

LOAVES & FISHES COMMUNITY SERVICES

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

SLUPIK AND ASSOCIATES, LTD.
CERTIFIED PUBLIC ACCOUNTANTS

LOAVES & FISHES COMMUNITY SERVICES

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SLUPIK AND ASSOCIATES, LTD.

CERTIFIED PUBLIC ACCOUNTANTS,

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
LOAVES & FISHES COMMUNITY SERVICES
Naperville, Illinois

We have audited the accompanying financial statements of Loaves & Fishes Community Services (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Community Services as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Loaves & Fishes Community Services as of June 30, 2015, were audited by other auditors whose report dated September 16, 2015, expressed an unmodified opinion on those statements.

Slupik and Associates, Ltd.

October 10, 2016

LOAVES & FISHES COMMUNITY SERVICES

STATEMENTS OF FINANCIAL POSITION

June 30,

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,139,015	\$ 1,399,183
Prepaid expenses	-	18,878
Pledges and accounts receivable, current portion	410,805	369,537
Total current assets	1,549,820	1,787,598
Property and Equipment, net	2,388,418	2,466,974
Other Assets		
Deferred financing fees	-	1,131
Pledges and accounts receivable, net of current portion	152,154	250,230
Security deposit	9,354	9,354
Total other assets	161,508	260,715
TOTAL ASSETS	\$ 4,099,746	\$ 4,515,287
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 137,203	\$ 52,031
Accrued payroll	94,303	89,848
Current portion of long-term debt	20,471	574,015
Total current liabilities	251,977	715,894
Long-term debt, net of current portion	1,733	22,205
TOTAL LIABILITIES	253,710	738,099
Net Assets		
Unrestricted	3,260,077	3,136,588
Temporarily restricted	585,959	640,600
TOTAL NET ASSETS	3,846,036	3,777,188
TOTAL LIABILITIES AND NET ASSETS	\$ 4,099,746	\$ 4,515,287

LOAVES & FISHES COMMUNITY SERVICES

STATEMENTS OF ACTIVITIES

For the years ended June 30,

	2016			2015		
	Unrestricted	Temporarily Restricted	Combined Total	Unrestricted	Temporarily Restricted	Combined Total
PUBLIC SUPPORT AND REVENUE						
In-kind contributions	\$ 11,530,035	\$ -	\$ 11,530,035	\$ 12,259,369	\$ -	\$ 12,259,369
Church	173,235	4,500	177,735	281,368	5,000	286,368
Individual	496,394	50,143	546,537	622,175	57,096	679,271
Organization and corporations	681,069	265,700	946,769	1,043,564	10,000	1,053,564
Government grants	61,700	10,000	71,700	72,272	48,334	120,606
Special events, net of direct costs	159,799	-	159,799	14,556	-	14,556
Interest income	442	-	442	2,101	-	2,101
Other	2,057	-	2,057	2,836	-	2,836
Net assets released from restrictions	384,984	(384,984)	-	181,547	(181,547)	-
Total Public Support and Revenue	<u>13,489,715</u>	<u>(54,641)</u>	<u>13,435,074</u>	<u>14,479,788</u>	<u>(61,117)</u>	<u>14,418,671</u>
EXPENSES						
Program	12,914,773	-	12,914,773	13,759,096	-	13,759,096
Management	160,869	-	160,869	169,636	-	169,636
Fundraising	290,584	-	290,584	303,161	-	303,161
Total Expenses	<u>13,366,226</u>	<u>-</u>	<u>13,366,226</u>	<u>14,231,893</u>	<u>-</u>	<u>14,231,893</u>
CHANGE IN NET ASSETS	123,489	(54,641)	68,848	247,895	(61,117)	186,778
NET ASSETS, BEGINNING OF YEAR	<u>3,136,588</u>	<u>640,600</u>	<u>3,777,188</u>	<u>2,888,693</u>	<u>701,717</u>	<u>3,590,410</u>
NET ASSETS, END OF YEAR	<u>\$ 3,260,077</u>	<u>\$ 585,959</u>	<u>\$ 3,846,036</u>	<u>\$ 3,136,588</u>	<u>\$ 640,600</u>	<u>\$ 3,777,188</u>

