

Target Hunger, Inc.

Independent Auditor's Report and
Financial Statements
December 31, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors of
Target Hunger, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Target Hunger, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses (presenting only comparative totals for 2015), 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 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 Target Hunger as of December 31, 2016 and 2015, 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, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2017, on our consideration of Target 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 Target Hunger's internal control over financial reporting and compliance.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 11 to the financial statements, the Organization has suffered recurring losses from activities and has experienced a decreasing net asset balance over the past several years. Management's plans in regard to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Ralph and Ralph, P.C.

Houston, Texas
July 26, 2017

Target Hunger, Inc.
 Statements of Financial Position
 December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents, unrestricted	\$ 89,339	\$ 282,679
Cash and cash equivalents, restricted	130,000	60,100
Contributions receivable:		
United Way funding allocated for the next fiscal year	89,127	92,802
Unconditional promises to give	39,936	16,025
Inventory	199,929	317,068
Other assets	27,831	16,750
Total current assets	576,162	785,424
 Fixed assets, net	 53,392	 77,004
Total assets	\$ 629,554	\$ 862,428
 Liabilities		
Accounts payable	\$ 250,835	\$ 242,762
Accrued vacation	15,090	16,989
Total current liabilities	265,925	259,751
 Net assets		
Unrestricted net assets	144,502	449,775
Temporarily restricted net assets	219,127	152,902
Total net assets	363,629	602,677
 Total liabilities and net assets	\$ 629,554	\$ 862,428

The accompanying notes are an integral part of these statements.

Target Hunger, Inc.
Statement of Activities
For the Years Ended December 31, 2016 and 2015

	2016	2015
Changes in unrestricted net assets		
Revenues, gains, and support		
United Way grant	\$ 270,982	\$ 278,406
Contributions	435,315	488,937
Government grant	20,000	18,230
In-kind donations:		
Donated food	6,833,448	6,403,322
Donated facilities	36,929	34,868
Other donated materials	27,145	400
Miscellaneous income	1,368	1,322
Assets released from restriction	177,902	168,259
Total unrestricted revenues, gains, and support	7,803,089	7,393,744
Expenses:		
Program	7,586,185	6,897,421
Management and support	236,105	227,429
Fundraising	286,072	276,070
Total expenses	8,108,362	7,400,920
Change in unrestricted net assets	(305,273)	(7,176)
Changes in temporarily restricted net assets		
United Way grant	89,127	92,802
Contributions	155,000	-
Net assets released from restrictions	(177,902)	(168,259)
Change in temporarily restricted net assets	66,225	(75,457)
Change in total net assets	(239,048)	(82,633)
Net assets, beginning of year	602,677	685,310
Net assets, end of year	\$ 363,629	\$ 602,677

The accompanying notes are an integral part of these statements.

Target Hunger, Inc.
Statements of Functional Expenses
For the Year Ended December 31, 2016 (with Comparative Totals for 2015)

Expenditures	2016						Total Expenses	2015 Total Expenses
	Food Services	Community Gardens	Client Services	Program Services	Support Services	Fundraising		
Direct assistance:								
Food	\$ 7,033,416	\$ -	\$ -	\$ 7,033,416	\$ -	\$ -	\$ 7,033,416	\$ 6,387,125
Clothing and other	-	-	9,035	9,035	-	-	9,035	-
Salaries and wages	189,501	43,540	21,808	254,849	98,154	109,143	462,146	446,816
Payroll taxes	27,063	6,218	3,115	36,396	14,018	15,587	66,001	61,379
Employee benefits expense	18,025	4,141	2,074	24,240	9,336	10,382	43,958	33,500
Contract labor	24,386	5,603	2,806	32,795	26,676	-	59,471	20,739
Pantry expense	31,936	-	-	31,936	-	-	31,936	23,566
Program supplies	-	-	129	129	-	-	129	13,673
Staff development	-	-	-	-	18,336	-	18,336	6,512
Vehicle expense	7,821	2,607	-	10,428	-	-	10,428	9,704
Occupancy	74,744	8,688	4,352	87,784	19,587	21,779	129,150	136,054
Office expense	3,676	845	423	4,944	1,905	2,117	8,966	15,492
Communications	4,437	1,019	510	5,966	2,298	2,555	10,819	12,221
Technology and software	1,240	285	143	1,668	3,114	714	5,496	4,441
Professional services, accounting	6,766	1,555	779	9,100	3,504	3,896	16,500	16,599
Insurance	9,799	2,251	1,128	13,178	5,076	5,644	23,898	23,007
Depreciation	17,108	3,931	1,969	23,008	8,861	9,853	41,722	39,160
Bad debt expense	-	-	-	-	15,000	-	15,000	9,250
Gala expense	-	-	-	-	-	80,680	80,680	113,143
Banquet and awards	131	30	15	176	68	76	320	713
Public relations	-	-	-	-	-	20,589	20,589	9,227
Miscellaneous expenses	5,307	1,219	611	7,137	10,172	3,057	20,366	18,599
Total expenditures	<u>\$ 7,455,356</u>	<u>\$ 81,932</u>	<u>\$ 48,897</u>	<u>\$ 7,586,185</u>	<u>\$ 236,105</u>	<u>\$ 286,072</u>	<u>\$ 8,108,362</u>	<u>\$ 7,400,920</u>

