

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

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

December 31, 2016

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

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

December 31, 2016

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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, 2016, 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, 2016, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Emergency Food Network of Tacoma and Pierce County's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements 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 United States (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 June 21, 2017 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.

June 21, 2017

AUDITED FINANCIAL STATEMENTS

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

STATEMENT OF FINANCIAL POSITION

December 31, 2016 with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,492,050	\$ 1,122,471
Grants receivable	177,019	185,828
Pledges receivable, net	516,540	364,265
Inventory - donated	895,526	1,414,328
Inventory - purchased	<u>86,125</u>	<u>55,621</u>
Total Current Assets	3,167,260	3,142,513
PROPERTY AND EQUIPMENT		
Building	1,236,225	1,236,225
Land	76,608	76,608
Farm equipment	93,802	91,802
Vehicles	601,898	478,859
Warehouse equipment	280,853	260,326
Construction in progress	<u>12,726</u>	<u>12,726</u>
	<u>2,302,112</u>	<u>2,156,546</u>
Less accumulated depreciation	<u>1,104,612</u>	<u>976,292</u>
Total Property and Equipment	1,197,500	1,180,254
OTHER ASSETS		
Land held for development	<u>408,651</u>	<u>125,000</u>
TOTAL ASSETS	<u>\$ 4,773,411</u>	<u>\$ 4,447,767</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, 2016 with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 49,266	\$ 26,665
Accrued wages and payroll taxes	40,602	15,518
Accrued sick and vacation	<u>156,841</u>	<u>99,688</u>
Total Current Liabilities	246,709	141,871
NET ASSETS		
Unrestricted	3,088,279	3,678,171
Temporarily restricted	1,430,923	620,225
Permanently restricted	<u>7,500</u>	<u>7,500</u>
Total Net Assets	<u>4,526,702</u>	<u>4,305,896</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,773,411</u>	<u>\$ 4,447,767</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, 2016 with Comparative Totals for 2015

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<u>SUPPORT AND REVENUE</u>					
MONETARY SUPPORT AND REVENUE					
Government grants	\$ 564,336	\$ 327,644		\$ 891,980	\$ 801,742
Community contributions and special events	1,030,997	12,762		1,043,759	957,728
Private foundations	233,812	322,167		555,979	525,403
Capital campaign contributions, net		871,309		871,309	981,613
Interest income	1,417			1,417	2,610
Other income	20,462			20,462	
Loss on disposal of assets					(1,735)
Net assets relased from restrictions	723,184	(723,184)			
Total Monetary Support and Revenue	<u>2,574,208</u>	<u>810,698</u>		<u>3,384,906</u>	<u>3,267,361</u>
IN-KIND SUPPORT AND REVENUE					
Community contributions	20,305,509			20,305,509	22,687,472
Government grants	1,383,194			1,383,194	1,132,833
Rent	28,800			28,800	28,800
Total In-kind Support and Revenue	<u>21,717,503</u>			<u>21,717,503</u>	<u>23,849,105</u>
Total Support and Revenue	24,291,711	810,698		25,102,409	27,116,466
<u>EXPENSES</u>					
PROGRAM SERVICES					
Food banks	23,823,990			23,823,990	24,799,005
Farm	248,004			248,004	163,925
SUPPORTING SERVICES					
Management and general	293,067			293,067	260,401
Fundraising	516,542			516,542	449,059
Total Expenses	<u>24,881,603</u>			<u>24,881,603</u>	<u>25,672,390</u>
CHANGE IN NET ASSETS	(589,892)	810,698		220,806	1,444,076
Net Assets at Beginning of Year	<u>3,678,171</u>	<u>620,225</u>	<u>\$ 7,500</u>	<u>4,305,896</u>	<u>2,861,820</u>
NET ASSETS END OF YEAR	<u>\$ 3,088,279</u>	<u>\$ 1,430,923</u>	<u>\$ 7,500</u>	<u>\$ 4,526,702</u>	<u>\$ 4,305,896</u>

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, 2016 with Comparative Totals for 2015

