

EL PASOANS FIGHTING HUNGER
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and 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, 2017 and 2016, 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations 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 May 23, 2018, 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

El Paso, Texas
May 23, 2018

EL PASOANS FIGHTING HUNGERSTATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 575,811	\$ 621,490
Investments	317,953	292,506
Receivables		
Accounts receivable	42,615	34,894
Grants receivable	91,459	132,643
Unconditional promises to give, net	184,423	170,747
Inventory	367,098	590,835
TOTAL CURRENT ASSETS	<u>1,579,359</u>	<u>1,843,115</u>
Unconditional promises to give, net of current portion and discount	180,337	139,745
Property and equipment, net	2,854,577	2,276,499
TOTAL ASSETS	<u>\$ 4,614,273</u>	<u>\$ 4,259,359</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 50,895	\$ 31,617
Deferred revenue	10,885	3,392
Note payable, net of long term portion	100,000	103,137
TOTAL CURRENT LIABILITIES	<u>161,780</u>	<u>138,146</u>
Note payable, long term	1,125,000	769,837
TOTAL LIABILITIES	<u>1,286,780</u>	<u>907,983</u>
NET ASSETS		
Unrestricted net assets	2,506,931	2,356,545
Board designated, unrestricted	227,855	227,855
Temporarily restricted net assets	592,707	766,976
TOTAL NET ASSETS	<u>3,327,493</u>	<u>3,351,376</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,614,273</u>	<u>\$ 4,259,359</u>

See notes to financial statements and independent auditor's report.

EL PASOANS FIGHTING HUNGERSTATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CHANGE IN UNRESTRICTED NET ASSETS		
Unrestricted revenue gains and other support:		
Donated commodities	\$ 12,031,236	\$ 11,467,291
Government grants	2,113,498	2,454,013
Donations	206,696	196,280
State and private grants	598,612	498,204
Direct mail	246,357	220,213
Special events	256,368	189,185
Agency support	442,685	398,130
In-kind revenue	41,609	72,550
Investment income (loss)	28,675	11,443
Other income	71,359	51,120
Net assets released from restriction	<u>558,401</u>	<u>481,902</u>
Total unrestricted revenue and other support	<u>16,595,496</u>	<u>16,040,331</u>
EXPENSES		
Program	15,959,920	15,582,709
Fundraising	308,048	337,178
Administrative	<u>177,142</u>	<u>129,452</u>
TOTAL EXPENSES	<u>16,445,110</u>	<u>16,049,339</u>
NET INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>150,386</u>	<u>(9,008)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Grants	105,464	183,924
Donations-capital campaign	278,668	178,056
Net assets released from restrictions	<u>(558,401)</u>	<u>(481,902)</u>
NET DECREASE IN TEMPORARILY RESTRICTED	<u>(174,269)</u>	<u>(119,922)</u>
INCREASE (DECREASE) IN NET ASSETS	(23,883)	(128,930)
NET ASSETS, Beginning of year	<u>3,351,376</u>	<u>3,480,306</u>
NET ASSETS, End of year	<u>\$ 3,327,493</u>	<u>\$ 3,351,376</u>

See notes to financial statements and independent auditor's report.

EL PASOANS FIGHTING HUNGERSTATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	<u>Program Expenses</u>	<u>Fundraising Expenses</u>	<u>Administrative Expenses</u>	<u>Total Expenses</u>
Salaries	\$ 650,759	\$ 103,368	\$ 112,883	\$ 867,010
Payroll taxes and benefits	156,060	24,583	27,419	208,062
Professional development/travel	14,454	-	761	15,215
Utilities	69,983	-	3,683	73,666
Occupancy expenses	177,350	-	9,334	186,684
Interest expense	54,508	-	-	54,508
Repair and maintenance	28,933	-	1,523	30,456
Equipment lease	11,395	-	600	11,995
Transportation	91,854	-	-	91,854
Food purchase	300,350	-	-	300,350
Commodities distribution	14,107,536	-	-	14,107,536
FEMA expense	62,000	-	-	62,000
Office supplies and postage	27,086	-	1,426	28,512
Professional fees	27,617	-	1,454	29,071
Organizational fees/dues	20,825	-	1,096	21,921
Fundraising	-	150,139	-	150,139
Depreciation	139,467	-	7,340	146,807
In-kind expense	2,913	29,958	8,738	41,609
Investment fees	1,731	-	91	1,822
Other expense	15,099	-	794	15,893
Total program expenses	\$ 15,959,920	\$ 308,048	\$ 177,142	\$ 16,445,110

See notes to financial statements and independent auditor's report.

