

**EMERGENCY FOOD NETWORK, INC.**

CHARLOTTESVILLE, VIRGINIA

REPORT ON EXAMINATION OF  
FINANCIAL STATEMENTS – MODIFIED CASH BASIS  
FOR THE YEAR ENDED FEBRUARY 28, 2017

**EMERGENCY FOOD NETWORK, INC.**

**Report on Examination of**

**Financial Statements – Modified Cash Basis**

**For the Year Ended February 28, 2017**

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## EXHIBIT A

### Independent Auditor's Report on Financial Statements

September 10, 2017

Board of Directors  
Emergency Food Network, Inc.  
Charlottesville, Virginia

We have audited the accompanying financial statements of Emergency Food Network, Inc. (a nonprofit organization) which comprise the statement of assets, liabilities, and net assets – modified cash basis as of February 28, 2017, and the related statements of support, revenue, and expenses – modified cash basis, functional expenses – modified cash basis, and cash flow – modified cash basis 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 the modified cash basis of accounting; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that 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 assets, liabilities and net assets – modified cash basis of Emergency Food Network, Inc., as of

February 28, 2017, and its support, revenue, and expenses – modified cash basis, functional expenses – modified cash basis, and cash flows – modified cash basis for the year then ended on the basis of accounting described in the notes to the financial statements.

**Basis of Accounting**

As described in Note 2, the Organization prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A handwritten signature in black ink that reads "Hostetler Stott CPA". The signature is written in a cursive, somewhat stylized font.

Hostetler Stott CPA  
Charlottesville, Virginia

**EXHIBIT B**

**EMERGENCY FOOD NETWORK, INC.**

Statement of Assets, Liabilities and Net Assets - Modified Cash Basis  
For the Year Ending February 28, 2017

**ASSETS**

**ASSETS**

Cash and cash equivalents	\$ 70,376
Investments	140,674
Beneficial interest in agency funds held by third party	<u>132,942</u>
TOTAL ASSETS	<u><u>343,992</u></u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Payroll liabilities	<u>365</u>
TOTAL LIABILITIES	<u><u>365</u></u>

**NET ASSETS**

Unrestricted	333,627
Temporarily restricted	<u>10,000</u>
Total net assets	<u>343,627</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 343,992</u></u>

**EXHIBIT C****EMERGENCY FOOD NETWORK, INC.**

Statement of Support, Revenues and Expenses - Modified Cash Basis  
For the Year Ending February 28, 2017

	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b><u>SUPPORT AND REVENUE</u></b>			
Contributions			
Individuals	\$ 80,672	\$ 10,000	\$ 90,672
CVC	1,474	-	1,474
Businesses	8,725	-	8,725
Church	17,265	-	17,265
Foundations	72,622	-	72,622
Organizations	1,155	-	1,155
Total contributions	<u>181,913</u>	<u>10,000</u>	<u>191,913</u>
Unrealized gains/(losses)	37,807	-	37,807
Miscellaneous revenue	491	-	491
Dividend income	2,912	-	2,912
Total support and revenue	<u>223,123</u>	<u>10,000</u>	<u>233,123</u>
Reclassifications			
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total reclassifications	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and reclassifications	223,123	10,000	233,123
<b><u>EXPENSES</u></b>			
Program services	213,992	-	213,992
Administrative	16,331	-	16,331
Fundraising	4,138	-	4,138
Total expenses	<u>234,461</u>	<u>-</u>	<u>234,461</u>
Net increase/(decrease) net assets	(11,338)	10,000	(1,338)
Net assets at beginning of year as reported	344,965	-	344,965
Net assets at end of year	<u>\$ 333,627</u>	<u>\$ 10,000</u>	<u>\$ 343,627</u>

See accompanying notes to the financial statements.

**EXHIBIT D**

**EMERGENCY FOOD NETWORK, INC.**  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ending February 28, 2017

Cash flows from operating activities:

Change in net assets	\$ (1,338)
Cash provided by (used by) operating activities:	
Unrealized gain on investments	(37,807)
Increase/(decrease) in payroll liabilities	31
<u>Net cash provided by (used by) operating activities</u>	<u>(39,114)</u>

Cash flows provided by (used by) investing activities

Purchase of investments	<u>(2,912)</u>
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Cash flows provided by (used by) financing activities

-

Net increase/(decrease) in cash and cash equivalents

(42,026)

Cash and cash equivalents at beginning of year

112,402

Cash and cash equivalents at end of year

\$ 70,376

Supplemental data:

Interest paid or capitalized	\$ -
Income taxes paid	\$ -
Non-cash investing activities	\$ -

