

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

**Financial Statements
and
Independent Auditors' Report
September 30, 2016 and 2015**

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NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Environmental Health Association
Denver, Colorado

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of National Environmental Health Association (the "Association"), which are comprised of the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities 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.

AUDITORS' 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 auditors' 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 auditors consider 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 National Environmental Health Association as of September 30, 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

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 audits 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 March 7, 2017, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Association's internal control over financial reporting and compliance.

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March 7, 2017
Denver, Colorado

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Statements of Financial Position

	September 30,	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 667,219	\$ 417,998
Investments	385,810	357,502
Restricted cash and investments	135,289	126,785
Accounts receivable, net of allowance for doubtful accounts of \$4,000	1,002,062	899,929
Unbilled receivables	-	142,935
Inventory	45,985	67,538
Prepaid expenses and other	<u>68,089</u>	<u>41,421</u>
Total current assets	2,304,454	2,054,108
Property and equipment, net	<u>38,653</u>	<u>139,824</u>
Total assets	<u>\$ 2,343,107</u>	<u>\$ 2,193,932</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 162,988	\$ 480,658
Accrued vacation	80,104	56,887
Other accrued expenses	20,847	68,541
Deferred revenue	288,171	345,032
Deferred rent - current portion	<u>10,784</u>	<u>25,578</u>
Total current liabilities	562,894	976,696
Deferred rent	<u>83,639</u>	<u>95,899</u>
Total liabilities	<u>646,533</u>	<u>1,072,595</u>
Commitments and contingencies		
Net assets		
Unrestricted		
Board-designated	315,225	306,911
Undesignated	<u>1,299,514</u>	<u>733,721</u>
Total unrestricted	1,614,739	1,040,632
Temporarily restricted	<u>81,835</u>	<u>80,705</u>
Total net assets	<u>1,696,574</u>	<u>1,121,337</u>
Total liabilities and net assets	<u>\$ 2,343,107</u>	<u>\$ 2,193,932</u>

See notes to financial statements.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Statements of Activities

	For the Years Ended					
	September 30, 2016			September 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and gains						
Research and development	\$ 1,514,445	\$ -	\$ 1,514,445	\$ 2,696,218	\$ -	\$ 2,696,218
Annual Educational Conference	878,217	-	878,217	540,516	-	540,516
Credentialing and education	774,868	-	774,868	734,832	-	734,832
Membership dues	394,391	-	394,391	385,528	-	385,528
Journal of Environmental Health	229,628	-	229,628	201,895	-	201,895
Special projects	3,183,029	-	3,183,029	1,964,700	-	1,964,700
Contributions	11,005	-	11,005	10,630	-	10,630
Publications and module contracts	56,435	-	56,435	48,906	-	48,906
Miscellaneous income	24,515	-	24,515	31,770	-	31,770
Investment income	<u>30,756</u>	<u>1,130</u>	<u>31,886</u>	<u>4,934</u>	<u>192</u>	<u>5,126</u>
Total revenues and gains	<u>7,097,289</u>	<u>1,130</u>	<u>7,098,419</u>	<u>6,619,929</u>	<u>192</u>	<u>6,620,121</u>
Expenses						
Research and development	1,511,344	-	1,511,344	2,467,207	-	2,467,207
Annual Educational Conference	612,162	-	612,162	643,685	-	643,685
Journal of Environmental Health	270,100	-	270,100	353,312	-	353,312
Credentialing and education	501,050	-	501,050	633,296	-	633,296
Membership	59,670	-	59,670	246,578	-	246,578
Publications and module contracts	20,008	-	20,008	39,112	-	39,112
Special projects	3,258,083	-	3,258,083	1,615,244	-	1,615,244
Administration and general	<u>290,765</u>	<u>-</u>	<u>290,765</u>	<u>583,994</u>	<u>-</u>	<u>583,994</u>
Total expenses	<u>6,523,182</u>	<u>-</u>	<u>6,523,182</u>	<u>6,582,428</u>	<u>-</u>	<u>6,582,428</u>
Change in net assets	574,107	1,130	575,237	37,501	192	37,693
Net assets at beginning of year	<u>1,040,632</u>	<u>80,705</u>	<u>1,121,337</u>	<u>1,003,131</u>	<u>80,513</u>	<u>1,083,644</u>
Net assets at end of year	<u>\$ 1,614,739</u>	<u>\$ 81,835</u>	<u>\$ 1,696,574</u>	<u>\$ 1,040,632</u>	<u>\$ 80,705</u>	<u>\$ 1,121,337</u>

