

Montgomery County Food Bank, Inc.

*Financial Statements and
Supplementary Information*

**For the Year Ended
December 31, 2014**

Montgomery County Food Bank, Inc.

Table of Contents

Independent Auditor's Report	1
------------------------------------	---

FINANCIAL STATEMENTS

Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8

SUPPLEMENTARY INFORMATION

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 <i>Government Auditing Standards</i>	14
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	16
Schedule of Expenditures of Federal Awards	18
Notes to Schedule of Expenditures of Federal Awards	19
Schedule of Findings and Questioned Costs	20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Montgomery County Food Bank, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Montgomery County Food Bank, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

Basis for Qualified Opinion

As explained in Note 8 to the financial statements, Montgomery County Food Bank, Inc. did not include inventory at the beginning of the fiscal year. Accounting principles generally accepted in the United States of America require inventory to be recorded. The effects on the accompanying financial statements of the failure to record inventory at the beginning of the fiscal year have not been determined.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery County Food Bank, Inc. as of December 31, 2014, and the changes in its net assets and its cash flows for the year 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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 July 20, 2015, on our consideration of Montgomery County Food Bank, Inc.'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 Montgomery County Food Bank, Inc.'s internal control over financial reporting and compliance.

Seefeld Lawson Moeller LLP

Seefeld Lawson Moeller LLP
Certified Public Accountants

The Woodlands, Texas
July 20, 2015

FINANCIAL STATEMENTS

Montgomery County Food Bank, Inc.

Statement of Financial Position

December 31, 2014

ASSETS

Cash and Cash Equivalents	\$ 2,345,697
Promises to Give	1,262,908
Accounts Receivable	17,401
Inventory	724,198
Prepaid Expenses	4,031
Property and Equipment, Net	<u>6,860,240</u>

TOTAL ASSETS \$ 11,214,475

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable and Accrued Liabilities	\$ 80,453
Notes Payable	<u>3,758,149</u>

TOTAL LIABILITIES 3,838,602

NET ASSETS

Unrestricted	6,037,558
Temporarily Restricted	<u>1,338,315</u>

TOTAL NET ASSETS 7,375,873

TOTAL LIABILITIES AND NET ASSETS \$ 11,214,475

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

Montgomery County Food Bank, Inc.
Statement of Activities
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 817,890	\$ 106,233	\$ 924,123
Capital Campaign	-	149,787	149,787
In-Kind Food Donations	8,187,028	-	8,187,028
Government Grants and Fees	29,175	-	29,175
Program Service Fees	366,691	-	366,691
Special Events	672,187	-	672,187
Interest	7,934	-	7,934
Other Income	234,362	-	234,362
Net Assets Released from Donor Restrictions	1,683,080	(1,683,080)	-
TOTAL SUPPORT AND REVENUE	11,998,347	(1,427,060)	10,571,287
EXPENSES			
Program Services	8,869,639	-	8,869,639
Supporting Services			
Management and General	394,639	-	394,639
Fundraising	477,092	-	477,092
TOTAL EXPENSES	9,741,370	-	9,741,370
CHANGE IN NET ASSETS	2,256,977	(1,427,060)	829,917
NET ASSETS, beginning of year	3,437,963	1,245,875	4,683,838
Prior Period Adjustment	342,618	1,519,500	1,862,118
NET ASSETS, end of year	\$ 6,037,558	\$ 1,338,315	\$ 7,375,873

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

Montgomery County Food Bank, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2014

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Salaries and Wages	\$ 488,768	\$ 183,932	\$ 153,850	\$ 826,550
Payroll Taxes	38,075	17,534	11,960	67,569
Capital Campaign	-	-	58,920	58,920
Communications and Technology	2,950	17,283	12,547	32,780
Depreciation	261,258	30,828	21,423	313,509
Event Expenses	-	-	71,902	71,902
Fees, Dues, and Subscriptions	5,862	18,417	865	25,144
Fuel	41,097	-	-	41,097
Food Distributed	7,571,637	-	-	7,571,637
Insurance	84,812	31,490	20,589	136,891
Interest Expense	107,762	13,022	9,050	129,834
Licenses, Permits, and Leases	2,698	2,430	13,543	18,671
Marketing	-	-	60,216	60,216
Mileage Expense	3,187	787	2,512	6,486
Office Expense	6,057	46,462	20,697	73,216
Other Expense	738	-	-	738
Program Activities	70,469	-	-	70,469
Rentals	16,406	807	560	17,773
Repairs and Maintenance	69,028	17,874	8,885	95,787
Supplies - Warehouse	22,831	5,644	3,923	32,398
Utilities	76,004	8,129	5,650	89,783
	<u>\$ 8,869,639</u>	<u>\$ 394,639</u>	<u>\$ 477,092</u>	<u>\$ 9,741,370</u>

