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LOAVES & FISHES, INC.

Financial Statements for the Years Ended
September 30, 2017 and 2016
and Independent Auditors' Report



GreerWalker



GreerWalker

INDEPENDENT AUDITORS' REPORT

Board of Directors of Loaves & Fishes, Inc.:

We have audited the accompanying financial statements of Loaves & Fishes, Inc. (the "Organization") which comprise the statements of financial position as of September 30, 2017 and 2016, 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 generally accepted accounting principles 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 generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 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 Organization'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 Organization'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 Loaves & Fishes, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

Greer Walker LLP

Certified Public Accountants
February 12, 2018
Charlotte, NC

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LOAVES & FISHES, INC.

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Unrestricted cash and cash equivalents	\$ 1,368,622	\$ 1,288,691
Unconditional promises to give	43,127	38,979
Food on hand	242,133	139,421
Prepaid expenses and other current assets	94,400	70,698
Total current assets	<u>1,748,282</u>	<u>1,537,789</u>
PROPERTY, NET	<u>101,081</u>	<u>126,462</u>
OTHER ASSETS:		
Permanently restricted cash	-	17,821
Investments	324,927	-
Unconditional promises to give, net	4,075	4,075
Intangible assets, net	1,784	2,228
Total other assets	<u>330,786</u>	<u>24,124</u>
TOTAL	<u>\$ 2,180,149</u>	<u>\$ 1,688,375</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ -	\$ 2,725
Accounts payable and other current liabilities	27,124	37,967
Total current liabilities	<u>27,124</u>	<u>40,692</u>
NET ASSETS:		
Unrestricted	877,994	572,346
Unrestricted - Board designated	1,124,357	1,009,932
Temporarily restricted	58,750	47,584
Permanently restricted	91,924	17,821
Total net assets	<u>2,153,025</u>	<u>1,647,683</u>
TOTAL	<u>\$ 2,180,149</u>	<u>\$ 1,688,375</u>

See notes to financial statements.

LOAVES & FISHES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016 (CONTINUED ON PAGE 4)

	Year ended September 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT:				
Contributed food	\$ 1,644,031	\$ -	\$ -	\$ 1,644,031
Individual, church and other contributions	1,461,374	21,250		1,482,624
Other grants	261,353	20,000		281,353
Beverly Howard endowment fund	116,162		52,049	168,211
Special event revenue	72,896			72,896
Emergency Food & Shelter Program grant	52,500	17,500		70,000
Contributed advertising	69,370			69,370
Contributed office and warehouse space	13,905			13,905
Gain on investments, net	13,928			13,928
Interest	5,664			5,664
Net assets released from restrictions	25,530	(47,584)	22,054	-
Total support	<u>3,736,713</u>	<u>11,166</u>	<u>74,103</u>	<u>3,821,982</u>
EXPENSES:				
Program services:				
Contributed food	1,541,319			1,541,319
Aid to pantries	328,097			328,097
Salaries	300,923			300,923
Rent and utilities	223,576			223,576
Insurance	52,578			52,578
Depreciation	32,602			32,602
Payroll taxes	23,141			23,141
Truck and delivery	23,592			23,592
Retirement plan contributions	11,088			11,088
Emergency Food & Shelter Program grant services	65,500			65,500
Telephone	5,042			5,042
Office supplies	3,003			3,003
Other	6,263			6,263
Total program services	<u>2,616,724</u>	<u>-</u>	<u>-</u>	<u>2,616,724</u>
Supporting services:				
Salaries	246,589			246,589
Fundraising	175,030			175,030
Special event expenses	25,094			25,094
Professional fees	62,884			62,884
Insurance	44,478			44,478
Printing	37,860			37,860
Payroll taxes	19,577			19,577
Rent and utilities	17,866			17,866
Depreciation and amortization	5,909			5,909
Computer	6,261			6,261
Bank fees	12,028			12,028
Retirement plan contributions	9,380			9,380
Telephone	9,329			9,329
Office supplies	9,007			9,007
Other	18,624			18,624
Total supporting services	<u>699,916</u>	<u>-</u>	<u>-</u>	<u>699,916</u>
Total expenses	<u>3,316,640</u>	<u>-</u>	<u>-</u>	<u>3,316,640</u>
CHANGE IN NET ASSETS	420,073	11,166	74,103	505,342
NET ASSETS, BEGINNING OF YEAR	<u>1,582,278</u>	<u>47,584</u>	<u>17,821</u>	<u>1,647,683</u>
NET ASSETS, END OF YEAR	<u>\$ 2,002,351</u>	<u>\$ 58,750</u>	<u>\$ 91,924</u>	<u>\$ 2,153,025</u>

See notes to financial statements.