See notes to financial statements.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Statements of Cash Flows

	For the Years Ended	
	September 30,	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 575,237	\$ 37,693
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization expense	101,171	118,047
Amortization of deferred rent	(27,054)	(32,042)
Provision for bad debt	45	13,778
Realized and unrealized (gains) loss on investments	(25,755)	3,945
Changes in assets and liabilities		
Accounts receivable	(102,178)	769,798
Unbilled receivables	142,935	14,010
Inventory	21,553	(18,840)
Prepaid expenses and other	(26,668)	38,903
Accounts payable	(317,670)	(244,246)
Accrued vacation	23,217	(23,724)
Other accrued expenses	(47,694)	(218,335)
Deferred revenue	(56,861)	(411,039)
	<u>(314,959)</u>	<u>10,255</u>
Net cash provided by operating activities	<u>260,278</u>	<u>47,948</u>
Cash flows from investing activities		
Purchase of property and equipment	-	(53,918)
(Purchase) sale of investments, net	(2,553)	162,728
Net cash (used in) provided by investing activities	<u>(2,553)</u>	<u>108,810</u>
Net increase in cash and cash equivalents	257,725	156,758
Cash and cash equivalents at beginning of year	<u>544,783</u>	<u>388,025</u>
Cash and cash equivalents at end of year	<u>\$ 802,508</u>	<u>\$ 544,783</u>
Cash and cash equivalents are reported in the statements of financial position as follows:		
Cash and cash equivalents	\$ 667,219	\$ 417,998
Restricted cash and investments	<u>135,289</u>	<u>126,785</u>
	<u>\$ 802,508</u>	<u>\$ 544,783</u>

See notes to financial statements.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

National Environmental Health Association (the "Association"), a non-profit organization, was incorporated in 1937. The Association is a membership organization whose mission is to advance the environmental health and protection profession for the purpose of providing a healthful environment for all. Its members, who are primarily environmental health professionals, are provided educational services through the Association's Annual Educational Conference, various environmental workshops, and the sales of environmental publications.

Basis of Presentation

The Association reports 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.

Unrestricted net assets are those currently available at the discretion of the Board of Directors (the "Board") for use in the Association's operations and those resources invested in property and equipment.

Temporarily restricted net assets are monies restricted by donors specifically for certain time periods, purposes, or programs.

Permanently restricted net assets are assets that must be maintained permanently by the Association as required by the donors, but the Association is permitted to use or expend part or all of any income derived from those assets. There were no permanently restricted net assets as of September 30, 2016 and 2015.

Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents, unless held within the investment portfolio or otherwise restricted. As of the statement of financial position date and periodically throughout the year, the Association has maintained balances in various operating accounts in excess of federally insured limits.

Investments

The Association reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values with unrealized gains and losses included on the statements of activities.

Restricted Cash and Investments

Restricted cash and investments represent temporarily restricted contributions for the scholarship fund, the Endowment Fund, and the Global Environmental Health Fund.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable represent amounts due resulting from the sales of products and performance of services provided to other organizations and individuals. The provision for uncollectible amounts is continually reviewed and adjusted to maintain the allowance at a level considered adequate to cover future losses. The allowance is management's best estimate of uncollectible amounts and is determined based on historical performance that is tracked by the Association on an ongoing basis. The losses ultimately incurred could differ materially in the near term from the amounts estimated in determining the allowance.

Concentrations

As of September 30, 2016 and 2015, 93% and 88%, respectively, of the Association's accounts receivable were due from two government agencies.

During the years ended September 30, 2016 and 2015, the Association received contract revenue from the Center for Disease Control, which made up approximately 20% and 38%, respectively, of total revenue. The Association received grant revenue from the Food and Drug Administration during the years ended September 30, 2016 and 2015, which made up approximately 35% and 18%, respectively, of total revenue.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or net realizable value and consists of books and other educational materials held for sale.

Property and Equipment

Property and equipment purchased with a cost greater than \$5,000 are recorded at cost. Donated fixed assets are capitalized at fair value at the date of donation. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets or the related lease terms for leasehold improvements, which range from three to ten years.

Long-Lived Assets

The Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Association looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. At September 30, 2016 and 2015, the Association determined that no impairment existed related to its carrying value of long-lived assets.

Deferred Rent

The Association recognizes rent expense on a straight-line basis over the term of the leases. Deferred rent reflects the accumulated difference between rent payments and expense recognized.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Deferred Rent (continued)

In 2006, the Association received a tenant improvement allowance of \$341,040 from the landlord to be used for space planning, architectural fees, and construction for the premises. The total allowance is recognized as a reduction of rent expense over the term of the lease, which first expired in July 2016. For the years ended September 30, 2016 and 2015, \$25,578 and \$34,104, respectively, was recorded as a reduction of rent expense. The unamortized portion of the allowance was included in deferred rent on the statements of financial position.

