

EL PASOANS FIGHTING HUNGER

**FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
El Pasoans Fighting Hunger

Report on the Financial Statements

We have audited the accompanying financial statements of El Pasoans Fighting Hunger (a nonprofit organization), which comprise of the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and 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 El Pasoans Fighting Hunger as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 May 12, 2014, on our consideration of El Pasoans Fighting Hunger'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 El Pasoans Fighting Hunger's internal control over financial reporting and compliance.

Peter Brines McDaniel & Co

May 12, 2014

EL PASOANS FIGHTING HUNGER**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 688,390	\$ 523,283
Receivables		
Accounts receivable	9,412	16,147
Grants receivable	125,183	-
Unconditional promises to give, net	261,167	149,034
Inventory	521,357	-
Prepaid expenses	1,264	-
TOTAL CURRENT ASSETS	<u>1,606,773</u>	<u>688,464</u>
Unconditional promises to give, net of current portion and discount	614,615	780,228
Property and equipment, net	1,559,900	1,154,693
TOTAL ASSETS	<u>\$ 3,781,288</u>	<u>\$ 2,623,385</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 67,559	\$ 29,243
Payable to West Texas Food Bank	-	39,268
Note payable, net of long term portion	806,381	900,000
TOTAL CURRENT LIABILITIES	<u>873,940</u>	<u>968,511</u>
Note payable, long term	15,951	-
TOTAL LIABILITIES	<u>889,891</u>	<u>968,511</u>
NET ASSETS		
Unrestricted net assets	1,662,254	440,522
Board designated, unrestricted	227,855	-
Temporarily restricted net assets	1,001,288	1,214,352
TOTAL NET ASSETS	<u>2,891,397</u>	<u>1,654,874</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,781,288</u>	<u>\$ 2,623,385</u>

See notes to financial statements.

EL PASOANS FIGHTING HUNGER

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CHANGE IN UNRESTRICTED NET ASSETS		
Unrestricted revenue gains and other support:		
Donated commodities	\$ 7,540,956	\$ -
Government grants	2,479,185	-
Donations	325,538	122,214
Private grants	171,910	-
Direct mail	230,006	145,904
Special events	70,071	63,372
Agency support	465,867	11,547
In-kind revenue	25,450	19,975
Interest	24,477	85
Gain on disposal of assets	227,855	-
Other income	162,007	20,741
Net assets released from restriction	427,508	266,544
Total unrestricted revenue and other support	<u>12,150,830</u>	<u>650,382</u>
EXPENSES		
Program	11,086,847	190,657
Fund raising	253,660	75,600
Administrative	164,006	2,922
TOTAL EXPENSES	<u>11,504,513</u>	<u>269,179</u>
NET INCREASE IN UNRESTRICTED NET ASSETS	<u>646,317</u>	<u>381,203</u>
TEMPORARILY RESTRICTED NET ASSETS		
Grants	105,424	100,000
Donations-capital campaign	109,020	1,380,896
Net assets released from restrictions	<u>(427,508)</u>	<u>(266,544)</u>
NET INCREASE (DECREASE) IN TEMPORARY RESTRICTED	<u>(213,064)</u>	<u>1,214,352</u>
INCREASE IN NET ASSETS	433,253	1,595,555
NET ASSETS, Beginning of year	1,654,874	59,319
Net assets transfer from West Texas Food Bank - Note 8	<u>803,270</u>	<u>-</u>
NET ASSETS, End of year	<u>\$ 2,891,397</u>	<u>\$ 1,654,874</u>

See notes to financial statements.