	Program Services			Supporting Services			2016	2015
	Food Banks	Farm	Total	Management and General	Fundraising	Total	Total Expenses	Total Expenses
GOVERNMENT GRANTS								
EFAP program	\$ 510,691		\$ 510,691				\$ 510,691	\$ 379,169
EFSP program	61,831		61,831				61,831	74,872
TEFAP program	111,497		111,497				111,497	32,346
Total Government Grants	684,019		684,019				684,019	486,387
Salaries and payroll taxes	446,986	\$ 148,532	595,518	\$ 242,343	\$ 339,680	\$ 582,023	1,177,541	1,103,131
Food	207,831		207,831				207,831	258,934
Events	4,673		4,673	15,400	121,488	136,888	141,561	78,334
Depreciation	128,319		128,319				128,319	92,063
Vehicle expenses	29,587	2,941	32,528				32,528	36,600
Supplies	43,854	24,050	67,904	3,666	3,217	6,883	74,787	39,446
Utilities	13,530	9,957	23,487	5,823	7,279	13,102	36,589	35,142
Uncollectible grants					9,126	9,126	9,126	270
Professional services	10,200	2,413	12,613	5,186	6,770	11,956	24,569	22,743
Insurance	9,890	2,427	12,317	4,855	6,068	10,923	23,240	18,631
Technology	1,545	285	1,830	2,173	4,210	6,383	8,213	13,069
Contracts	5,865	9,905	15,770				15,770	5,696
Communications	3,767	1,063	4,830	3,079	1,421	4,500	9,330	8,040
Printing	5,740	8	5,748	4,337	3,138	7,475	13,223	9,940
Miscellaneous	2,595	477	3,072	885	7,214	8,099	11,171	32,151
Meetings	1,699	1,285	2,984	1,167	2,892	4,059	7,043	6,607
Postage				3,782	500	4,282	4,282	5,934
Training and education	13	2,101	2,114	29	2,502	2,531	4,645	4,331
Repairs and maintenance	15,531	13,186	28,717				28,717	18,504
Licenses and dues	841	574	1,415	342	1,037	1,379	2,794	3,956
Total Before In-kind Expenses	<u>1,616,485</u>	<u>219,204</u>	<u>1,835,689</u>	<u>293,067</u>	<u>516,542</u>	<u>809,609</u>	<u>2,645,298</u>	<u>2,279,909</u>
IN-KIND EXPENSES								
Food	20,851,397		20,851,397				20,851,397	22,325,341
Government grants								
TEFAP program	1,356,108		1,356,108				1,356,108	1,038,340
Rent		28,800	28,800				28,800	28,800
Total In-kind Expenses	<u>22,207,505</u>	<u>28,800</u>	<u>22,236,305</u>				<u>22,236,305</u>	<u>23,392,481</u>
TOTAL EXPENSES	<u>\$ 23,823,990</u>	<u>\$ 248,004</u>	<u>\$ 24,071,994</u>	<u>\$ 293,067</u>	<u>\$ 516,542</u>	<u>\$ 809,609</u>	<u>\$ 24,881,603</u>	<u>\$ 25,672,390</u>

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, 2016 with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions and public support	\$ 3,240,024	\$ 2,904,702
Cash paid to suppliers and employees	(2,442,645)	(2,236,217)
Interest received	<u>1,417</u>	<u>2,610</u>
Net Cash Provided by Operating Activities	798,796	671,095
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchased property and equipment	(145,566)	(340,742)
Cash received for sale of property and equipment		600
Purchase of real property	<u>(283,651)</u>	<u>(100,000)</u>
Net Cash Used by Investing Activities	<u>(429,217)</u>	<u>(440,142)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	369,579	230,953
Cash and Cash Equivalents at Beginning of Year	<u>1,122,471</u>	<u>891,518</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,492,050</u>	<u>\$ 1,122,471</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, 2016 with Comparative Totals for 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 220,806	\$ 1,444,076
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	128,320	92,063
Loss on disposal of assets		1,735
Inventory - donated		
Donated food	(21,688,703)	(23,820,305)
Distribution of donated food	22,207,505	23,347,911
(Increase) decrease in		
Grants receivable	8,809	4,216
Pledges receivable	(152,275)	(364,265)
Inventory - purchased	(30,504)	15,770
Increase (decrease) in		
Accounts payable	22,601	(40,377)
Accrued wages and payroll taxes	25,084	2,500
Accrued sick and vacation	<u>57,153</u>	<u>(12,229)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 798,796</u>	<u>\$ 671,095</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, 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 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 receivable are carried at cost. The Organization considers all receivables to be fully collectible; therefore, no allowance for doubtful accounts has been established.

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.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, 2016 and 2015, donated inventory is stated at an industry standard of \$1.73 per pound. Government surplus commodities are stated at prices established by the United States Department of Agriculture. As of December 31, 2016 and 2015, inventory consists of the following:

	<u>2016</u>	<u>2015</u>
Donated	\$ 564,323	\$ 1,140,589
Government grants - TEFAP	<u>331,203</u>	<u>273,739</u>
	895,526	1,414,328
Purchased	<u>86,125</u>	<u>55,621</u>
Total	\$ <u>981,651</u>	\$ <u>1,469,949</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, 2016 and 2015 was \$128,320 and \$92,063, respectively.

Land Held for Development

In February 2016, the Organization completed the purchase of real property for development of a new parking lot.

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.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2016 and 2015, were 21,377 and 21,995, respectively.

The value of donated food from community contributions included as in-kind donations for the years ended December 31, 2016 and 2015, are \$20,305,509 and \$22,687,472, respectively, and are correspondingly valued at \$1.73 per pound. Community contributions for the same years then ended represent 81 and 84 percent 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, 2016 and 2015 are \$1,383,194 and \$1,132,833, 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 4 percent of total support and revenues, respectively, for the years ended December 31, 2016 and 2015.