LOAVES & FISHES COMMUNITY SERVICES

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Food and basic necessities	\$ 11,672,452	\$ -	\$ -	\$ 11,672,452
Salaries, payroll taxes, and employee benefits	772,716	112,115	214,337	1,099,168
Rent, utilities, warehouse, and maintenance	167,879	-	-	167,879
Advertising and promotional	56,259	-	32,184	88,443
Professional fees	43,326	23,028	20,381	86,735
Office	92,241	11,416	15,665	119,322
Other	2,279	1,648	1,687	5,614
	<u>12,807,152</u>	<u>148,207</u>	<u>284,254</u>	<u>13,239,613</u>
Interest	12,415	1,461	730	14,606
Depreciation	95,206	11,201	5,600	112,007
Total Expenses	<u>\$ 12,914,773</u>	<u>\$ 160,869</u>	<u>\$ 290,584</u>	<u>\$ 13,366,226</u>

See independent auditor's report and notes to financial statements.

LOAVES & FISHES COMMUNITY SERVICES

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015

	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Food and basic necessities	\$ 12,453,051	\$ -	\$ -	\$ 12,453,051
Salaries, payroll taxes, and employee benefits	803,749	116,618	222,946	1,143,313
Rent, utilities, warehouse, and maintenance	146,719	-	-	146,719
Advertising and promotional	63,897	-	33,776	97,673
Professional fees	38,390	11,934	17,392	67,716
Office	108,646	7,616	20,733	136,995
Other	3,306	16,840	-	20,146
	<u>13,617,758</u>	<u>153,008</u>	<u>294,847</u>	<u>14,065,613</u>
Interest	25,903	3,047	1,524	30,474
Depreciation	115,435	13,581	6,790	135,806
Total Expenses	<u>\$ 13,759,096</u>	<u>\$ 169,636</u>	<u>\$ 303,161</u>	<u>\$ 14,231,893</u>

See independent auditor's report and notes to financial statements.

LOAVES & FISHES COMMUNITY SERVICES

STATEMENTS OF CASH FLOWS

For the years ended June 30,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 68,848	\$ 186,778
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	112,007	135,806
Changes in current assets and liabilities		
Prepaid expenses	18,878	(14,754)
Pledges and accounts receivable	56,808	81,950
Accounts payable	85,172	(35,063)
Accrued payroll	4,455	32,677
Deferred contributions	-	(30,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	346,168	357,394
CASH FLOWS FROM INVESTING ACTIVITIES		
Building improvements	(3,813)	-
Security deposit	-	(9,354)
Purchases of property and equipment	(29,638)	(46,529)
NET CASH (USED) BY INVESTING ACTIVITIES	(33,451)	(55,883)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bank debt	(574,016)	(202,890)
Amortization of deferred financing fees	1,131	1,728
NET CASH (USED) BY FINANCING ACTIVITIES	(572,885)	(201,162)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(260,168)	100,349
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,399,183	1,298,834
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,139,015	\$ 1,399,183
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income taxes	\$ -	\$ -
Interest expense	\$ 15,053	\$ 30,652

LOAVES & FISHES COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 1 – ORGANIZATION’S PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization’s Purpose

Loaves & Fishes Community Services (the “Organization”) is a nonprofit organization incorporated in the State of Illinois that provides food and leadership in the community by uniting and mobilizing resources to empower people. The focus is to serve residents in the communities of Naperville, Illinois and DuPage County, Illinois for the purpose of ending hunger and empowering lives.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The accompanying financial statements are presented in accordance with Accounting Standards Codification (“ASC”) Topic 958, *Not-For-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets that are based on the existence or absence of donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Temporarily restricted net assets represent net assets subject to donor-imposed restrictions which will be either met by the Organization’s actions or the passage of time. Temporarily restricted net assets are reclassified to unrestricted net assets when the restrictions are met or have expired. These reclassifications are reported in the financial statements as Net Assets Released from Restrictions.

Permanently restricted net assets represent funds subject to the restrictions of gift instruments requiring the principal to be maintained intact. Investment income may be used for operating purposes and therefore is recorded as unrestricted revenue. For the years ended June 30, 2016 and 2015, the Organization held no permanently restricted net assets.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or fair market value, if donated. Acquisitions of property and equipment or repairs, maintenance, or betterments that materially prolong the useful lives of assets in excess of \$500 are capitalized. Depreciation expense is calculated using the straight line method over the estimated useful lives of the assets as follows:

Furniture and office equipment	3-5 Years
Transportation equipment	3-5 Years
Warehouse equipment	5-7 Years
Building	25-39 Years

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

LOAVES & FISHES COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016

NOTE 1 – ORGANIZATION'S PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Organization maintains its cash balances at financial institutions in Illinois. Non-interest and interest bearing accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 for the years ending June 30, 2016 and 2015. Cash and cash equivalents, based on bank balances at June 30, 2016 and 2015, exceeded federally insured prescribed limits by \$411,842 and \$1,082,441, respectively. It is Organization policy to maintain a minimum of six months of projected cash operating expenses in reserve.

