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**LOAVES & FISHES, INC.**

Financial Statements for the Years Ended  
September 30, 2016 and 2015  
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, 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 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, 2016 and 2015, 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*

February 21, 2017

**GreerWalker LLP – Certified Public Accountants**

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## **LOAVES & FISHES, INC.**

### STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2016 AND 2015

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<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Unrestricted cash and cash equivalents	\$ 1,288,691	\$ 1,237,311
Unconditional promises to give, net	38,979	17,250
Food on hand	139,421	304,048
Prepaid expenses and other current assets	70,698	73,470
Total current assets	<u>1,537,789</u>	<u>1,632,079</u>
PROPERTY, NET	<u>126,462</u>	<u>177,949</u>
OTHER ASSETS:		
Permanently restricted cash	17,821	-
Unconditional promises to give, net	4,075	-
Intangible assets, net	2,228	2,672
Total other assets	<u>24,124</u>	<u>2,672</u>
TOTAL	<u>\$ 1,688,375</u>	<u>\$ 1,812,700</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 2,725	\$ 11,832
Accounts payable and other current liabilities	37,967	37,969
Total current liabilities	<u>40,692</u>	<u>49,801</u>
LONG-TERM LIABILITIES:		
Long-term debt, net of current portion	<u>-</u>	<u>2,725</u>
NET ASSETS:		
Unrestricted	572,346	756,115
Unrestricted - Board designated	1,009,932	975,979
Temporarily restricted	47,584	28,080
Permanently restricted	17,821	-
Total net assets	<u>1,647,683</u>	<u>1,760,174</u>
TOTAL	<u>\$ 1,688,375</u>	<u>\$ 1,812,700</u>

See notes to financial statements.

**LOAVES & FISHES, INC.**

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (CONTINUED ON PAGE 4)

	Year ended September 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT:</b>				
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 legacy 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)		-
<b>Total support</b>	<b>3,402,070</b>	<b>19,504</b>	<b>17,821</b>	<b>3,439,395</b>
<b>EXPENSES:</b>				
<b>Program services:</b>				
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
<b>Total program services</b>	<b>2,761,341</b>	<b>-</b>	<b>-</b>	<b>2,761,341</b>
<b>Supporting services:</b>				
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
<b>Total supporting services</b>	<b>790,545</b>	<b>-</b>	<b>-</b>	<b>790,545</b>
<b>Total expenses</b>	<b>3,551,886</b>	<b>-</b>	<b>-</b>	<b>3,551,886</b>
<b>CHANGE IN NET ASSETS</b>	<b>(149,816)</b>	<b>19,504</b>	<b>17,821</b>	<b>(112,491)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>1,732,094</b>	<b>28,080</b>	<b>-</b>	<b>1,760,174</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,582,278</b>	<b>\$ 47,584</b>	<b>\$ 17,821</b>	<b>\$ 1,647,683</b>

See notes to financial statements.

**LOAVES & FISHES, INC.**

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015 (CONTINUED FROM PAGE 3)

