

SACRAMENTO LOAVES & FISHES, INC.

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2015 AND 2014**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Sacramento Loaves & Fishes, Inc.
Sacramento, California**

We have audited the accompanying financial statements of Sacramento Loaves & Fishes, Inc. (Loaves & Fishes), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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.

Board of Directors
Sacramento Loaves & Fishes, Inc.
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sacramento Loaves & Fishes, Inc. as of December 31, 2015 and 2014, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 2, 2016

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash	\$ 481,128	\$ 367,118
Certificates of deposit	1,522,414	1,390,783
Accounts receivable	7,651	3,316
Contribution receivable	59,200	
Inventories	306,633	223,859
Prepaid expenses	<u>64,952</u>	<u>89,315</u>
Total current assets	2,441,978	2,074,391
INTEREST IN THE NET ASSETS OF MERCY FOUNDATION (Note 3)	655,695	969,262
PROPERTY AND EQUIPMENT, Net (Note 4)	<u>5,775,762</u>	<u>5,738,254</u>
TOTAL ASSETS	<u>\$ 8,873,435</u>	<u>\$ 8,781,907</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accrued expenses and other liabilities	\$ 78,053	\$ 60,081
Current portion of long-term debt	<u>111,912</u>	<u>90,456</u>
Total current liabilities	189,965	150,537
LONG-TERM DEBT, Net (Note 6)	<u>788,623</u>	<u>899,305</u>
TOTAL LIABILITIES	<u>978,588</u>	<u>1,049,842</u>
NET ASSETS:		
Unrestricted:		
Investment in property and equipment	4,875,227	4,748,493
Board designated	712,505	712,505
Undesignated	<u>1,028,190</u>	<u>796,411</u>
Total unrestricted	6,615,922	6,257,409
Temporarily restricted (Note 7)	<u>1,278,925</u>	<u>1,474,656</u>
Total net assets	<u>7,894,847</u>	<u>7,732,065</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,873,435</u>	<u>\$ 8,781,907</u>

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

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2015 AND 2014

UNRESTRICTED NET ASSETS:	<u>2015</u>	<u>2014</u>
REVENUES:		
Contributions and grants	\$ 5,357,260	\$ 4,334,245
Bequests	426,819	169,630
Change in interest in net assets of Mercy Foundation	267,898	56,000
Rental income	105,168	111,301
Interest income	2,589	3,470
Other income	47,218	46,256
Loss on disposal of property and equipment		(173,124)
Net assets released from restrictions	<u>230,780</u>	<u>191,317</u>
Total revenues	<u>6,437,732</u>	<u>4,739,095</u>
EXPENSES:		
Program services:		
Food and guest services	4,179,964	3,558,740
Educational services	702,028	618,341
Residential services	349,982	323,596
Mental health services	<u>199,330</u>	<u>196,730</u>
Total program services	5,431,304	4,697,407
Supporting services:		
General and administrative	351,661	344,246
Fundraising	<u>296,254</u>	<u>291,858</u>
Total expenses (Note 1)	<u>6,079,219</u>	<u>5,333,511</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>358,513</u>	<u>(594,416)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Change in interest in net assets of Mercy Foundation	(82,851)	1,082,111
Grants and contributions	117,900	319,804
Net assets released from restrictions	<u>(230,780)</u>	<u>(191,317)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(195,731)</u>	<u>1,210,598</u>
INCREASE IN NET ASSETS	162,782	616,182
NET ASSETS, Beginning of Year	<u>7,732,065</u>	<u>7,115,883</u>
NET ASSETS, End of Year	<u>\$ 7,894,847</u>	<u>\$ 7,732,065</u>

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

SACRAMENTO LOAVES & FISHES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015**