Goods for Distribution

The Organization carries a stock of food items and basic necessities in order to carry out its mission to the public. Organization policy is not to record inventory in these financial statements based on the following factors:

- Generally accepted accounting principles define inventory as tangible personal property that is held for sale in the ordinary course of business, in the process of production for sale, or consumed in the production of goods or services to be available for sale.
- The Organization does not sell any goods or services. It does not have a license to make retail sales in Illinois. It has no infrastructure in place (register system, pricing, etc.) to make retail sales.
- The majority of the stocked items are donated from the general public; it is impractical to keep detailed cost records of individual items.

In-Kind Contributions

The Organization regularly receives contributions of food and grocery items from the public. The Organization has a check-in system to track such items, weigh them, and assign values to these contributions using an estimated value of \$3.11 and \$3.34 per pound for the years ended June 30, 2016 and 2015, respectively.

Donated Services

Donated services are recognized as contributions if the services (1) create or enhance nonfinancial assets or (2) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

The Organization received donated services from its officers, directors, and community volunteers which totals in excess of 90,000 person-hours for the year ended June 30, 2016 and 85,700 person-hours for the year ended June 30, 2015. Using the Corporation for National and Community Service survey that estimates a \$24.74 value per hour of volunteer time, management estimates the value of these efforts to be approximately \$2,177,000 and \$2,120,000 for the years ended June 30, 2016 and 2015, respectively. As the recognition criteria for donated services were not met, these volunteer efforts were not recognized as contributions in the financial statements for the years ended June 30, 2016 and 2015.

LOAVES & FISHES COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016

NOTE 1 – ORGANIZATION’S PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services at management’s discretion. Management expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Pledges and Accounts Receivable

The Organization considers pledges and accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If the amounts become uncollectible, they will be charged to operations when that determination is made. Bad debt expense for the years ended June 30, 2016 and 2015 was \$2,500 and \$40,000, respectively.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$56,497 and \$44,734 for the years ended June 30, 2016 and 2015, respectively.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization’s tax-exempt purpose is subject to taxation as unrelated business income. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). The Organization’s tax returns for the years ended June 30, 2013, 2014, 2015, and 2016 are subject to examination by the IRS and the Illinois Attorney General’s Office, generally for three years after they were filed. For the years ended June 30, 2016 and 2015, there were no income tax penalties and interest recognized in the Organization’s financial statements.

Management believes there are no uncertain income tax positions for the years ended June 30, 2016 and 2015.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on changes in unrestricted net assets for the prior year.

NOTE 2 – BOARD-DESIGNATED UNRESTRICTED NET ASSETS

The Organization’s Board of Directors has recommended that an annual portion (\$50,000) of the operating funds are to be designated as a Building Reserve Fund. These funds are designated for future use for major repair, maintenance, and replacement of components of its building. The balances of these designated funds were \$250,000 and \$200,000 as of June 30, 2016 and 2015, respectively.

LOAVES & FISHES COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Land	\$ 550,656	\$ 550,656
Furniture and office equipment	162,316	158,619
Transportation equipment	114,947	114,947
Warehouse equipment	167,349	141,408
Building	<u>2,077,657</u>	<u>2,073,844</u>
	3,072,925	3,039,474
Accumulated depreciation	<u>(684,507)</u>	<u>(572,500)</u>
Net property and equipment	<u>\$ 2,388,418</u>	<u>\$ 2,466,974</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$112,007 and \$135,806, respectively.