EL PASOANS FIGHTING HUNGER**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013**

	<u>Program Expenses</u>	<u>Fundraising Expenses</u>	<u>Administrative Expenses</u>	<u>Total Expenses</u>
Salaries	\$ 434,341	\$ 34,733	\$ 117,044	\$ 586,118
Payroll taxes and benefits	82,723	6,228	23,449	112,400
Professional development/travel	32,144		1,692	33,836
Utilities	79,619		4,190	83,809
Occupancy expenses	55,531		2,923	58,454
Repair and maintenance	100,600		5,295	105,895
Equipment lease	7,964		419	8,383
Interest	45,261			45,261
Transportation	107,021			107,021
Food purchase	331,803			331,803
Commodities distribution	9,638,948			9,638,948
Office supplies and postage	35,132		1,849	36,981
Professional fees	15,618	36,500	822	52,940
Professional fees/dues	7,318		385	7,703
Fundraising		176,199		176,199
Depreciation	55,841		2,939	58,780
Other expense	<u>56,983</u>	<u>-</u>	<u>2,999</u>	<u>59,982</u>
Total program expenses	<u>\$ 11,086,847</u>	<u>\$ 253,660</u>	<u>\$ 164,006</u>	<u>\$ 11,504,513</u>

EL PASOANS FIGHTING HUNGER**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012**

	<u>Program Expenses</u>	<u>Fundraising Expenses</u>	<u>Administrative Expenses</u>	<u>Total Expenses</u>
Salaries	\$ 11,404	\$ -	\$ -	\$ 11,404
Payroll taxes and benefits	621			621
Professional development/travel	438			438
Utilities	19,481			19,481
Occupancy expenses	12,563			12,563
Repair and maintenance	2,028			2,028
Equipment lease				
Interest	36,833			36,833
Office supplies and postage	1,181			1,181
Professional fees	11,805	38,000	1,640	51,445
WTFB direct mail donation	93,693			93,693
Professional fees/dues	610			610
Fundraising		37,600		37,600
Other expense	<u>-</u>	<u>-</u>	<u>1,282</u>	<u>1,282</u>
Total program expenses	<u>\$ 190,657</u>	<u>\$ 75,600</u>	<u>\$ 2,922</u>	<u>\$ 269,179</u>

EL PASOANS FIGHTING HUNGER

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2103</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 433,253	\$ 1,595,555
Depreciation	58,780	-
Gain on sale of fixed assets	(227,855)	-
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	(118,448)	(16,147)
Unconditional pledges	53,480	(929,262)
Inventory and other assets	68,147	-
Increase (decrease) in:		
Accounts payable and accrued expenses	38,316	29,243
Due to West Texas Food Bank	(39,268)	39,268
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>266,405</u>	<u>718,657</u>
CASH FLOWS FROM INVESTING ACTIVATES		
Proceeds from the sale of fixed assets	350,000	-
Acquisition of property and equipment	(373,630)	(204,693)
NET CASH USED IN INVESTING ACTIVITIES	<u>(23,630)</u>	<u>(204,693)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt issuance	25,518	-
Principal payment	(103,186)	-
NET CASH USED IN FINANCING ACTIVITIES	<u>(77,668)</u>	<u>-</u>
NET INCREASE IN CASH	165,107	513,964
CASH, Beginning of year	<u>523,283</u>	<u>9,319</u>
CASH, End of year	<u>\$ 688,390</u>	<u>\$ 523,283</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 45,261</u>	<u>\$ 36,833</u>
Non cash investing and financing transactions:		
Acquisition of building	\$ -	\$ 900,000
Building note payable	-	(900,000)
Donated assets	803,270	-

See notes to financial statements.

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the El Pasoans Fighting Hunger (the Organization), is presented to assist in understanding these financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Purpose

El Pasoans Fighting Hunger is a charitable corporation, formed on July 13, 2011. The Organization works to alleviate hunger in the El Paso, Hudspeth and Culberson Counties by securing donations of surplus food and grocery products for distribution through a network of charitable organizations dedicated to feeding the hungry.

The Organization is a partner distribution organization under West Texas Food Bank, a nonprofit corporation, and a sub-recipient of USDA food commodities and administrative costs passed through from the Food Bank. The Organization receives support from donations from individuals, corporations, and organizations. The Organization is dependent on their support in order to carry on its operations.

Basis of Accounting and Presentation

The accompanying financial statements are presented on the accrual basis of accounting. The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958, Financial Statements of Not-for-Profit Organizations. Under ASC 958, net assets, revenues and expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets represent resources that are not subject to donor-imposed stipulations and over which the Board of Directors has discretionary control. Unrestricted net assets are used to carry out the operations of the Organization in accordance with its bylaws. The principal sources of the unrestricted net assets are donations from individuals and corporations. Net assets received and expended within the reporting period are reported in the Statements of Activities as unrestricted support or revenue.