The organization considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

**EXHIBIT E**

**EMERGENCY FOOD NETWORK, INC.**  
Statement of Functional Expenses - Modified Cash Basis  
For the Year Ending February 28, 2017

Supporting Services

	<u>Program Services</u>	<u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Food purchases:				
Food purchases - general	\$ 112,320	\$ -	\$ -	\$ 112,320
Bright Stars	1,882	-	-	1,882
Bread purchases	18,664	-	-	18,664
Milk purchases	24,567	-	-	24,567
OOO dinners	410	-	-	410
Haven food purchases	8,576	-	-	8,576
Hispanic Ministry	5,005	-	-	5,005
Shelter for Help In Emergency	3,200	-	-	3,200
Hospitality House	2,200	-	-	2,200
Boys & Girls Club	8,462	-	-	8,462
Piedmont House	2,150	-	-	2,150
Café Backpack Program	-	-	-	-
Total food purchases	<u>187,436</u>	<u>-</u>	<u>-</u>	<u>187,436</u>
Personal care purchases	3,917	-	-	3,917
Dues and fees	-	589	1,532	2,121
Insurance	888	719	-	1,607
Miscellaneous	182	-	-	182
Office supplies and expenses	-	974	-	974
Payroll expense	-	4,927	-	4,927
Postage and mailing	1,055	-	123	1,178
Printing and copying	-	92	-	92
Professional services	5,700	7,525	2,483	15,708
Rent expense	14,814	-	-	14,814
Telephone	-	1,505	-	1,505
Total expenses	<u>\$ 213,992</u>	<u>\$ 16,331</u>	<u>\$ 4,138</u>	<u>\$ 234,461</u>

See accompanying notes to the financial statements.



**EMERGENCY FOOD NETWORK, INC.**  
Notes to the Financial Statements  
For the Year Ending February 28, 2017

**Note 1 - Nature of the Organization**

Emergency Food Network, Inc. is an organization primarily run by volunteers that provides a three-day supply of nutritionally balanced food to needy people. The primary revenue sources are cash and noncash donations from individuals, foundations, organizations and businesses.

**Note 2 - Basis of Accounting**

The organization reports its financial statements using the modified cash method, which is a comprehensive basis of accounting other than generally accepted accounting principles. This method differs from GAAP in that grant income and contributions are recognized when received rather than when earned or promised. Therefore no pledges or grants receivable are reported in the financial statements. Additionally, furniture and equipment is expensed in the year purchased, and noncash donations are not recognized in the financial statements.

**Accounting Estimates**

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 could differ from the estimates.

**Cash and Cash Equivalents**

The organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Gift cards held are also considered cash equivalents. The carrying amounts reported in the statement of financial position approximate its fair values. At year end, cash and cash equivalents consist of the following:

Checking	\$70,376
	_____
Total Cash and Cash Equivalents	\$70,376

**Beneficial Interest in Agency Fund Held by Third Party**

The Organization is the beneficiary under a Designated Agency Fund Agreement with Charlottesville Area Community Foundation. The agency fund has been recorded in accordance with generally accepted accounting principles, which state that if a community foundation receives assets from a nonprofit organization that specifies itself or its affiliate as the beneficiary, the transfer is not a contribution received by the community foundation even if the variance power is explicitly stated in the gift instrument. The assets of the fund are included in the statement of financial position as a beneficial interest in agency fund held by third party. Distributions are to be paid as agreed upon by the two organizations. In addition, the fund is charged a quarterly administrative fee of .5% of the fund balance.

**EMERGENCY FOOD NETWORK, INC.**  
Notes to the Financial Statements  
For the Year Ending February 28, 2017

**Note 2 - Basis of Accounting (continued)****Investments**

The Organization reports investments in marketable equity securities and mutual or money market fund securities with readily determinable fair values are recorded at fair value. Fair value is established based on quoted prices from recognized securities exchanges. Dividend income and unrealized gains and losses on investments are reported in the statement of support, revenues, and expenses – modified cash basis.

**Property and Equipment**

Emergency Food Network, Inc. owns furniture and equipment for use in operations including a small freezer, two refrigerators, shelving, and miscellaneous furniture and office equipment. Additionally, building improvements were made to the storage facility at Meadows Presbyterian Church in 1990. The historical cost of these items is not reported in this statement as it would be under GAAP. The items were expensed when purchased, rather than capitalized and depreciated over their useful lives as they would be under GAAP.

**Inventory**

The organization holds food and other consumables in stock. The cost of these items in stock at year end would be reported under GAAP, but are not reported under this method.