EL PASOANS FIGHTING HUNGER

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	<u>Program Expenses</u>	<u>Fundraising Expenses</u>	<u>Administrative Expenses</u>	<u>Total Expenses</u>
Salaries	\$ 534,517	\$ 107,026	\$ 77,717	\$ 719,260
Payroll taxes and benefits	145,547	29,973	24,728	200,248
Professional development/travel	28,469	-	1,498	29,967
Utilities	63,656	-	3,350	67,006
Occupancy expenses	141,211	-	7,432	148,643
Interest expense	35,837	-	-	35,837
Repair and maintenance	33,924	-	1,785	35,709
Equipment lease	7,557	-	398	7,955
Transportation	163,194	-	-	163,194
Food purchase	367,859	-	-	367,859
Commodities distribution	13,774,925	-	-	13,774,925
FEMA expense	60,683	-	-	60,683
Office supplies and postage	39,275	-	2,067	41,342
Professional fees	20,984	-	1,104	22,088
Organizational fees/dues	18,484	-	1,108	19,592
Fundraising	-	148,058	-	148,058
Depreciation	114,129	-	6,007	120,136
In-kind expense	18,885	52,121	1,544	72,550
Investment fee	1,754	-	-	1,754
Other expense	11,819	-	714	12,533
Total program expenses	\$ 15,582,709	\$ 337,178	\$ 129,452	\$ 16,049,339

See notes to financial statements and independent auditor's report.

EL PASOANS FIGHTING HUNGERSTATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (23,883)	\$ (128,930)
Depreciation	146,807	120,136
Realized and unrealized (gain) loss on investments	(19,335)	(3,255)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in:		
Accounts receivable	33,463	191,770
Unconditional pledges	(54,268)	97,211
Inventory and other assets	223,737	83,770
Increase (decrease) in:		
Accounts payable and accrued expenses	19,278	(3,024)
Deferred revenue	7,493	(6,189)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>333,292</u>	<u>351,489</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of investments	37,288	95,783
Purchase of investments	(43,400)	(101,722)
Acquisition of property and equipment	(724,885)	(497,031)
NET CASH USED IN INVESTING ACTIVITIES	<u>(730,997)</u>	<u>(502,970)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	630,163	369,835
Principal payment	(278,137)	(106,379)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>352,026</u>	<u>263,456</u>
NET INCREASE (DECREASE) IN CASH	(45,679)	111,975
CASH, Beginning of year	<u>621,490</u>	<u>509,515</u>
CASH, End of year	<u>\$ 575,811</u>	<u>\$ 621,490</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 54,508</u>	<u>\$ 35,837</u>

See notes to financial statements and independent auditor's report.

EL PASOANS FIGHTING HUNGER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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.

Effective July 1, 2016 the Organization became a contract member of Feeding America, an Arizona non-profit organization. The purpose of this Contract between Feeding America and the Organization is to establish the Member's Membership in the national Network of Feeding America, provide definition and guidance for the business relationship between the Member and Feeding America, foster a cooperative spirit, and improve the capacity of the Network to provide solutions to the problem of hunger in America.

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:

EL PASOANS FIGHTING HUNGER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting and Presentation (Continued)

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.

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.

Investments

The investments in marketable securities with readily determinable fair values are recorded at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities and Changes in Net Assets.

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 2017 and 2016.

EL PASOANS FIGHTING HUNGER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventory

Inventory consists of donated food, purchased food and USDA commodities. Inventory is stated at the lower of cost of market value. Donated food is reported at an average price of \$1.73 and \$1.67 per pound based on a valuation done by Feeding America at the national level for 2017 and 2016, respectively. 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.

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, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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

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 of \$41,609 and \$72,550 for 2017 and 2016, respectively. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteer services which do not meet those criteria's are not recognized in the financial statements. Volunteer hours totaled approximately 32,442 and 21,682 hours for 2017 and 2016, respectively. See footnote #4 for the donated food.

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. 2014 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 \$253,960 and \$286,744 for 2017 and 2016, respectively. The Organization has not experienced any loss in such accounts, nor do they anticipate any loss.