The accompanying notes are an integral part of these statements.

Target Hunger, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (239,048)	\$ (82,633)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	41,722	39,160
Donated property and equipment	(18,110)	-
(Increase) decrease in operating assets:		
Contributions receivable	(20,236)	124,414
Contributions restricted in use by donor	(69,900)	28,258
Inventory	117,139	(96,978)
Other assets	(11,081)	(211)
Increase (decrease) in operating liabilities:		
Accounts payable	8,073	77,638
Accrued vacation	(1,899)	3,606
Net cash (used in) provided by operating activities	(193,340)	93,254
Cash flows from investing activities		
Fixed asset purchases	-	(3,028)
Net cash provided by investing activities	-	(3,028)
Change in cash and cash equivalents	(193,340)	90,226
Cash and cash equivalents, beginning of year	282,679	192,453
Cash and cash equivalents, end of year	\$ 89,339	\$ 282,679
Supplemental disclosures:		
Interest and taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these statements.

Target Hunger, Inc.
Notes to the Financial Statements
December 31, 2016 and 2015

Note 1 – Significant Accounting Policies

Nature of the Organization

Target Hunger, Inc. (the "Organization") is a nonprofit corporation with a mission to alleviate hunger and its root causes in inner-city neighborhoods. The organization serves seniors, children and families through a system of food pantries, a central food hub, community and educational gardens, senior day site routes, a breakfast program and community food fairs.

The Organization works with various neighborhood service providers, churches, community leaders and residents and is supported through funds and donations received from the United Way of Greater Houston (UWGH), The Houston Food Bank, and from private donors including corporations and individuals.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as defined by the Financial Accounting Standards Board Accounting Standards Codification (ASC).

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. Restricted net assets consist of the following:

Temporarily Restricted Net Assets Temporarily restricted net assets include gifts for which a donor-imposed restriction has not been met. The restrictions are satisfied either by the passage of time or by expenditures for specific programs of the Organization.

Permanently Restricted Net Assets Permanently restricted net assets include gifts, trusts and pledges which require, by donor restriction, that the principle be invested in perpetuity and only the earnings be made available for program operations in accordance with donor restrictions. As of December 31, 2016, the Organization has not received any permanently restricted contributions.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that can affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value

The carrying amounts of contributions receivable and accounts payable and accrued expenses approximate fair value due to the short period to maturity.

Cash and Cash Equivalents

Cash and cash equivalents represent cash in banks and money market and short-term investments with an initial maturity of three months or less. Accounts at financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2016 and 2015, the Organization did not have any deposits exceeding the FDIC limitation.

Inventory

The inventory balance is comprised of food at the pantries, available for distribution to the Organization's clients. The value of the inventories is estimated based on a per pound food valuation. The Organization monitors the average per pound value evidenced on documentation received in conjunction with large pantry and grocer donations, to ensure that the value estimate used is reasonable.

Target Hunger, Inc.
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

Note 1 – Significant Accounting Policies (Continued)

Contributions and Promises to Give

Contributions are recognized as income and recorded as a receivable when the donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions were recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets. When a restriction expires or is met by the Organization, temporarily restricted net assets are reclassified to unrestricted net assets.

Target Hunger uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Fixed Assets

The Organization capitalized fixed assets exceeding \$1,000; lesser amounts are expensed. Donations of fixed assets are recorded as contributions at their estimated fair value and are recorded as unrestricted net assets unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain fixed assets are recorded as restricted contributions. Fixed assets are depreciated using the straight-line method, over the estimated useful lives ranging from three to eight years.

Contributed Goods, Services and Facilities

The Organization receives significant food donations, which are distributed to clients. These donations are received from The Houston Food Bank, corporations (generally, national grocery chains), and private donors. The Organization determines the value of the donation, based on an estimated value of \$1.66 per pound. This rate is a standardized value established by Feeding America, a national food pantry.