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting and Presentation (Continued)

Board Designated Net Assets

Board designated net assets represents funds that are subject to board sensitive restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid instruments with original maturities of three months or less. The Organization had no cash equivalents at December 31, 2013 and 2012.

Accounts Receivable

Accounts receivable consist primarily of shared maintenance fees billed to agencies for services rendered. Accounts receivable are evaluated by management and amounts deemed to be uncollectible are charged against the allowance for doubtful accounts. The allowance is then adjusted to reflect an estimated reserve for future losses. No allowance for doubtful accounts was considered necessary for 2013 and 2012.

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The unconditional promises to give are related to the Organization's capital campaign.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on management's analysis of specific promises made.

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists of donated food, purchased food and USDA commodities. Inventory is stated at the lower of cost or market value. Donated food is reported at an average price of \$1.69 per pound based on a valuation done by Feeding America at the national level for 2013. Purchased food is valued at cost. USDA commodities are valued based on published USDA fair market values.

Property and Equipment, net

Property and equipment are stated at cost, if purchased, or at fair market value, if donated. Depreciation is computed by using the straight-line basis over the estimated useful lives of assets, which ranges from 3 to 40 years. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. The Organization capitalizes property and equipment in excess of \$2,000.

Revenue Recognition

Revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the fiscal period.

Restricted and Unrestricted Support and Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted for future periods or donor-restricted for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, the restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions

In-kind contributions, which are donations of goods, services, and materials, are recognized as support and revenue in the Statement of Activities in the applicable year of donation. In-kind contributions are recorded at their estimated fair market value on the date of receipt. The Organization received donated goods, services, and materials for building improvements and equipment of \$25,450 and \$19,975 for 2013 and 2012, respectively. Volunteer services which are not considered necessary for operations to continue are not reflected in the financial statements as no objective basis is available to measure the value of such services. Volunteer hours totaled approximately 11,720 hours for 2013.

Functional Expense Allocation

Functional expenses have been allocated between program, fundraising, and administrative expenses in the Statement of Activities and Schedule of Functional Expenses based upon direct charges and expense allocations, using criteria established by management.

Income Taxes

El Pasoans Fighting Hunger is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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. Generally, tax years that remain subject to examination for three years after filed remain open to examination. 2011 through current year remain open to examination.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organization maintains cash balances at two financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation's (FDIC) up to \$250,000. The Organization's uninsured balance totaled \$436,772 and \$0 for 2013 and 2012, respectively. The Organization has not experienced any loss in such accounts, nor do they anticipate any loss.

Use of Estimates

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

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

2. INVENTORY

Inventory consisted of the following as of December 31:

	<u>2013</u>
Donated food	\$ 324,345
USDA commodities	180,564
Purchased Food	<u>16,448</u>
	<u>\$ 521,357</u>

Inventory turnover for the year ended December 31, 2013 is as follows:

	<u>Pounds Received</u>	<u>Pounds Distributed</u>
Donated food	4,462,104	4,506,948
USDA commodities	3,103,200	3,162,904
Purchased food	<u>688,786</u>	<u>683,327</u>
	<u>8,254,090</u>	<u>8,353,179</u>

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

3. UNCONDITIONAL PROMISES TO GIVE

Reflected on the Statement of Financial Position is \$875,782 and \$924,262 for unconditional promises to give for the year ending December 31, 2013 and 2012, respectively. This consists of temporarily restricted amounts to be used for purchase of property and equipment. The statement reflects an amount net of a present value discount of 2.3% for December 31, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Unconditional promises to give	\$ 900,850	\$ 969,700
Less: Present value discount	<u>25,068</u>	<u>40,438</u>
Total promises to give - present value	<u>\$ 875,782</u>	<u>\$ 929,262</u>
Receivable in less than one year	\$ 261,167	\$ 149,034
Receivable in one to five years	<u>639,683</u>	<u>820,666</u>
Total unconditional promises to give	900,850	969,700
Less discounts to net present value	<u>25,068</u>	<u>40,438</u>
Net unconditional promises to give	<u>\$ 875,782</u>	<u>\$ 929,262</u>