Revenue Recognition/Deferred Revenue

Revenue from the sales of products and services is recognized in the period the related products are delivered or services are provided. Grant revenue is recorded in the period the respective expenses are incurred. Differences in the timing of billings and revenue recognition are reflected in unbilled accounts receivable and deferred revenue. Provisions for the entire amount of estimated losses on uncompleted contracts are recorded in the period such losses are determined. Amounts received in advance are deferred until the earnings process is complete, at which time they are recognized as revenue.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are recognized when cash or ownership of donated assets is unconditionally promised to the Association. Amounts of temporarily restricted contributions are subsequently released to unrestricted net assets when expenses have been incurred in satisfaction of those restrictions.

Functional Expenses

Functional expenses incurred directly for a program service are charged to such activity. Salary, fringe benefits, and certain overhead costs are allocated to all services based on a pro rata basis of total direct salary expenses incurred.

Income Taxes

The Association is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). The Association is not a private foundation within the meaning of Section 509(a) of the Code. As such, the Association is required to pay taxes on unrelated business income only. For the years ended September 30, 2016 and 2015, the Association had no tax liability from unrelated business taxable income.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

The Association applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of September 30, 2016 and 2015. If incurred, interest and penalties associated with tax positions are recorded in the period assessed as administration and general expense. No interest or penalties have been assessed as of September 30, 2016 and 2015.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which supersedes current revenue recognition requirements and industry-specific guidance. The codification was amended through additional ASUs and, as amended, requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Association is required to adopt the new standard in 2019 and may adopt either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption using one of two retrospective application methods. The Association is continuing to evaluate the provisions of this new guidance and has not determined the impact this standard may have on its financial condition, results of operations, cash flows, and related disclosures or decided upon the method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will require lessees to recognize a right-of-use asset and a lease liability for all leases that are not short-term in nature. For a lessor, the accounting applied is also largely unchanged from previous guidance. The new rules will be effective for the Association in 2020. The Association is currently in the process of evaluating the impact of adoption of the new rules on the Association's financial condition, results of operations, and cash flows.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued)

In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removes the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017, with early adoption allowed. Entities should apply the amendment in this update retrospectively to all periods presented. The Association is currently evaluating the new standard and its impact on the Association's financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, providing guidance on the statement of cash flows classification and presentation of changes in restricted cash. The new topic clarifies that restricted cash and equivalents should be included with cash and equivalents when reconciling beginning-of-the-year and end-of-the-year total amounts in the statement of cash flows. Transfers between cash and restricted cash are not to be reported as operating, investing, or financing activities in the statement of cash flows. The guidance is effective for reporting periods beginning after December 15, 2018. As of September 30, 2016, the Association early adopted this standard and included restricted cash and equivalents in the beginning-of-the-year and end-of-the-year total reconciling amounts in the statement of cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Subsequent Events

The Association has evaluated all subsequent events through the auditors' report date, which is the date the financial statements were available to be issued, and determined that there were no subsequent events requiring recognition or disclosure.

Note 2 - Investments

Investments and restricted cash and investments are comprised of the following:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Equities	\$ 223,201	\$ 201,839
Cash and cash equivalents	223,154	158,606
Certificates of deposits	74,744	73,845
Bond mutual funds	<u>-</u>	<u>49,997</u>
Total	<u>\$ 521,099</u>	<u>\$ 484,287</u>

Investments are presented on the statements of financial position as follows:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Investments	\$ 385,810	\$ 357,502
Restricted cash and investments	<u>135,289</u>	<u>126,785</u>
Total	<u>\$ 521,099</u>	<u>\$ 484,287</u>

Investment return consists of the following:

	<u>For the Years Ended</u> <u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 6,131	\$ 9,071
Net realized and unrealized gain (loss) on investments	<u>25,755</u>	<u>(3,945)</u>
Total investment return	<u>\$ 31,886</u>	<u>\$ 5,126</u>

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 3 - Fair Value Reporting

The Association values its financial assets and liabilities based on the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date;
- Level 2: Quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or
- Level 3: Unobservable inputs where little or no market data is available, which requires the reporting entity to develop its own assumptions.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. These classifications (Levels 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The following is a description of the valuation methodologies used for assets measured at fair value:

Equities and bond mutual funds: Valued at closing price reported on the active market on which the individual securities are traded.