NOTE 4 – LONG-TERM DEBT

Long-term debt at June 30, 2016 and 2015 was comprised of:

	<u>2016</u>	<u>2015</u>
BMO Harris Bank; fixed interest rate of 3.81%; due in monthly principal and interest payments of \$1,747; matures July 8, 2017	\$ 22,204	\$ 41,898
BMO Harris Bank; fixed rate of 4.35%; due in monthly principal and interest payments of \$9,381; matures February 24, 2016	<u>-</u>	<u>554,322</u>
	22,204	596,220
Less: current maturities	<u>(20,471)</u>	<u>(574,015)</u>
Net long-term debt	<u>\$ 1,733</u>	<u>\$ 22,205</u>

LOAVES & FISHES COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016

NOTE 4 – LONG-TERM DEBT (continued)

Long-term debt maturities subsequent to June 30, 2016 are as follows:

<u>Year ending June 30,</u>	
2017	\$ 20,471
2018	1,733
2019	-
2020	-
2021	-
	<hr/>
	\$ 22,204

Interest expense for the years ended June 30, 2016 and 2015 was \$14,606 and \$30,474, respectively.

NOTE 5 – LEASES

The Organization has leases for office equipment and warehouse space that expire over the next three years. Lease expense was \$60,969 and \$25,826 for the years ended June 30, 2016 and 2015, respectively. The following is a schedule of future minimum rentals:

<u>Year ending June 30,</u>	
2017	\$ 42,757
2018	\$ 4,221
2019	\$ 4,221
2020	\$ 4,221
2021	\$ 2,111

NOTE 6 – IN-KIND CONTRIBUTIONS

The Organization received donated food and grocery items from the general public for distribution to client families. Management has estimated the retail value of such donations at a value of \$3.11 and \$3.34 per pound for the years ended June 30, 2016 and 2015, respectively. The total value of such donations for the years ended June 30, 2016 and 2015 of \$11,496,464 and \$12,253,744, respectively, is recorded as both a revenue and expense item.

LOAVES & FISHES COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Organization’s cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and bank loans payable approximate their fair value.

NOTE 8 – FUNDRAISING EXPENSES

Total fundraising expense for the years ended June 30, 2016 and 2015 was \$290,584 and \$303,161, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Changes in temporarily restricted net assets consist of the following for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending Balance</u>
Church contributions				
Pledges	\$ 5,000	\$ 4,500	\$ (5,000)	\$ 4,500
Individual contributions				
Donations	-	15,843	-	15,843
Pledges	432,266	34,300	(216,650)	249,916
	<u>432,266</u>	<u>50,143</u>	<u>(216,650)</u>	<u>265,759</u>
Organization and corporation contributions				
Grants	110,000	145,700	(75,000)	180,700
Pledges	55,000	100,000	(50,000)	105,000
Technology improvements	-	20,000	-	20,000
	<u>165,000</u>	<u>265,700</u>	<u>(125,000)</u>	<u>305,700</u>
Government grants	<u>38,334</u>	<u>10,000</u>	<u>(38,334)</u>	<u>10,000</u>
	<u>\$ 640,600</u>	<u>\$ 330,343</u>	<u>\$ (384,984)</u>	<u>\$ 585,959</u>

NOTE 10 – RETIREMENT BENEFIT PLAN

The Organization provides a salary reduction 401(k) plan to eligible employees. The Organization may contribute a matching contribution of a pre-determined percentage if the financial position of the Organization allows. For the years ended June 30, 2016 and 2015, the Organization recognized retirement plan expense of \$22,993 and \$0, respectively.

LOAVES & FISHES COMMUNITY SERVICES

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016

NOTE 11 – ACQUISITION OF NAPERVILLE C.A.R.E.S.

Subsequent to the year ended June 30, 2016 and effective July 1, 2016, the Organization completed an acquisition of the assets of Naperville C.A.R.E.S. (C.A.R.E.S.), an Illinois nonprofit organization that serves the community by helping local families in financial crisis meet their essential needs by providing emergency financial support and resources. The primary reasons for the acquisition include programs, physical logistics, technology, volunteers, donors, boards, staff, and communication. The Organization assumed the rights, title, and interest of all assets of C.A.R.E.S., except those specifically excluded.

Fair values of C.A.R.E.S.' major classes of assets and liabilities as of the acquisition date are as follows:

Cash and cash equivalents	\$ 220,236
Contributions receivable	1,564
Investments, at fair value	34,574
Prepaid expenses and other	2,862
Inventory	29,333
Property and equipment, net	9,421
Intangibles, net	650
Lease security deposit	<u>1,350</u>
Total assets	<u>\$ 299,990</u>
Accounts payable	\$ 411
Accrued expenses	9,272
Deferred revenue	<u>36,709</u>
Total liabilities	<u>\$ 46,392</u>

Total net assets of C.A.R.E.S. as of the acquisition date is \$253,598.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 10, 2016, the date the financial statements were available to be issued.