4. PROPERTY AND EQUIPMENT

At December 31, 2013 and 2012, property and equipment and accumulated depreciation consisted of the following:

	<u>Useful Life</u>	<u>2013</u>	<u>2012</u>
Land		\$ 200,000	\$ 200,000
Building and improvements	40 years	943,610	943,610
Building renovations	40 years	192,830	
Equipment	3-10 years	213,614	11,083
Vehicle equipment	3-10 years	52,000	
Computer network	3-10 years	<u>54,198</u>	<u>-</u>
Total property and equipment		\$ 1,656,252	\$ 1,154,693
Less: accumulated depreciation		<u>96,352</u>	<u>-</u>
Property and equipment, net		<u>\$ 1,559,900</u>	<u>\$ 1,154,693</u>

Depreciation expense totaled \$58,780 and \$0 for years ended December 31, 2013 and 2012, respectively.

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

5. NOTE PAYABLE

Note payable was a \$900,000 promissory note payable, with an original maturity of April 2013 with a fixed interest rate of 6%. The note was renewed in April 2013 with an interest rate of 5% and due April 2014. Interest-only payments of \$4,500 due monthly with the remaining principal and unpaid interest due in a balloon payment upon maturity. The note is secured by property located at 9541 Plaza Circle and secured by board members. The balance on the note was \$800,000 and \$900,000 as of December 31, 2013 and 2012, respectively. Interest expense was \$45,261 and \$36,833 as of December 31, 2013 and 2012, respectively.

6. CAPITAL LEASES

The Organization has acquired an asset under the provision of long-term leases. For financial reporting purpose, minimum lease payments relating to the assets have been capitalized in equipment. The monthly payment is \$531.71 and expires on July 2017. Depreciation of the leased property is included in depreciation expense.

7. TEMPORARILY RESTRICTED NET ASSETS

Substantially all temporarily restricted net assets related to contributions received and pledges for specific programs and purposes will be satisfied after year-end. Temporarily restricted net assets are as follows:

	<u>2013</u>	<u>2012</u>
Capital campaign	\$ 845,864	\$ 1,114,352
Food for Kids	30,424	
Equipment-inventory system	50,000	50,000
Mobile food pantry	50,000	
SNAP		50,000
Purchase commodities	25,000	-
Total	<u>\$ 1,001,288</u>	<u>\$ 1,214,352</u>

The Capital Campaign was to raise funds to purchase a new warehouse/office building, improvements to the building and purchase equipment. The Organization acquired the building during 2012 and secured a note payable of \$900,000 (See Note #5). Restrictions are considered to expire when payments are made for improvements to building, purchase of equipment, and payments on the note payable (principal and interest). The building was placed in service in 2013.

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

8. RELATED PARTY

In July 2012, the Organization entered into a Partner Distribution Organization agreement with West Texas Food Bank (WTFB) to improve the Organization's capacity to provide solutions to the hunger problem in El Paso and the surrounding region. During 2012, WTFB assisted the Organization with maintaining the food inventory and paying certain agreed upon expenses. Donated food, purchased food, and USDA commodities applicable to the Organization was recorded on WTFB's financial statements.

Effective January 1, 2013, the Organization officially separated from West Texas Food Bank (WTFB). Assets and inventory were transferred and the Organization become financially responsible for all revenues and expenses held by WTFB as of this date. The items were recorded at fair market value of \$803,270, which is recorded as a transfer of net assets in the statement of activities.

The Organization remitted \$93,693 in donations received from WTFB's direct mail campaign to WTFB as of December 31, 2012. The amount the Organization owed to WTFB for donations received and reimbursement of certain expenses as of December 31, 2012 was \$39,268.

9. COMMITMENTS AND CONTINGENCIES

Through the normal course of operations, the Organization receives contributions and other pledges from various entities. These activities may be subject to audit by donors, the purpose of which is to ensure compliance with conditions precedent to providing such funds. Management believes that the liability, if any, for any requirements which may arise as a result of such audits, would not be material.