There were no changes to the Association's valuation techniques during the year.

The following table summarizes the Association's fair value of assets measured on a recurring basis by the above fair value hierarchy levels as of September 30, 2016:

Description	Level 1	Level 2	Level 3	Total
Equities	<u>\$ 223,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223,201</u>

The following table summarizes the Association's fair value of assets measured on a recurring basis by the above fair value hierarchy levels as of September 30, 2015:

Description	Level 1	Level 2	Level 3	Total
Equities	\$ 201,839	\$ -	\$ -	\$ 201,839
Bond mutual funds	<u>49,997</u>	<u>-</u>	<u>-</u>	<u>49,997</u>
Total	<u>\$ 251,836</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 251,836</u>

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 4 - Property and Equipment

The Association's property and equipment are comprised of the following:

	September 30,	
	2016	2015
Computers and software	\$ 410,186	\$ 496,092
Leasehold improvements	387,524	387,524
Furniture and equipment	65,753	100,923
	863,463	984,539
Less accumulated depreciation and amortization	(824,810)	(844,715)
	\$ 38,653	\$ 139,824

Note 5 - Net Assets

Board-designated net assets consist of the following:

	September 30,	
	2016	2015
Emergency reserve funds	\$ 195,878	\$ 195,878
Computer reserve funds	64,589	64,589
Endowment fund	54,758	46,444
	\$ 315,225	\$ 306,911
	\$ 315,225	\$ 306,911

Temporarily restricted net assets consist of the following:

	September 30,	
	2016	2015
Scholarship fund	\$ 79,235	\$ 78,105
Global Environmental Health Fund	2,600	2,600
	\$ 81,835	\$ 80,705

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 6 - Investment in Endowments

Board-designated endowments are unrestricted funds designated by the Board to function as endowments.

The Association established a Board-designated quasi endowment fund. Monies contributed to the fund, plus interest earned, totaled \$54,758 and \$46,444 as of September 30, 2016 and 2015, respectively. Contributions to this fund are unrestricted. Principal and income earned on the investments is to be used upon approval by the Board. As the endowment is not significant to the Association's financial statements as a whole, management has elected not to include certain disclosures normally required by generally accepted accounting principles.

Note 7 - Retirement Plans

The Association has a retirement plan (the "Retirement Plan") under Code Section 403(b). During the year, the Retirement Plan was modified and employees are eligible to participate in the Retirement Plan on their first day of employment. Employees are eligible for non-elective contributions or matching contributions after 60 consecutive days of service. The Retirement Plan allows employees to defer a discretionary amount of their salaries, not to exceed a defined limit, to the Retirement Plan. The Association makes contributions to the Retirement Plan at its discretion and contributed \$87,874 and \$62,304 for the years ended September 30, 2016 and 2015, respectively.

Note 8 - Commitments and Contingencies

Operating Lease

The Association leases its facilities under a non-cancelable operating lease. The current lease expires in July 2021. Rent expense for the years ended September 30, 2016 and 2015 was \$206,405 and \$189,408, respectively.

Future minimum lease payments under the lease are as follows:

Year Ending September 30,

2017	\$	235,596
2018		237,610
2019		247,680
2020		248,688
2021		<u>211,440</u>
	\$	<u>1,181,014</u>

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Financial Statements

Note 8 - Commitments and Contingencies (continued)

Government Grants

The Association receives certain grant revenues from various governmental agencies. The disbursement of funds received under these grants generally requires compliance with terms and conditions specified in the grants and is subject to audit by the granting agencies. The amount of charges to these grants that may be disallowed, if any, by such audits cannot presently be determined, and no provision for any liability that may result has been made in the accompanying financial statements. However, management believes that all necessary adjustments to the financial statements have been recorded to be in compliance with its grant requirements.

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITORS' 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
National Environmental Health Association
Denver, Colorado

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 National Environmental Health Association (the "Association"), which are comprised of the statements of financial position as of September 30, 2016, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 7, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Association's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 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 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; therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be significant deficiencies.

To the Board of Directors
National Environmental Health Association

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Association's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

MANAGEMENT'S RESPONSE TO FINDINGS

The Association's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Association's response was not subjected to the auditing procedures applied in the audit of the financial statements; accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is intended 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 Association'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EKS&H LLLP

EKS&H LLLP

March 7, 2017
Denver, Colorado

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

To the Board of Directors
National Environmental Health Association
Denver, Colorado

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited National Environmental Health Association's (the "Association") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended September 30, 2016. The Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Association'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 non-compliance 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 Association'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 the Association's compliance.