	Year ended September 30, 2015		
	Unrestricted	Temporarily Restricted	Total
SUPPORT:			
Contributed food	\$ 1,346,318	\$ -	\$ 1,346,318
Individual, church and other contributions	1,503,868	2,500	1,506,368
Other grants	261,533	14,750	276,283
Contributed advertising	114,550		114,550
Contributed office and warehouse space	19,320		19,320
Interest	3,934		3,934
Emergency Food & Shelter Program grant	24,170	10,830	35,000
Net assets released from restrictions	24,080	(24,080)	-
Total support	<u>3,297,773</u>	<u>4,000</u>	<u>3,301,773</u>
EXPENSES:			
Program services:			
Contributed food	1,174,830		1,174,830
Aid to pantries	592,995		592,995
Salaries	283,544		283,544
Rent and utilities	202,813		202,813
Insurance	65,649		65,649
Depreciation	44,265		44,265
Payroll taxes	24,568		24,568
Truck and delivery	24,982		24,982
Retirement plan contributions	23,028		23,028
Emergency Food & Shelter Program grant services	33,500		33,500
Telephone	4,403		4,403
Office supplies	1,820		1,820
Other	10,858		10,858
Total program services	<u>2,487,255</u>	<u>-</u>	<u>2,487,255</u>
Supporting services:			
Salaries	227,810		227,810
Fundraising	217,321		217,321
Professional fees	27,817		27,817
Insurance	52,746		52,746
Printing	27,490		27,490
Payroll taxes	19,739		19,739
Rent and utilities	15,159		15,159
Depreciation and amortization	26,294		26,294
Computer	15,731		15,731
Bank fees	9,968		9,968
Retirement plan contributions	18,502		18,502
Telephone	6,059		6,059
Office supplies	5,459		5,459
Other	18,807		18,807
Total supporting services	<u>688,902</u>	<u>-</u>	<u>688,902</u>
Total expenses	<u>3,176,157</u>	<u>-</u>	<u>3,176,157</u>
CHANGE IN NET ASSETS	121,616	4,000	125,616
NET ASSETS, BEGINNING OF YEAR	<u>1,610,478</u>	<u>24,080</u>	<u>1,634,558</u>
NET ASSETS, END OF YEAR	<u>\$ 1,732,094</u>	<u>\$ 28,080</u>	<u>\$ 1,760,174</u>

See notes to financial statements.

## **LOAVES & FISHES, INC.**

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (112,491)	\$ 125,616
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	54,391	70,559
Change in reserve and allowances	2,675	
Changes in operating assets and liabilities:		
Promises to give	(28,479)	(2,500)
Food on hand	164,627	(171,488)
Prepaid expenses and other current assets	2,772	(24,734)
Accounts payable and other liabilities	<u>(2)</u>	<u>6,380</u>
Net cash provided by operating activities	<u>83,493</u>	<u>3,833</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(2,460)</u>	<u>(4,388)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long term debt	<u>(11,832)</u>	<u>(11,428)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	69,201	(11,983)
CASH AND CASH EQUIVALENTS BALANCE, BEGINNING OF YEAR	<u>1,237,311</u>	<u>1,249,294</u>
CASH AND CASH EQUIVALENTS BALANCE, END OF YEAR	<u>\$ 1,306,512</u>	<u>\$ 1,237,311</u>

See notes to financial statements.

## **LOAVES & FISHES, INC.**

### NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

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#### 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 8.)

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, 2016 and 2015.



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.

Reclassifications - Certain amounts in the 2015 financial statements have been reclassified to conform with 2016 presentation. Such reclassifications had no effect on the previously reported change in net assets.

Subsequent Events - In preparing its financial statements, the Organization has evaluated subsequent events through February 21, 2017, 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, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Promises to give due in less than one year	\$ 38,979	\$ 17,250
Promises to give due in one to five years	<u>6,750</u>	<u>-</u>
Total promises to give	45,729	17,250
Less: Allowance	<u>2,675</u>	<u>-</u>
Promises to give, net	43,054	17,250
Current portion,	<u>38,979</u>	<u>17,250</u>
Long-term portion, net	<u>\$ 4,075</u>	<u>\$ -</u>

## 3. PROPERTY

Property as of September 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Office equipment	\$ 79,420	\$ 76,962
Vehicles	184,943	184,943
Furniture and fixtures	21,013	21,013
Warehouse equipment	<u>404,605</u>	<u>404,605</u>
	689,981	687,523
Less: Accumulated depreciation and amortization	<u>563,519</u>	<u>509,574</u>
Property, net	<u>\$ 126,462</u>	<u>\$ 177,949</u>

4. 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.

5. 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 \$35,000 for the year ended and September 30, 2015. As of September 30, 2016, the Organization had distributed \$6,300 worth of food and food certificates related to the prior year’s undistributed balance. The unused portion of the grant as of September 30, 2016 and 2015 totaled \$4,530 and \$10,830, respectively, in food certificates (included in other current assets in the accompanying statement of financial position).