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

Montgomery County Food Bank, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 829,917
Adjustment to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation	313,509
Gain on Disposal of Property and Equipment	(15,754)
(Increase) Decrease in:	
Accounts Receivable	874,919
Promises to Give	599,210
Prepaid Expenses	(2,883)
Inventory	(724,198)
Increase (Decrease) in:	
Accounts Payable and Accrued Liabilities	<u>4,874</u>
Net Cash Provided by Operating Activities	1,879,594
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Property and Equipment	(3,526,535)
Disposal of Property and Equipment	<u>23,354</u>
Net Cash Used by Investing Activities	(3,503,181)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Payments on Notes Payable	(12,000)
Proceeds from Notes Payable	<u>1,079,049</u>
Net Cash Provided by Financing Activities	<u>1,067,049</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(556,538)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,902,235</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 2,345,697</u></u>
Supplemental Disclosure of Cash Flow Information:	
Cash Paid During the Year for Interest	\$ 129,834

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

Montgomery County Food Bank, Inc.

Notes to Financial Statements

December 31, 2014

NOTE 1 – Organization and Nature of Activities

Montgomery County Food Bank, Inc., (“The Food Bank”) is a Texas not-for-profit corporation founded in May 1985. The Food Bank acts as a clearinghouse for edible food items donated and purchased for distribution to charities assisting the poor and victims in crisis.

NOTE 2 – Summary of Significant Accounting Policies

Method of Accounting

The Food Bank uses the accrual basis of accounting. Revenues are recognized when they are earned. Expenses are recognized when they are incurred.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities – Presentation of Financial Statements. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. If restrictions are met in the same reporting period as when the contribution is received, the contribution is recognized as unrestricted.

Income Taxes

The Food Bank is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code and therefore has made no provision for federal income taxes in the accompanying financial statements.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Montgomery County Food Bank, Inc.

Notes to Financial Statements

December 31, 2014

Donated Food and Inventory

During the year ended December 31, 2014 The Food Bank distributed 6,854,604 pounds of food. The value of the food distributed was \$7,571,637. The value of donated food distributed is calculated on an average price per pound of \$1.72 as determined by the Feeding America report. Inventories are expensed on a first in, first out (FIFO) basis.

Property and Equipment

General fixed assets are capitalized at cost; donated fixed assets are recorded at the estimated fair market value on the date of donation. The cost of ordinary maintenance and repairs and expenditures for immaterial general fixed assets are charged to expense. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

Building and Improvements	25 years
Freezers and Refrigeration	25 years
Furniture and Fixtures	5 years
Equipment	5 years
Vehicles	5 years

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles (GAAP), requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

The Food Bank maintains several bank accounts at various banks. Interest bearing accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. There is no limit on the insurance provided by the FDIC for non-interest bearing accounts. At December 31, 2014 The Food Bank had uninsured balances of \$1,186,417.

Date of Management's Review

The Organization has evaluated subsequent events through July 20, 2015, the date the financial statements were available to be issued.

Montgomery County Food Bank, Inc.

Notes to Financial Statements

December 31, 2014

NOTE 3 – Promises to Give

Promises to give consists of the following:

Amount to be collected within one year	\$ 534,908
Amount to be collected one to five years	<u>728,000</u>
Total Promises to Give	1,262,908
Allowance for promises to give	<u>-</u>
Promises to Give, Net	<u><u>\$ 1,262,908</u></u>

NOTE 4 – Property and Equipment

Property and equipment consists of the following:

Building and Improvements	\$ 5,133,110
Freezers and Refrigeration	446,555
Furniture and Fixtures	61,222
Equipment	1,057,082
Vehicles	263,482
Land	<u>721,351</u>
Total Property and Equipment	7,682,802
Accumulated Depreciation	<u>(822,562)</u>
Property and Equipment, Net	<u><u>\$ 6,860,240</u></u>

Depreciation expense for the year ended December 31, 2014 amounted to \$313,509.

NOTE 5 – Notes Payable

In February 2013, The Food Bank secured two loans. One was for the purchase of a new building and the other was for the renovation of the building. Both loans were through Woodforest Bank.