LOAVES & FISHES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016 (CONTINUED FROM PAGE 3)

	Year ended September 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT:				
Contributed food	\$ 1,459,079	\$ -	\$ -	\$ 1,459,079
Individual, church and other contributions	1,431,444	21,000		1,452,444
Other grants	273,289			273,289
Beverly Howard endowment fund	50,000	22,054	17,821	89,875
Contributed advertising	146,650			146,650
Contributed office and warehouse space	13,905			13,905
Interest	4,153			4,153
Net assets released from restrictions	23,550	(23,550)		-
Total support	3,402,070	19,504	17,821	3,439,395
EXPENSES:				
Program services:				
Contributed food	1,623,705			1,623,705
Aid to pantries	400,037			400,037
Salaries	307,624			307,624
Rent and utilities	225,822			225,822
Insurance	64,807			64,807
Depreciation	39,080			39,080
Payroll taxes	25,869			25,869
Truck and delivery	25,464			25,464
Retirement plan contributions	12,080			12,080
Emergency Food & Shelter Program grant services	6,300			6,300
Telephone	5,294			5,294
Office supplies	2,029			2,029
Other	23,230			23,230
Total program services	2,761,341	-	-	2,761,341
Supporting services:				
Salaries	261,597			261,597
Fundraising	232,144			232,144
Professional fees	64,458			64,458
Insurance	55,110			55,110
Printing	39,457			39,457
Payroll taxes	21,999			21,999
Rent and utilities	18,151			18,151
Depreciation and amortization	15,311			15,311
Computer	14,647			14,647
Bank fees	10,887			10,887
Retirement plan contributions	10,273			10,273
Telephone	8,448			8,448
Office supplies	6,084			6,084
Other	31,979			31,979
Total supporting services	790,545	-	-	790,545
Total expenses	3,551,886	-	-	3,551,886
CHANGE IN NET ASSETS	(149,816)	19,504	17,821	(112,491)
NET ASSETS, BEGINNING OF YEAR	1,732,094	28,080	-	1,760,174
NET ASSETS, END OF YEAR	\$ 1,582,278	\$ 47,584	\$ 17,821	\$ 1,647,683

See notes to financial statements.

LOAVES & FISHES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 505,342	\$ (112,491)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	38,511	54,391
Change in reserve and allowances	(350)	2,675
Gain on investments, net	(13,928)	
Changes in operating assets and liabilities:		
Promises to give	(3,798)	(28,479)
Food on hand	(102,712)	164,627
Prepaid expenses and other current assets	(23,702)	2,772
Accounts payable and other liabilities	(10,843)	(2)
Net cash provided by operating activities	<u>388,520</u>	<u>83,493</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(310,999)	
Purchases of property	<u>(12,686)</u>	<u>(2,460)</u>
Net cash applied to investing activities	<u>(323,685)</u>	<u>(2,460)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long term debt	<u>(2,725)</u>	<u>(11,832)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	62,110	69,201
CASH AND CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	<u>1,306,512</u>	<u>1,237,311</u>
CASH AND CASH EQUIVALENTS BALANCE, END OF YEAR	<u>\$ 1,368,622</u>	<u>\$ 1,306,512</u>

See notes to financial statements.

LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations - Loaves & Fishes, Inc. (the "Organization") operates as a not-for-profit organization whose principal function is to reduce the incidence of hunger and malnutrition in Mecklenburg County, North Carolina by procuring and distributing food supplies to the needy.

Use of Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities and disclosures. Accordingly, the actual amounts could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the fiscal year in which such adjustments are determined.

Financial Statement Presentation - The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not restricted by donors or for which donor-imposed restrictions have expired.