The Organization received approximately 55,000 volunteer hours during the years ended December 31, 2016 and 2015. These donated services included a variety of tasks that assist the Organization, most significantly in the food service programs. During the years ended December 31, 2016 and 2015, the Organization did not receive any donated volunteer services meeting the requirements to be recorded in the financial statements.

Target Hunger pantries are located in donated space at various churches and community centers in Harris County. The Organization recognizes these donations as revenue at an estimated fair market value based on commercial property rates in the same area. Contributed facilities for the years ended December 31, 2016 and 2015 were recorded at approximately \$37,000 and \$35,000, respectively.

Income Taxes

Target Hunger is exempt from federal income taxes on its related, exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Organization did not incur any tax liabilities due to unrelated business income for the years ended December 31, 2016 and 2015. Target Hunger files Form 990 tax returns under the U.S. federal jurisdiction and is subject to routine examinations of its tax returns; however, there are no examinations in process. The fiscal year 2013 and subsequent tax years remain subject to examination by the Internal Revenue Service.

Target Hunger, Inc.
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

Note 2 - Fair Value

Certain assets are reported at fair value in the accompanying statements of financial position. The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consists of observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 3 inputs consist of significant unobservable inputs and have the lowest priority.

The Organization's cash and cash equivalents balances, contributions receivable, and accounts payable and accrued liabilities are recorded at amounts that approximate fair value. The recorded values of these assets and liabilities approximate their fair values based on their short-term nature. These valuations are considered to be based on Level 1 inputs. The Organization receives significant non-cash contributions which flow through the statement of activities. A substantial portion of these contributions are recorded at fair values at an average per pound rate. This valuation is a level 2 input and is the basis for the inventory valuation.

Note 3 – Unconditional Promise to Give

The Organization receives awards from various corporations and foundations. All pledges are considered fully collectible and no allowance is deemed necessary.

Note 4 – Fixed Assets

The fixed assets at December 31, 2016 and 2015 consist of the following:

	2016	2015
Land	\$ 13,668	\$ 13,668
Computer and software	47,929	47,929
Automobiles	46,034	46,034
Office and pantry equipment	32,781	14,671
Furniture and fixtures	143,772	143,772
	284,184	266,074
Less: Accumulated depreciation	(230,792)	(189,070)
	\$ 53,392	\$ 77,004

Depreciation expense for the years ended December 31, 2016 and 2015 was approximately \$41,722 and \$39,160, respectively.

The Organization received donated equipment with a total fair value of approximately \$18,000 in the year ended December 31, 2016. During 2015, the organization retired a fully depreciated vehicle with an original cost of approximately \$11,000.

Target Hunger, Inc.
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

Note 5 – Restrictions on Net Assets

The restrictions on net assets relate to timing of the contribution receipt of pledged or promised contributions and restrictions on the usage of the contributions. Temporarily restricted net assets are available for the following purposes or periods:

Funds received:	2016	2015
Fundraising event	\$ 130,000	\$ 60,100
Funds received, restricted in use	<u>130,000</u>	<u>60,100</u>
Funds pledged:		
UWTGC, for use in future period	89,127	92,802
Funds pledged, restricted in use	<u>89,127</u>	<u>92,802</u>
Temporarily restricted net assets	<u>\$ 219,127</u>	<u>\$ 152,902</u>

Note 6 - Government Grants

The Organization receives funds from National Federal Emergency Management Agency (öFEMAö) as part of an emergency food and shelter program to provide food to needy clients in Harris County to support an additional food distribution program. Revenue is recognized when earned and expenses are recognized as incurred. Grant receipts and expenditures were approximately \$20,000 and \$18,000 for the years ending December 31, 2016 and 2015.

Note 7 – Lease Commitments

The Organization's headquarters are located in a building owned by HISD. The Organization leases a portion of this building from HISD. During 2012, the Organization entered into a new lease agreement with HISD. Under the terms of the new agreement, Target Hunger leases the space for \$1 and is responsible for utilities expenses and any facilities maintenance needed. The organization estimates this cost to be approximately \$5,000 per month.

Target Hunger leases office equipment under an operating lease agreement. The lease terminates in July June of 2020, with a monthly cost of \$319. Future minimum lease payments as of December 31, 2016 are as follows:

Year Ending December 31,	Minimum Lease Payments
2017	\$ 3,830
2018	\$ 3,830
2019	\$ 3,830
2020	\$ 1,915

Note 8 – Joint Costs and Allocation of Expenses

For the year ended December 31, 2016 and 2015, Target Hunger allocates a portion of employee costs of staff members, who are primarily dedicated to fund development objectives, to the programs, to reflect the efforts provided to program activities. Salary and related expenses for the development director were allocated between fundraising, management and general, and programs at 85%, 12%, and 3%, respectively.