The building loan is interest only for the first twenty-four months at an interest rate of 4%. Principal and interest payments will begin in March 2015 with a monthly payment of \$16,441 and the interest rate at an adjustable rate equal to .75% above the prime rate. The adjustable rate will never go lower than 4% and never higher than 7%. The balance of the note at December 31, 2014 was \$2,679,100.

Montgomery County Food Bank, Inc.

Notes to Financial Statements

December 31, 2014

The renovation loan is interest only for the first twenty-four months at an interest rate of 4%. Principal and interest payments will begin in March 2015 with a monthly payment of \$17,871 and the interest rate at an adjustable rate equal to .75% above the prime rate. The adjustable rate will never go lower than 4% and never higher than 7%. The balance of the note at December 31, 2014 was \$1,079,049.

The principal loan payments are as follows:

<u>Year Ending December 31</u>	
2015	\$ 219,547
2016	272,593
2017	284,050
2018	295,679
2019	307,784
Thereafter	<u>2,378,496</u>
Total	<u><u>\$ 3,758,149</u></u>

NOTE 6 – Lease Commitments

The Food Bank leases a copier under a non-cancelable operating lease. Expenses for the year ended December 31, 2014 amounted to \$17,714. The lease expires December 19, 2016. The future minimum lease commitments are as follows:

<u>Year Ending December 31</u>	
2015	\$ 15,552
2016	14,256
2017	-
2018	-
2019	-
Total Minimum Lease Payments	<u><u>\$ 29,808</u></u>

Montgomery County Food Bank, Inc.

Notes to Financial Statements

December 31, 2014

NOTE 7 – Prior Period Adjustment

Certain errors resulting in an understatement of promises to give and an overstatement of deferred revenue were discovered in the current year. This was due to the Food Bank improperly recording deferred revenue when promises to give were booked. An adjustment of \$87,118 was made to properly increase promises to give and the related increase in net assets. An adjustment of \$1,775,000 was made to decrease deferred revenue and the related increase in net assets. Additionally, \$1,519,500 was identified and reclassified into temporarily restricted net assets that had been previously reported as unrestricted net assets. The cumulative effect of the prior period adjustments increased beginning net assets by \$1,862,118.

NOTE 8 – GAAP Modification

Montgomery County Food Bank, Inc. had not recorded inventory at the beginning of the fiscal year as required by accounting principles generally accepted in the United States of America. The effects of the failure to record inventory is not reasonably determinable.

SUPPLEMENTARY INFORMATION

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
Montgomery County Food Bank, Inc.

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 the Montgomery County Food Bank, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 20, 2015.

Internal Control Over Financial Reporting

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

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 and significant deficiencies.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, items #2014-001 and #2014-002, to be material weaknesses.

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 consider the deficiencies described in the accompanying schedule of findings and questioned costs, items #2014-003 and #2014-004, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Food Bank, Inc.'s financial statements are free of 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*.

Montgomery County Food Bank, Inc.'s Response to Findings

Montgomery County Food Bank, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Montgomery County Food Bank, Inc.'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.

Seefeld Lawson Moeller LLP

Seefeld Lawson Moeller LLP
Certified Public Accountants

The Woodlands, Texas
July 20, 2015

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
Montgomery County Food Bank, Inc.

Report on Compliance for Each Major Federal Program

We have audited Montgomery County Food Bank, Inc.'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 Montgomery County Food Bank, Inc.'s major federal programs for the year ended December 31, 2014. The Montgomery County Food Bank, Inc.'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 the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe 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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Montgomery County Food Bank, Inc. 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, 2014.

Report on Internal Control Over Compliance

Management of Montgomery County Food Bank, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 Montgomery County Food Bank, Inc.'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 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 requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Seefeld Lawson Moeller LLP

Seefeld Lawson Moeller LLP
Certified Public Accountants

The Woodlands, Texas
July 20, 2015

Montgomery County Food Bank, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

Federal Grantor/Pass Thru Grantor Program Title	Federal CFDA #	Identifying Number	Total Expenditures
FEDERAL EMERGENCY MANAGEMENT AGENCY Emergency Food and Shelter National Board Program	97.024		<u>\$ 30,000</u>
Total Federal Emergency Management Agency			30,000
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Passed Through Montgomery County Community Development:			
Community Development Block Grants/Entitlement Grants	14.218	CDBG - FY2012	<u>855,736</u>
Total U.S. Department of Housing and Urban Development			<u>855,736</u>
Total Expenditures of Federal Awards			<u><u>\$ 885,736</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Montgomery County Food Bank, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2014

NOTE 1 – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the activity of Montgomery County Food Bank, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB 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.