10. DIRECT MAIL

For the year ended December 31, 2013, direct mail produced the following results:

Direct mail contributions	\$ 230,006
Direct mail expense	<u>144,947</u>
Net direct mail results	<u>\$ 85,059</u>

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

11. SUBSEQUENT EVENTS

Subsequent events were evaluated through May 12, 2014, which is the date the financial statements were available to be issued.

The Organization's promissory note with WestStar Bank was not been renewed as of May 12, 2014.

SUPPLEMENTARY INFORMATION

EL PASOANS FIGHTING HUNGER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/Pass through Grantor Programs	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Pass through Texas Food Bank Network and Texas Health and Human Services Commission Social Services Outreach Grant Program	10.551	\$ 108,020
Pass through Texas Department of Agriculture Summer Nutrition Program	10.559	67,323
Pass through Texas Department of Agriculture and West Texas Food Bank Cluster		
Emergency Food Program- Food Commodities #	10.569 **	1,981,133
Emergency Food Program- Administrative Costs	10.568 **	252,691
Total from U.S. Department of Agriculture		2,409,167
U.S. Department of Health and Human Services		
Pass through Texas Food Bank Network and Texas Health and Human Services Commission TANF Commodity Program	93.558	116,923
Total Federal Awards Expended		\$ 2,526,090

**** Denotes a major program .**

Value of food commodities distributed

EL PASOANS FIGHTING HUNGER

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2013**

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of El Pasoans Fighting Hunger (a nonprofit organization) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. FOOD DISTRIBUTION

Non-cash assistance is reported in the schedule at the fair market value of the commodities received and distributed. USDA food commodities inventory on hand total \$180,564 as of December 31, 2013.

3. RECONCILIATION

The following is a reconciliation of the revenue reported as government grants on the Statement of Activities and the expenditures reported on the Schedule of Expenditures of Federal Awards as of December 31, 2013:

Government grants - Statement of Activities	\$ 2,479,185
Federal expenditures - SEFA	<u>2,526,090</u>
Recognized in 2012	<u><u>\$ (46,905)</u></u>

The difference are the funds received in advanced and were recorded as restricted funds the year ended December 31, 2012.

4. CONTINGENCIES

The Organization had in effect for the fiscal year ended December 31, 2013, the following insurance coverage:

General Liability	\$ 2,000,000
Umbrella	1,000,000
Workers Compensation	500,000

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

**To the Board of Directors of
El Pasoans Fighting Hunger**

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 El Pasoans Fighting Hunger (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expense and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 12, 2014.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Pasoans Fighting Hunger'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 El Pasoans Fighting Hunger's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as items 2013-01, 2013-02 and 2013-03.

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. We considered the deficiencies identified in the paragraph above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Pasoans Fighting Hunger'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-01, 2013-02 and 2013-03.

El Pasoans Fighting Hunger's Response to Findings

El Pasoans Fighting Hunger's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. El Pasoans Fighting Hunger'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.

Peter Briones McDaniel & Co

May 12, 2014

Rene D. Peña, CPA
Mary Carmen Briones, CPA
James R. McDaniel, CPA

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

**To the Board of Directors of
El Pasoans Fighting Hunger**

Report on Compliance for Each Major Federal Program

We have audited El Pasoans Fighting Hunger's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of El Pasoans Fighting Hunger's major federal programs for the year ended December 31, 2013. El Pasoans Fighting Hunger's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of El Pasoans Fighting Hunger's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about El Pasoans Fighting Hunger's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of El Pasoans Fighting Hunger's compliance.

Opinion on Each Major Federal Program

In our opinion, El Pasoans Fighting Hunger complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control over Compliance

Management of El Pasoans Fighting Hunger 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 El Pasoans Fighting Hunger's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of El Pasoans Fighting Hunger'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Peña Buñones McDaniel & Co

May 12, 2014

EL PASOANS FIGHTING HUNGER

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes no

Significant deficiencies identified not considered to be material weaknesses?

 yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

 yes X no

Significant deficiencies identified not considered to be material weaknesses?

 yes X no

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

 yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.569

Emergency Food Assistance Program - Food Commodities

10.568

Emergency Food Assistance Program – Administrative Costs

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?

 yes X no

EL PASOANS FIGHTING HUNGER

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

Section II - Financial Statement Findings

2013-01: Coding of donated inventory not consistently followed.

