Section II - Financial Statement Findings

2017-001 Reconciliation of Accounts

Criteria

Accounts, including cash, pledges receivable and property and equipment, were not reconciled on a regular basis.

Condition

Many account balances were not reconciled to detail support.

Context

Material adjustments were made during the audit to correct balances of pledges receivable and property and equipment.

Effect

Several accounts were materially misstated and cash accounts had adjustments posted after reconciliations were completed. This resulted in the cash balances not reconciling to bank reconciliations.

Cause

Procedures were not followed to reconcile accounts monthly and to adjust reconciliations after new entries were posted.

Auditor's Recommendations

We recommend that procedures be followed to reconcile all balance sheet accounts monthly and to adjust reconciliations for any changes.

Section III - Federal Award Findings and Questioned Costs

No matters were noted.

Section IV - Prior Year Audit Findings

2016-001 Reconciliation of Pledges Receivable

Detailed pledges receivable are recorded and tracked through a donor tracking software program that is not integrated with the general ledger and the two systems were not reconciled on a regular basis. This finding was not corrected during 2017.



CORRECTIVE ACTION PLAN IN RESPONSE TO:

Schedule of Findings and Questioned Costs

Year End December 31, 2017

Section II – Financial Statement Findings

2017-001 Reconciliation of Accounts

Finding

Accounts, including cash, pledges receivable and property and equipment, were not reconciled on a regular basis.

Auditor's Recommendations

We recommend that procedures be followed to reconcile all balance sheet accounts monthly and to adjust reconciliations for any changes.

Actions Taken

EFN has implemented a procedure to reconcile all balance sheet accounts monthly and to have all changes to prior months that affect completed reconciliations approved by the Executive Director. EFN has also implemented a procedure to lock all months upon completion and reporting to the board of directors.

3318
92ND STREET SOUTH
LAKEWOOD
WASHINGTON
98499
TELEPHONE
253 584 1040
FACSIMILE
253 984 9368
EFOODNET.ORG

...SO THAT
NO PERSON
GOES
HUNGRY