NOTE 2 – Non-Cash and Loans

There were no federal awards expended in the form of non-cash assistance or insurance and there were no federal program loans or loan guarantees outstanding at year end.

NOTE 3 – Insurance

Insurance Type	Coverage
Workers Compensation	\$1,000,000 coverage for accident and disease per accident or employee and \$1,000,000 for injury by disease limit
Commercial	\$3,000,000 general aggregate limits of liability; \$1,000,000 bodily injury and property damage liability on any one occurrence subject to the general aggregate limits of liability; \$1,000,000 personal and advertising injury liability on any one person or organization subject to the general aggregate limits of liability; \$100,000 due to damage to premises that are rented; \$5,000 in medical payments with any one person subject to general aggregate limits; \$1,000,000 abuse/molestation liability; \$1,000,000 employee benefit liability
Excess/Umbrella	\$2,000,000 annual aggregate limit for underlying coverage for automobile, general liability, worker’s compensation, abuse/molestation, and employee benefit liability
Business Property	\$1,000,000 personal property
Directors and Officers Liability	\$3,000,000 maximum aggregate limit of liability for employment practices claims
Commercial Crime	\$1,000,000 per occurrence for employee theft, forgery or alteration, on premises, in transit, money orders & counterfeit currency, computer fraud, funds transfer fraud, client coverage, and expense coverage

Montgomery County Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Qualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weakness(es)?	No
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 Section 510(a) of Circular A-133?	No

Major Programs:

<u>Award Type</u>	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
Federal	14.218	Community Development Block Grants/Entitlement Grants

Dollar threshold used to distinguish between type A and type B Programs:

Federal Awards \$ 300,000

Auditee qualified as low-risk auditee? No

Montgomery County Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Findings Related to Internal Controls over Financial Reporting

Material Weaknesses

Finding #2014-001

Condition:	The Food Bank did not record promises to give as revenue when the contribution was promised.
Criteria:	Internal controls should be in place to ensure proper revenue recognition of promises to give.
Cause:	Management believed that the promises to give should have been recorded as deferred revenue when the contribution was promised.
Effect:	Total liabilities were overstated and revenue was not recorded in the proper period.
Recommendation:	Procedures should be implemented to record promises to give as revenue when the contribution is promised.
Views of Responsible Officials and Planned Corrective Actions:	The Food Bank agrees with the findings and the recommended procedures have been implemented.

Finding #2014-002

Condition:	The Food Bank receives and distributes a significant amount of food and did not maintain records to reflect the value of inventory on hand at the beginning of the fiscal year.
Criteria:	Purchased inventory should be capitalized at cost and donated inventory should be recorded as contributions and as inventory in the period received at fair value.
Cause:	No inventory procedures were in place to track and verify the value of inventory on hand.
Effect:	Inventory was understated and the financial statements were not in accordance with generally accepted accounting principles.
Recommendation:	Procedures should be implemented to record and maintain the value of inventory.
Views of Responsible Officials and Planned Corrective Actions:	The Food Bank agrees with the findings and the recommended procedures have been implemented.

Montgomery County Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

Significant Deficiencies

Finding #2014-003

Condition: The Food Bank did not properly record temporarily restricted net assets.

Criteria: The Food Bank is required to record net assets based on the presence or absence of donor-imposed restrictions.

Cause: No internal control procedures were in place to properly record contributions and reclassifications of temporarily restricted net assets.

Effect: Temporarily restricted net assets were understated by \$1,519,500 and unrestricted net assets were overstated by the same amount.

Recommendation: Procedures should be implemented to properly track and record temporarily restricted net assets based on the presence or absence of donor-imposed restrictions.

Views of Responsible Officials and Planned Corrective Actions: The Food Bank agrees with the findings and the recommended procedures have been implemented.

Finding #2014-004

Condition: There was no supporting documentation for journal entries made in the general ledger.

Criteria: The Food Bank should require the proper support and approval for journal entries made in the general ledger.

Cause: No internal control procedures were in place that require support or review of journal entries.

Effect: Unsupported or unapproved journal entries could be made to alter the financial statements.

Recommendation: Procedures should be implemented to require the support and approval of journal entries made to the general ledger.

Views of Responsible Officials and Planned Corrective Actions: The Food Bank agrees with the findings and the recommended procedures have been implemented.

Findings Related to Compliance With Laws and Regulations in Financial Reporting
None Noted.

Montgomery County Food Bank, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings Related to Compliance With Requirements Applicable to Each Major Program

None Noted.

Findings Related to Internal Controls Over Compliance With Requirements Applicable to Each Major Program

None Noted.