6. INTANGIBLE ASSETS

As of September 30, 2016 and 2015, intangible assets other than goodwill consisted of the following:

	<u>Estimated Useful Life</u>	<u>2016</u>	<u>2015</u>
Logo	10 years	\$ 3,547	\$ 3,547
Domain name	20 years	1,779	1,779
Less: accumulated amortization		<u>(3,098)</u>	<u>(2,654)</u>
Total, net		<u>\$ 2,228</u>	<u>\$ 2,672</u>

Total amortization expense for the intangible assets was \$444 for each of the years ended September 30, 2016 and 2015. The following presents the estimated amortization expense for intangible assets for each of the next five years and thereafter.

2017	\$ 444
2018	444
2019	103
2020	89
2021	89
Thereafter	<u>1,059</u>
Total	<u>\$ 2,228</u>

7. LONG-TERM DEBT

Long-term debt consisted of the following as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Equipment note in monthly installments of \$1,013, including interest at 3.48%, with a final payment due December 2016, collateralized by equipment software.	\$ <u>2,725</u>	\$ <u>14,557</u>
Total	2,725	14,557
Less current portion	<u>2,275</u>	<u>11,832</u>
Long-term debt	<u>\$ -</u>	<u>\$ 2,275</u>

As of September 30, 2016 future maturities totaled \$2,275 for the year ended September 30, 2017.

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30, 2016 and 2015 are available for the following purposes or periods:

	<u>2016</u>	<u>2015</u>
Emergency Food & Shelter Program grant	\$ 4,530	\$ 10,830
Pledges receivable	22,054	
Funds from various organizations restricted by time	<u>21,000</u>	<u>17,250</u>
Total	<u>\$ 47,584</u>	<u>\$ 28,080</u>

Net assets released from restrictions are as follows:

	<u>2016</u>	<u>2015</u>
Time restricted:		
Contributions restricted for operations	\$ 17,250	\$ 14,750
Purpose restricted:		
Emergency Food & Shelter Program grant	<u>6,300</u>	<u>9,330</u>
Total	<u>\$ 23,550</u>	<u>\$ 24,080</u>

9. PERMANENTLY RESTRICTED NET ASSETS

The Organization has \$17,821 in permanently restricted funds to be invested in perpetuity. The income from these funds is expendable to support operations.

10. CONTRIBUTED MATERIALS

The Organization received contributions of food valued at \$1,459,079 and \$1,346,318 during the years ended September 30, 2016 and 2015, 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, 2016 and 2015. The value of this donated rent was \$13,905 and \$19,320 for each of the years ended September 30, 2016 and 2015. These amounts have been included as contributions and as rent expense in the accompanying statements of activities.

The Organization received donated advertising valued at \$146,650 and \$114,550 during the years ended September 30, 2016 and 2015, 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 \$51,000 and \$15,000 during the years ended September 30, 2016 and 2015, respectively. This amount has been included in contributions and as professional fees expense in the accompanying statements of activities.

11. 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 \$22,353 and \$41,530 for the years ended September 30, 2016 and 2015, respectively. As of year ended September 30, 2016 the Organization has determined it owes contributions to the plan related to certain employees to be in accordance with the plan document. The Organization has estimated the contributions to be approximately \$20,000 and is included in accounts payable and other liabilities on the related financials.

12. 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, 2016 and 2015, expenses, including donated rent, under these leases totaled approximately \$158,000 and \$123,000, respectively.

Approximate future lease commitments are as follows:

Year ending September 30:	
2017	\$ 144,000
2018	121,000
2019	<u>1,000</u>
Total	<u>\$ 266,000</u>

13. RELATED PARTIES

During the years ended September 30, 2016 and 2015, the Organization received contributions from board members and key employees totaling approximately \$17,000 and \$16,000, respectively.