Condition: The donated commodities are not consistently classified to the proper specific product codes before distributed to agencies.

Criteria: The procedure is to record donated inventory into a holding product code until items are sorted and transferred to a specific product code which has maintenance cost assigned to the codes. Then when the products are distributed, proper maintenance cost is charged to the agencies.

Cause: The holding product code does not have maintenance cost assigned and is not always reclassified to the specific product codes before inventory is distributed to agencies.

Effect: Proper maintenance cost was not invoiced to agencies during the year, which caused loss of revenue to the Organization.

Recommendation: The holding product code inventory should be reviewed on a regular basis to assure that inventory does not stay in this code. Agencies invoices should be reviewed before the product is distributed for proper product code and share maintenance fee by someone other than staff making the distribution.

Management's Response: Procedures are in place at this time to prevent blanket uses of item codes. i.e. no product will be release by the distribution department which is coded G1065 – Miscellaneous Mixed Product. All products are processed and properly coded by product type before they are entered into the inventory system.

2013-02: Lack of internal control over the share maintenance cost value.

Condition: Maintenance cost is changed for various reasons such as excess of products or perishable goods. There are no controls or procedures in place that control the changing of the shared maintenance fee.

Criteria: The share cost maintenance should be calculated using the approved rates.

Cause: Different employees have access to change the share maintenance cost in the system and there is no written policy on the price approved for each item.

Effect: Determination of the proper charges of maintenance share costs could not be verified.

EL PASOANS FIGHTING HUNGER

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

2013-02: Lack of internal control over the share maintenance cost value (continued)

Recommendation: Policies and procedures should be develop to implement internal control over the share maintenance cost. Limit access to changing fees in system and maintaining support for fees and changing of fee made during the year.

Management's Response: In March 2014, the executive director established policy that she is the only person allowed to change shared maintenance fees. A record is kept of those decisions. The distribution manager and his assistant must have the authority to make those physical changes within the software system.

2013-03 Lack of internal control over the receipt of donated commodities.

Condition: The Organization could not verify that all donated commodities by local retailers were received by the Organization.

Criteria: All donated commodities given to the Organization should be received, controlled and distributed to approve agencies.

Cause: The local retail stores have not provided the Organization with documents of the donated commodities given at the date of donation nor at year end.

Effect: With the lack of internal controls over receipt of donated commodities, the Organization does not know if all commodities donated to the Organization were delivered to the Organization.

Recommendation: The Organization should request the donating retail stores to provide documentation of the donated commodities at the time of donations. Then when goods are delivered to the warehouse, the driver and warehouse staff match the local retailer's document to actual items (pounds, cases) delivered to the Organization. Differences must be explained.

Management's Response: Prior to arrival of the auditors for the 2013 audit, the executive director and staff accountant discovered significant and serious issues in the handling of products coming into the system and going out of inventory. An investigation was immediately begun. When enough information had been gathered, the issue was brought to the attention of the auditors. As a result of the findings of the investigation, the warehouse/distribution manager was terminated as was one distribution associate. A competent replacement has been hired, however the executive director continues hands-on supervision at this point. The staff accountant is also conducting daily checks and balances until we are comfortable with the process in place. Periodic review of the performance of that department will be conducted after that time. The executive director is researching policies and procedures which have been created by Feeding America and/or other food banks exclusively for food banking. A document will be in place by July, 2014.

EL PASOANS FIGHTING HUNGER

**SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

2013-03 Lack of internal control over the receipt of donated commodities (continued)

Management's Response: (continued)

Also, considerable research has gone into creating a four part form which covers all requirements of donated product. i.e. donor, date, temperature, classification code of product, weight, signature of EPFH driver as well as that of the donor. This will allow for accurate tracking of the donation from the point of receipt to entry into the inventory and subsequently onto the shopping list.

Section III- Findings and Questioned Costs – Major Federal Awards Programs Audit

Current Year Findings

None

Prior Year Findings

None