**Net Assets**

Unrestricted net assets result from unexpended funds received from funding sources that impose no time or usage restrictions. At year end, the organization had unrestricted net assets of \$333,627.

Temporarily restricted net assets result from unexpended revenues subject to donor-imposed restrictions as to time and/or purpose of usage. At year end, the organization had temporarily restricted net assets of \$10,000. These funds were temporarily restricted for the purposes of engaging a fundraising consultant to build a stronger fundraising program.

Permanently restricted net assets result from donations, the principal of which are restricted by the donor to be held indefinitely. There were no permanently restricted net assets at year end.

**Noncash contributions**

The organization received donations of approximately 34,992 pounds of food during the year. They also were given the use of approximately 1,080 square feet of facility space, the value of which is not recorded in this statement as it would be under GAAP.

**Note 3 - Income Taxes**

The organization is a corporation that is exempt from income taxes on all exempt-purpose earnings under Section 509(a)(1) and 170(b)(A)(vi) of the Internal Revenue Code per letter of November 5, 1975. The corporation is not a private foundation.

**EMERGENCY FOOD NETWORK, INC.**  
Notes to the Financial Statements  
For the Year Ending February 28, 2017

**Note 4 - Uncertain Tax Positions**

The organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The federal income tax returns for fiscal year 2013 and forward are subject to examination by the Internal Revenue Service.

**Note 5 - Facility Lease**

The organization has entered into a lease for 900 square feet of commercial space requiring monthly payments of \$1,050 per month. The three year term, ending on June 30, 2018, provides for two additional one-year renewal options at an increased rate of 5%. Rent expense, including related utilities expense, for the fiscal year was \$14,814. There are no future minimum lease commitments as of fiscal year ended February 28, 2017.

**Note 6 - Functional Allocation of Expenses**

The organization allocates its expenses among program services and supporting services in the Statement of Functional Expenses – Modified Cash Basis. Allocations are made based on the specific purpose of each expense or by the percentage of time spent by employees on each type of service. These allocations involve estimations made by management.

**Note 7 - Concentration of Risk**

The Federal Deposit Insurance Corporation (FDIC) insures account balances up to \$250,000 at a banking institution. From time to time during the year, the balances held at the bank do not exceed this limit. Investment and Beneficial interest balances of the Organization are not FDIC insured.

**Note 8 – Fair Value of Financial Instruments**

The Financial Accounting Standards Board Codification of Accounting Standards Topics 820 and 825 established a framework for measuring fair value under accounting principles generally accepted in the United States of America. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices in active markets for identical assets the Organization has the ability to access at the measurement date. These types of quoted prices would include publicly traded securities.

Level 2 – Pricing inputs (other than quoted prices included in Level 1) that are observable for the asset, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the Organization. These types of sources would include quoted prices for similar assets, models or other valuation methodologies.

**EMERGENCY FOOD NETWORK, INC.**  
 Notes to the Financial Statements  
 For the Year Ending February 28, 2017

**Note 8 – Fair Value of Financial Instruments (Continued)**

Level 3 – Pricing inputs that are unobservable for the asset. Unobservable inputs are those that reflect management’s assumptions about the assumptions that market participants would use in pricing the asset developed based on the best information available.

The carrying amounts for cash reported in the statement of financial position approximate fair values.

The following table sets forth, by level, within the fair value hierarchy, amounts recorded in the Organization’s financial statements at fair value as of February 28, 2017:

	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 3</b>
Checking and Savings	\$ 70,376	\$ 70,376	
Investments	140,674	140,674	
Beneficial interest	132,942		\$132,942
Payroll Liabilities	365	365	

The Level 3 assets represent a beneficial interest in amounts invested in Charlottesville Area Community Foundation’s (CACF) investment pool. The valuation of this investment is based upon the inputs used by CACF to value the underlying assets. The following table provides further details of the Level 3 fair value measurements at February 28, 2017:

Beneficial interest, beginning of year.....	\$ 123,984
Change in value of beneficial interest:	
Contributions to the fund .....	( ... )
Investment returns (losses) .....	8,958
Administrative fee.....	( ... )
Beneficial interest, end of year .....	<u>\$ 132,942</u>

**Note 9 - Commitments**

Emergency Food Network, Inc. has entered into several contracts with other charitable organizations in which it promises to provide money on a monthly basis for the purchase of food for their respective clients. As of February 28, 2017, within the coming 2018 fiscal year Emergency Food Network has a committed funds balance of \$4,660.

**Note 10 - Subsequent Events**

The Organization has evaluated events and transactions for potential recognition or disclosure in the financial statements through September 10, 2017, which is the date that the financial statements were available to be issued. No other subsequent events have been recognized or disclosed.