Temporarily restricted net assets - Net assets that contain donor-imposed time or purpose restrictions that have not currently been met.

Permanently restricted net assets - Net assets which contain donor-imposed restrictions stipulating that the amounts be maintained by the Organization in perpetuity.

Cash and Cash Equivalents - The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization maintains cash deposits with financial institutions that, at times, may exceed federally insured limits.

Food on Hand - Food on hand represents food which has been contributed or purchased and is available to be distributed. Such food is valued using the average cost per pound for contributed food or purchase cost for purchased food.

Property - Property is recorded at cost, if purchased, and at the estimated fair market value at the date of receipt, if contributed. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the related assets. Contributed property is reported as unrestricted support unless the donor restricts the contributed asset to a specific purpose. The Organization records capital expenditures greater than \$500 as property.

Donated Services and Materials - A number of volunteers, including members of the Board of Directors and its committees, as well as various volunteer assistants contribute significant amounts of time to the Organization's program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected as support in the accompanying financial statements. Donated services that do meet the criteria for recognition, along with donated materials, are recorded at the estimated fair value as revenue and expense. (See Note 9)

Advertising - The Organization's policy is to expense the cost of advertising as it is incurred.

Income Taxes - The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Organization records liabilities for income tax positions taken or expected to be taken when those positions are deemed uncertain to be upheld in an examination by taxing authorities. No liabilities for uncertain income tax positions were recorded as of September 30, 2017 and 2016.

Functional Expense Classification - The Organization's functional expense classification and allocation policy is based on a review of the current organizational structure, and the identification, reclassification and allocation of certain employee, facility, and departmental expenses, which serve multiple functional areas.

Subsequent Events - In preparing its financial statements, the Organization has evaluated subsequent events through February 12, 2018, which is the date the financial statements were available to be issued.

2. PROMISES TO GIVE

Promises to give are recognized when a donor makes an unconditional promise to give cash or property to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if restrictions expire in the fiscal year. All other donor restricted net assets are reported as temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets, or permanently restricted net assets, as appropriate.

Promises to give as of September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Promises to give due in less than one year	\$ 43,127	\$ 38,979
Promises to give due in one to five years	<u>6,400</u>	<u>6,750</u>
Total promises to give	49,527	45,729
Less: Allowance	<u>2,325</u>	<u>2,675</u>
Promises to give, net	47,202	43,054
Current portion	<u>43,127</u>	<u>38,979</u>
Long-term portion, net	<u>\$ 4,075</u>	<u>\$ 4,075</u>

3. PROPERTY

Property as of September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Office equipment	\$ 80,172	\$ 79,420
Vehicles	184,943	184,943
Furniture and fixtures	21,013	21,013
Warehouse equipment	<u>416,540</u>	<u>404,605</u>
	702,668	689,981
Less: Accumulated depreciation and amortization	<u>601,587</u>	<u>563,519</u>
Property, net	<u>\$ 101,081</u>	<u>\$ 126,462</u>

4. FAIR VALUE MEASUREMENTS

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policy of the Organization

The Organization has investments that are reported at fair value in the accompanying statements of financial position.

Fair value is defined as the price 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 inputs used for valuing the Organization's investments are summarized in the three broad levels listed below:

- Level 1 - quoted prices in active markets for identical assets
- Level 2 - other significant observable inputs either directly or indirectly (including quoted prices for similar securities, interest rates, yield curves, credit risk, etc.)
- Level 3 - significant unobservable inputs

The inputs or methodologies used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Following is a description of the valuation methodologies used for assets measured at fair value.

Investments with community foundations: Valued at the fair value of the underlying assets using unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments with community foundations	\$ _____ -	\$ _____ -	\$ <u>324,927</u>	\$ <u>324,927</u>
Total investments at fair value	\$ _____ -	\$ _____ -	\$ <u>324,927</u>	\$ <u>324,927</u>

The following table presents additional information about Level 3 assets and liabilities measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that the Organization has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 Category may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable (e.g., changes in unobservable long-dated volatilities) inputs.

Changes in funds held by the Organization, Level 3 assets, are measured at fair value on a recurring basis for the year ended September 30, 2017.