To the Board of Directors
National Environmental Health Association

Opinion on Each Major Federal Award

In our opinion, the Association 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 September 30, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Association 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 Association'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 the Association'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, non-compliance 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 non-compliance 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.

PURPOSE OF THIS REPORT

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.

EKS+H LLLP

EKS&H LLLP

March 7, 2017
Denver, Colorado

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Schedule of Findings and Questioned Costs
Year Ended September 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued - *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None reported

Non-compliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes None reported

Type of auditors' 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 Uniform Guidance? Yes No

Identification of major programs:

<u>Name of Program</u>	<u>CFDA#</u>
NEHA and UL's Integrated Food Safety System's National Food/Feed Training Program	93.103
NEHA Food Safety Capacity Building through Integrated Food Safety System Training	93.103

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

Auditee qualified as a low-risk auditee? Yes No

(Continued on the following page)

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Schedule of Findings and Questioned Costs Year Ended September 30, 2016

(Continued from the previous page)

Section II - Financial Statement Findings

No. 2016-001: Insufficient Processes and Oversight within the Accounting Function

Condition/Criteria:	Internal controls over the financial reporting process were not operating effectively during the year such that they would prevent, or detect and correct, a potential misstatement to the financial statements in a timely manner.
Context:	<p>The Association did not reconcile cash and accounts receivable balances to the general ledger during the year, and there were significant variances between actual balances and the amounts reported at various points in time. This required significant reconciliation at year-end.</p> <p>The Association had accounts receivable balances totaling \$23,477 from one customer that had been outstanding for approximately 14 months as of the date of our audit. In addition, the Association is not submitting reimbursement for federal funds in a timely manner. The Association did not have a process to identify the error and follow up on the outstanding balance in a timely manner.</p> <p>In August 2016, the Association hired a Finance Director with a CPA to review and reconcile its accounting records on a go-forward basis. The Association also contracted with an accountant to assist with reconciling and adjusting year-end balances.</p>
Effect:	The accounting function was not producing accurate and timely financial information during the year.
Cause:	Processes and oversight within the accounting function were not sufficient in identifying inaccuracies in financial reporting during the year.
Recommendation:	<p>We recommend that the Association implement a process to review and reconcile balances on a more timely basis to mitigate the risks of error and fraud. We further recommend that internal controls, including segregation of duties and review and oversight of the accounting and financial reporting function, be reviewed and strengthened.</p> <p>The financial statements should be provided on a timely basis to the Treasurer of the Board for his or her review on a monthly basis.</p> <p>A review of old accounts receivable balances should be performed on a regular basis, and invoices should be sent out on a recurring basis.</p>
Management Views and Planned Corrective Actions:	The Association hired a Finance Director in August 2016. The Finance Director will implement a more thorough and multi-level process in which additional review and oversight of monthly financial information will be performed on a timely basis. The Finance Director will also review internal control processes and implement improvements in areas with deficiencies.

(Continued on the following page)

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

**Schedule of Findings and Questioned Costs
Year Ended September 30, 2016**

(Continued from the previous page)

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Prior Year Findings and Questioned Costs - Major Federal Award Programs Audit

No. 2015-001: Insufficient Processes and Oversight within the Accounting Function

Finding: In fiscal year 2015, internal controls over the financial reporting process were not operating effectively such that they would prevent, or detect and correct, material misstatements to the financial statements in a timely manner.

Status: In August 2016, the Association hired a Finance Director to review and reconcile its accounting records on a go-forward basis. However, internal control issues still existed for most of the fiscal year (see finding 2016-001).

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

**Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
Direct Programs			
NEHA and UL's Integrated Food Safety System's National Food/Feed Training Program	93.103*	1U54FD004325-04W1/ 1U54FD004325-05	\$ 1,319,866
NEHA Food Safety Capacity Building through Integrated Food Safety System Training	93.103*	1U18FD005648-01	<u>1,163,799</u>
Total - U.S. Department of Health and Human Services Direct Programs			<u><u>2,483,665</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 2,483,665</u></u>

* Major program

NATIONAL ENVIRONMENTAL HEALTH ASSOCIATION

Notes to Schedule of Expenditures of Federal Awards For the Year Ended September 30, 2016

(1) **Basis of Presentation**

The supplemental schedule of expenditures of federal awards (the "Schedule") has been prepared on an accrual basis. The information in the Schedule is presented in accordance with the requirements of Uniform Guidance.

(2) **Indirect Rate**

The Association did not elect to use the de minimis 10% indirect cost rate.