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, 2016 and 2015 is \$28,800.

Advertising Costs

Advertising costs consist of events, marketing and fundraising costs and are charged to operations when incurred. The Organization incurred advertising costs of \$102,351 and \$78,334 in 2016 and 2015, respectively.

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).

Subsequent Events

The management of the Organization evaluated subsequent events and transactions for potential recognition and disclosure through June 21, 2017, the date the financial statements were available to be issued.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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, 2016:

Amounts due in	
Less than one year	\$ 488,773
One to five years	<u>42,567</u>
	531,340
Less	
Allowance for uncollectible pledges	<u>14,800</u>
Pledges Receivable, net	\$ <u>516,540</u>

The pledges receivable due in more than one year are reflected at the present value of estimated cash flows using a discount rate of 1.15% at December 31, 2016. Management has evaluated the pledges and recorded an allowance for uncollectible pledges of \$14,800.

NOTE 4 - RESTRICTIONS ON NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Other programs	\$ 65,159	\$ 29,984
Purchase of food	24,508	49,847
Capital Campaign	<u>1,341,256</u>	<u>540,394</u>
Total	\$ <u>1,430,923</u>	\$ <u>620,225</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.

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 5 - ENDOWMENT FUNDS

Greater Tacoma Community Foundation holds and maintains the Emergency Food Endowment Fund with variance power 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 2016 and 2015, the distribution amount was \$700. The balance of the fund as of December 31, 2016 and 2015 was \$14,323 and \$13,871, 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, 2016 and 2015, \$44,057 and \$47,023, respectively, was contributed on behalf of the employees.

SUPPLEMENTARY INFORMATION

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

<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		\$ 140,688
The Emergency Food Assistance Program (Food Commodities)	10.569	K1661	\$ 1,332,941	<u>1,332,941</u>
Total Department of Agriculture				1,473,629
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Pierce County				
Community Development Block Grants	14.218	SC-103256 SC-104194		<u>45,833</u>
Total Department of Housing and Urban Development				45,833
DEPARTMENT OF HOMELAND SECURITY				
Passed through United Way of America: EFSP				
Emergency Food and Shelter National Board Program	97.024	VWPC2014		<u>61,831</u>
Total Department of Homeland Security				<u>61,831</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 1,581,293</u>

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

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 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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 costs 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.

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, 2016, 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 and have issued our report thereon dated June 21, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings, and questioned costs as item 2016-001 that we consider to be a significant deficiency.

Board of Directors
Emergency Food Network of Tacoma and Pierce County

Compliance and Other Matters

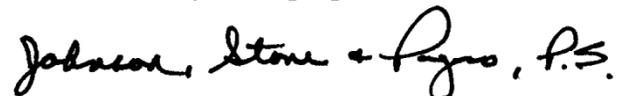
As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

June 21, 2017



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 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, 2016. 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, 2016.

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.

June 21, 2017

EMERGENCY FOOD NETWORK OF TACOMA AND PIERCE COUNTY

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

Year Ended December 31, 2016

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, 2016

Section II - Financial Statement Findings

2016-001 Reconciliation of Pledges Receivable

Criteria

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 are not reconciled on a regular basis.

Condition

At year end the total pledges receivable in the donor software did not reconcile to the pledges receivable in the general ledger.

Context

There was a difference of \$38,000 between the pledge receivable balance in the general ledger and the balance in donor software which required an adjusting entry at year-end to properly report contribution revenue and pledges receivable.

Effect

Pledges receivable were materially understated.

Cause

There was not a procedure in place to reconcile the transactions of contributors being tracked with the donor software to the transactions recorded in the accounting software.

Auditor's Recommendations

We recommend that procedures be implemented to reconcile the pledge documents reflected in the donor software to the transactions recorded in the accounting software on a monthly basis.

Section III - Federal Award Findings and Questioned Costs

No matters were noted.

Section IV - Prior Year Audit Findings

2015-001 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 2016.



CORRECTIVE ACTION PLAN IN RESPONSE TO:

Schedule of Findings and Questioned Costs
Year End December 31, 2016

Section III - Federal Award Findings and Questioned Costs

2016-001 Reconciliation of Pledges Receivable

Finding

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 are not reconciled on a regular basis.

Auditor's Recommendations

We recommend that procedures be implemented to reconcile the pledge documents reflected in the donor software to the transactions recorded in the accounting software on a monthly basis.

Actions Taken

EFN has implemented a monthly reconciliation process in which all revenues recorded in Quickbooks are checked against all revenues recorded in DonorPerfect, (including revenues accrued by pledge) to insure the totals match, any donor restrictions are properly recorded in both systems, and multiple staff are involved in the recon for internal control purposes. This procedure has been captured in a written document and entered into the EFN Accounting Policies and Procedures manual.

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...SO THAT
NO PERSON
**GOES
HUNGRY**