EL PASOANS FIGHTING HUNGER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. INVESTMENTS

Investments are stated at fair value and consist of the following:

	December 31, 2017		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Mutual funds equity	\$ 61,869	\$ 71,812	\$ 9,943
Mutual funds fixed taxable	180,545	187,644	7,099
Mutual funds alternative	28,553	29,241	688
Mutual funds real assets	<u>27,700</u>	<u>29,256</u>	<u>1,556</u>
Total	<u>\$ 298,667</u>	<u>\$ 317,953</u>	<u>\$ 19,286</u>

	December 31, 2016		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Mutual funds equity	\$ 55,317	\$ 54,817	\$ (500)
Mutual funds fixed taxable	171,282	173,667	2,385
Mutual funds alternative	43,600	42,198	(1,402)
Mutual funds real assets	<u>22,300</u>	<u>21,824</u>	<u>(476)</u>
Total	<u>\$ 292,499</u>	<u>\$ 292,506</u>	<u>\$ 7</u>

EL PASOANS FIGHTING HUNGER

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

2. INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the Statements of Activities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investment income	\$ 9,340	\$ 8,188
Unrealized gain (loss)	\$ 16,498	\$ 14,574
Realized gain (loss)	<u>2,837</u>	<u>(11,319)</u>
Gain (loss) on investments	<u>\$ 19,335</u>	<u>\$ 3,255</u>

3. FAIR VALUE MEASUREMENTS

FASB ASC 820 Fair Value Measurements, establishes a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets.

Level 2 – Quoted prices for similar assets in active market; quoted prices for identical or similar assets in inactive markets; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Significant unobservable inputs.

The valuation used for the Organization’s cash and investments was fair value determined based on the unadjusted quoted price in the active market, Level 1. See footnote 2.

4. INVENTORY

Inventory consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donated food	\$ 104,734	\$ 168,448
USDA commodities	262,364	416,909
Purchased Food	<u>-</u>	<u>5,478</u>
	<u>\$ 367,098</u>	<u>\$ 590,835</u>

EL PASOANS FIGHTING HUNGERNOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. INVENTORY (Continued)

Inventory turnover for the year ended December 31, 2017 and 2016 is as follows:

	<u>2017</u>	
	<u>Pounds Received</u>	<u>Pounds Distributed</u>
Donated food	6,954,472	6,832,208
USDA commodities	2,863,351	3,149,976
Purchased Food	<u>1,423,814</u>	<u>1,429,481</u>
	<u>11,241,637</u>	<u>11,411,665</u>
	<u>2016</u>	
	<u>Pounds Received</u>	<u>Pounds Distributed</u>
Donated food	6,745,465	6,731,398
USDA commodities	2,966,720	2,971,572
Purchased Food	<u>983,172</u>	<u>995,220</u>
	<u>10,695,357</u>	<u>10,698,190</u>

5. UNCONDITIONAL PROMISES TO GIVE

Reflected on the Statement of Financial Position are \$364,760 and \$310,492 for unconditional promises to give for the year ending December 31, 2017 and 2016, 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, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Unconditional promises to give	\$ 381,725	\$ 317,472
Less: Present value discount	<u>16,965</u>	<u>6,980</u>
Total promises to give - present value	<u>\$ 364,760</u>	<u>\$ 310,492</u>
Receivable in less than one year	\$ 192,908	\$ 170,747
Receivable in one to five years	<u>188,817</u>	<u>146,725</u>
Total unconditional promises to give	381,725	317,472
Less discounts to net present value	<u>16,965</u>	<u>6,980</u>
Net unconditional promises to give	<u>\$ 364,760</u>	<u>\$ 310,492</u>

EL PASOANS FIGHTING HUNGERNOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

6. PROPERTY AND EQUIPMENT

At December 31, 2017 and 2016, property and equipment and accumulated depreciation consisted of the following:

	<u>Useful Life</u>	<u>2017</u>	<u>2016</u>
Land		\$ 200,000	\$ 200,000
Building and improvements	40 years	1,947,755	1,313,447
Building renovations	40 years	283,179	283,179
Equipment	3-10 years	448,954	373,538
Vehicle equipment	3-10 years	453,478	438,317
Computer network	3-10 years	53,504	53,504
Total property and equipment		<u>\$ 3,386,870</u>	<u>\$ 2,661,985</u>
Less: accumulated depreciation		532,293	385,486
Property and equipment, net		<u>\$ 2,854,577</u>	<u>\$ 2,276,499</u>

Depreciation expense totaled \$146,807 and \$120,136 for years ended December 31, 2017 and 2016, respectively.

7. NOTE PAYABLE

The original 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 2014 with an interest rate of 4.75% was due October 2016. In May 2016, the note was renewed and increased the building promissory loan up to an additional \$1,000,000 (maximum available principal amount was \$1,500,000) with an interest rate of 4.75%. The additional loan amount was to replace the roof at the property located at 9541 Plaza Circle. No addition drawn downs were available as of May 2017. The note is secured by property located at 9541 Plaza Circle and secured by a board member. Interest only payments are due monthly with a minimal annual principal reduction of \$100,000. The remaining principal and unpaid interest are due in a balloon payment upon maturity which is May 2021.