Target Hunger, Inc.
Notes to the Financial Statements (Continued)
December 31, 2016 and 2015

Note 9 – Concentration of Support

The Organization recorded approximately \$360,000 and \$370,000 of UWGH funding allocations into income for the years ending December 31, 2016 and 2015, representing 37% and 42%, respectively, of revenues and other support (excluding in-kind contributions). These contributions represent 5% of total support for 2016 and 2015.

In-kind contributions represent 88% of the Organization's total support, during 2016 and 2015. Donations from The Houston Food Bank represented over 98% of in-kind donations for both periods.

Note 10 – Employee Benefits

The Organization participates in a co-leasing employment agreement with a third party. Under this agreement, the Organization receives group health, life, long-term disability, flexible benefits and dental insurance programs. Welfare benefit plan contributions expensed for the years ended December 31, 2015 and 2014 were \$32,575 and \$25,479, respectively. The Organization also offers a defined contribution plan, with an employer match contribution. During 2016 and 2015, the employer contributions totaled approximately \$11,384 and \$8,022, respectively.

Note 11 – Subsequent Event Review and Organization Strategy for Future Periods

In preparing the financial statements, the Organization has evaluated the events and transactions for potential recognition or disclosure through July 27, 2017, the date that the financial statements were available to be issued.

The financial statements have been prepared on a going concern basis, which assumes that the Organization will be able to meet financial obligations and continue program services to the community. The Organization's change in net assets was \$(239,048) for the year ended December 31, 2016. At that date, current assets exceed current liabilities by \$310,237. However, \$199,929 of the excess of current assets over liabilities is food inventory. While the value of donated food received and distributed has increased over the past several years, cash contributions have decreased notably.

Management believes efforts to improve fund development will result in increased financial support. Further, management has implemented cost saving measures, including changes to improve food distribution efficiency, lower operational costs, and reduce staff costs. Additionally, the Organization is currently trying to negotiate payment terms of a significant past due payable.

Management acknowledges that uncertainty remains over outcome of the strategy taken to address the current financial position. However, management has a reasonable expectation that current fund development initiatives, as described above, will increase community financial support and that the Organization has adequate resources to continue in operational existence for the foreseeable future. If for any reason the Organization is unable to continue as a going concern, it could have an impact on the Organization's ability to realize assets at their recognized values and to extinguish liabilities in the normal course of operations at the amounts stated in the financial statements.

Supplemental Information

Schedule of Expenditures of Federal Awards
Target Hunger
For the Year Ended December 31, 2016

Federal Grantor/Pass Through Grantor/Program	Federal CFDA Number	Identifying Number	Federal Expenditure
U.S. Department of Agriculture:			
Pass-through programs from:			
The Houston Food Bank			
The Emergency Food Assistance Program (TEFAP)	10.569		1,023,317
Total U.S. Department of Agriculture			<u>1,023,317</u>
U.S. Department of Homeland Security:			
Pass-through programs from:			
The United Way			
The Emergency Food and Shelter Program (EFSP)	97.024		20,000
Total U.S. Department of Homeland Security			<u>20,000</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,043,317</u></u>

Note 1 - Basis of Presentation

The accompanying schedules of expenditures of federal awards include the federal grant activity of Target Hunger and are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States. The information in these schedules is presented in accordance with the requirements of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

In the administration of the federal programs awarded, Target Hunger did not elect to use the 10% de minimus indirect cost rate.



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
Target Hunger, 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 Target Hunger, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 27, 2017.

Internal Control over Financial Reporting

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

Ralph and Ralph, P.C.

Houston, Texas
July 27, 2017



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
Target Hunger, Inc.

Report on Compliance for Each Major Federal Program

We have audited Target 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 Target Hunger's major federal programs for the year ended December 31, 2016. Target 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 Target 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 Target 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 Target Hunger's compliance.

Opinion on Each Major Federal Program

In our opinion, Target 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, 2016.

Report on Internal Control over Compliance

Management of Target 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 Target 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 Target 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.

Ralph and Ralph, P.C.

Houston, Texas
July 27, 2017

Schedule of Findings and Questioned Costs
Target Hunger
For the Year Ended December 31, 2016

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unqualified

Internal control over financial reporting:

Material weakness identified? _____ yes X no
Significant Deficiency identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness identified? _____ yes X no
Significant Deficiency identified? _____ 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 2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.569	The Emergency Food Assistance Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ yes X no

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

Schedule of Findings and Questioned Costs
Target Hunger
For the Year Ended December 31, 2016

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.

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

Summary Schedule of Prior Audit Findings
Target Hunger
For the Year Ended December 31, 2016

None.

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