Balance, beginning of year	\$ -
Realized and unrealized gains and losses, net	13,928
Purchases, sales, issuances and settlements, net	<u>310,999</u>
Balance, end of year	<u>\$ 324,927</u>

5. AID TO PANTRIES

The Organization provides assistance to food pantries, located in certain Charlotte area churches and community centers, through distribution of food (including donated and purchased), supplies and administrative support. The pantries operate autonomously and are independent of the Organization. Accordingly, the results of these pantry operations are not reflected in the financial statements of the Organization.

6. EMERGENCY FOOD AND SHELTER PROGRAM

The Organization receives grants from the Emergency Food & Shelter Program (“EFSP”), a United States government program, which are to be used specifically for providing emergency shelter and food. Funds provided by the grants are used to purchase food certificates for individuals in need of assistance who cannot visit a pantry and to purchase low salt foods and fruit in light syrup to meet individuals’ special dietary needs. The Organization received an EFSP grant of \$70,000 for the year ended September 30, 2017. As of September 30, 2017, the Organization had distributed \$4,530 worth of food and food certificates related to the prior year’s undistributed balance. The unused portion of the grant as of September 30, 2017 and 2016 totaled \$9,030 and \$4,530, respectively, in food certificates (included in other current assets in the accompanying statement of financial position).

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2017 and 2016 are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Emergency Food & Shelter Program grant	\$ 17,500	\$ 4,530
Pledges receivable	-	22,054
Funds from various organizations restricted by time	21,250	21,000
Capital Expenses Grant	<u>20,000</u>	<u>-</u>
Total	<u>\$ 58,750</u>	<u>\$ 47,584</u>

Net assets released from restrictions are as follows:

	<u>2017</u>	<u>2016</u>
Time restricted:		
Contributions restricted for operations	\$ 21,000	\$ 17,250
Purpose restricted:		
Emergency Food & Shelter Program grant	4,530	6,300
Pledges received and reclassified to permanently restricted	<u>22,054</u>	<u>-</u>
Total	<u>\$ 47,584</u>	<u>\$ 23,550</u>

8. PERMANENTLY RESTRICTED NET ASSETS

As of September 30, 2017 and 2016 permanently restricted funds to be invested in perpetuity totaled \$91,924 and \$17,821, respectively. The income from these funds is expendable to support operations.

9. CONTRIBUTED MATERIALS

The Organization received contributions of food valued at \$1,644,031 and \$1,459,079 during the years ended September 30, 2017 and 2016, respectively. These amounts are recognized as support in the accompanying statements of activities.

The Organization paid a reduced rate for use of its warehouse facility during the years ended September 30, 2017 and 2016. The value of this donated rent was \$13,905 for each of the years ended September 30, 2017 and 2016. These amounts have been included as contributions and as rent expense in the accompanying statements of activities.

The Organization received donated advertising valued at \$69,370 and \$146,650 during the years ended September 30, 2017 and 2016, respectively. This amount has been included in contributions and as fundraising expense in the accompanying statements of activities.

The Organization received donated legal services valued at approximately \$49,000 and \$51,000 during the years ended September 30, 2017 and 2016, respectively. This amount has been included in contributions and as professional fees expense in the accompanying statements of activities.

10. RETIREMENT PLAN

Eligible employees of the Organization participate in a Simplified Employee Pension Plan which is administered by an unaffiliated agency. Employees must be employed for one year to be eligible to participate in the plan. The Organization contributes 5% of each employee's salary to the plan annually. Contributions to the plan by the Organization totaled \$20,468 and \$22,353 for the years ended September 30, 2017 and 2016, respectively.

11. LEASE COMMITMENTS

The Organization leases certain office and warehouse space and office equipment under agreements which are classified as operating leases. For the years ended September 30, 2017 and 2016, expenses, including donated rent, under these leases totaled approximately \$144,000 and \$158,000, respectively.

Approximate future lease commitments are as follows:

Year ending September 30:	
2018	\$ 149,000
2019	177,000
2020	176,000
2021	176,000
2022	176,000
Thereafter	146,000
Total	<u>\$ 1,000,000</u>

12. RELATED PARTIES

During the years ended September 30, 2017 and 2016, the Organization received contributions from board members and key employees totaling approximately \$20,000 and \$17,000, respectively.