The balance on the note was \$1,225,000 and \$869,837 as of December 31, 2017 and 2016, respectively. Interest expense was \$54,508 and \$35,837 for the years ended December 31, 2017 and 2016, respectively.

EL PASOANS FIGHTING HUNGER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

7. NOTE PAYABLE (Continued)

Note payable and capital lease payments are as follow:

<u>Year</u>	<u>Note Payable</u>
2018	\$ 100,000
2019	100,000
2020	100,000
2021	<u>925,000</u>
	<u>\$ 1,225,000</u>

8. 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 was \$531.71 and expired on July 2017. Depreciation of the leased property is included in depreciation expense.

9. RELATED PARTY

In July 2012, the Organization entered into a Partner Distribution Organization (PDO) 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. Effective January 1, 2013, the Organization officially separated from West Texas Food Bank (WTFB), however, the PDO agreement is still in effect. Assets and inventory were transferred and the Organization become financially responsible for all revenues and expenses held by WTFB as of this date.

Effective July 1, 2016, the Organization established a Member's Membership in the national Network of Feeding America. This Member Contract supersedes the Feeding America Member Contract entered into by and between the Member and Feeding America dated October 1, 2009.

10. 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.

EL PASOANS FIGHTING HUNGER

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

11. 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>2017</u>	<u>2016</u>
Capital campaign	\$ 463,319	\$ 583,052
Beaumont Foundation - food pantry program	-	30,000
Blue Cross & Blue Shield - healthy and nutritious food for families and children	-	10,000
HEB - warehouse racking	-	20,000
Burkitt Foundation - purchase commodities, equipment, truck and transportation	<u>129,388</u>	<u>123,924</u>
Total	<u>\$ 592,707</u>	<u>\$ 766,976</u>

The Capital Campaign was established 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.

12. DIRECT MAIL

For the year ended December 31, 2017 and 2016, direct mail produced the following results:

	<u>2017</u>	<u>2016</u>
Direct mail contributions	\$ 246,357	\$ 220,213
Direct mail expense	<u>57,466</u>	<u>87,400</u>
Net direct mail results	<u>\$ 188,891</u>	<u>\$ 132,813</u>

13. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 23, 2018, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

EL PASOANS FIGHTING HUNGER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

Federal Grantor/Pass through Grantor Programs	Federal CFDA Number	Pass-through Grantor's Number	Direct Awards	Pass-Through Awards	Total	Subrecipients Expenditures
U.S. Department of Agriculture SNAP Cluster						
Pass through Feeding Texas	10.561		\$ 53,320	\$ -	\$ 53,320	\$ -
SNAP Nutrition Education & Obesity Prevention	10.561		73,426	-	73,426	-
Total SNAP Cluster			126,746	-	126,746	-
Food Distribution Cluster						
Pass through Texas Department of Agriculture and West Texas Food Bank						
Emergency Food Program- Food Commodities #	10.569	806780706 **	-	1,708,128	1,708,128	-
Emergency Food Program- Administrative Costs	10.568	806780706 **	-	216,202	216,202	-
Total Food Distribution Cluster			-	1,924,330	1,924,330	-
Total from U.S. Department of Agriculture			126,746	1,924,330	2,051,076	-
U.S. Department of Homeland Security						
Pass through El Paso County						
Emergency Food and Shelter National Board Program	97.024	N/A	-	62,422	62,422	-
Total from U.S. Department of Homeland Security			-	62,422	62,422	-
Total Federal Awards Expended			\$ 126,746	\$ 1,986,752	\$ 2,113,498	\$ -

** Denotes a major program.
Value of food commodities distributed

EL PASOANS FIGHTING HUNGER

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2017

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. 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 \$262,364 as of December 31, 2017.

4. CONTINGENCIES

The Organization had in effect for the fiscal year ended December 31, 2017, 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, 2017, 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 23, 2018.

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.

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

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

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 Brines McDaniel & Co.

El Paso, Texas

May 23, 2018

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

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 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, 2017. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations 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 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, 2017.

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 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pence Briones McDaniel & Co

El Paso, Texas
May 23, 2018

EL PASOANS FIGHTING HUNGER
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no
Significant deficiencies identified? yes X none
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 none

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)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
Food Distribution 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: \$750,000

Auditee qualified as low-risk auditee? X yes no

EL PASOANS FIGHTING HUNGER

SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

Section II - Financial Statement Findings

Current Year Findings

None

Prior Year Findings

None

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

Current Year Findings

None

Prior Year Findings

None