	<u>Program Services</u>				<u>Supporting Services</u>		<u>Total</u>
	<u>Food and Guest Services</u>	<u>Educational Services</u>	<u>Residential Services</u>	<u>Mental Health Services</u>	<u>General & Admin- istrative</u>	<u>Fundraising</u>	
Salaries, benefits and taxes	\$ 2,061,361	\$ 383,026	\$ 248,270	\$ 160,093	\$ 230,987	\$ 113,633	\$ 3,197,370
Guest services, clothing and other supplies	601,194	185,306	16,913	766		500	804,679
Food	770,637	1,075	6,670	121	25		778,528
Depreciation	181,452	32,762	22,682	15,121			252,017
Occupancy and utilities	138,115	22,518	22,928	6,430	6,048	1,259	197,298
Printing and postage	19,589	15,506	338	489	2,628	136,517	175,067
Contributions	140,576	12,747	8,825	5,883			168,031
Professional services	12,516	12,839	1,332	888	104,143	36,000	167,718
Equipment, repairs and maintenance	58,046	8,423	7,206	1,464	4,537	772	80,448
Supplies	53,404	53	1,941	871	2,867	909	60,045
Interest and bank charges	52,268	2,018	1,397	931			56,614
Liability insurance	33,627	6,071	4,203	2,802			46,703
Public relations and advertising	7,482	1,535	627	418		5,533	15,595
Autos	4,653	9,854			24	355	14,886
Miscellaneous	45,044	8,295	6,650	3,053	402	776	64,220
Total	<u>\$ 4,179,964</u>	<u>\$ 702,028</u>	<u>\$ 349,982</u>	<u>\$ 199,330</u>	<u>\$ 351,661</u>	<u>\$ 296,254</u>	<u>\$ 6,079,219</u>

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

SACRAMENTO LOAVES & FISHES, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2014

	Program Services				Supporting Services		<u>Total</u>
	<u>Food and Guest Services</u>	<u>Educational Services</u>	<u>Residential Services</u>	<u>Mental Health Services</u>	<u>General & Admin- istrative</u>	<u>Fundraising</u>	
Salaries, benefits and taxes	\$ 1,927,657	\$ 366,944	\$ 230,326	\$ 131,007	\$ 224,257	\$ 149,583	\$ 3,029,774
Guest services, clothing and other supplies	364,116	100,448	8,981	22,089	2,203	602	498,439
Food	537,743	1,237	6,719	160	502		546,361
Depreciation	174,839	33,996	21,855	12,142			242,832
Occupancy and utilities	141,550	27,722	22,784	5,309	5,848	1,184	204,397
Printing and postage	22,549	16,009	413	586	1,367	130,569	171,493
Contributions	132,658	9,350	6,011	14,739	2,201	600	165,559
Professional services	12,300	12,332	1,305	725	99,657		126,319
Equipment, repairs and maintenance	53,170	5,140	12,226	1,594	2,226	46	74,402
Supplies	79,218	24,349	4,181	4,760	5,291	2,276	120,075
Interest and bank charges	51,475	1,598	970	555	67		54,665
Liability insurance	28,496	5,541	3,562	1,979			39,578
Public relations and advertising	4,226	1,021	283	157		5,661	11,348
Autos	13,497	6,760	434		97	381	21,169
Miscellaneous	15,246	5,894	3,546	928	530	956	27,100
Total	<u>\$ 3,558,740</u>	<u>\$ 618,341</u>	<u>\$ 323,596</u>	<u>\$ 196,730</u>	<u>\$ 344,246</u>	<u>\$ 291,858</u>	<u>\$ 5,333,511</u>

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

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 162,782	\$ 616,182
Reconciliation to net cash provided (used) by operating activities:		
Depreciation	252,017	242,832
Loss on disposal of property and equipment		173,124
Receipt of donated property and equipment		(27,912)
Changes in:		
Accounts receivable	(4,335)	(2,816)
Contribution receivable	(59,200)	
Inventories	(82,774)	(149,801)
Prepaid expenses	24,363	(27,379)
Interest in the net assets of Mercy Foundation	313,567	(969,262)
Accounts payable and accrued expenses	<u>17,972</u>	<u>(4,855)</u>
Net cash provided (used) by operating activities	<u>624,392</u>	<u>(149,887)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(289,525)	(96,698)
Purchases of certificates of deposit	(852,348)	(753,198)
Proceeds from sale and maturity of certificates of deposit	<u>720,717</u>	<u>1,037,564</u>
Net cash provided (used) by investing activities	<u>(421,156)</u>	<u>187,668</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	675,035	
Principal payments on long-term debt	<u>(764,261)</u>	<u>(92,929)</u>
Net cash used by financing activities	<u>(89,226)</u>	<u>(92,929)</u>
NET INCREASE (DECREASE) IN CASH	114,010	(55,148)
CASH, Beginning of Year	<u>367,118</u>	<u>422,266</u>
CASH, End of Year	<u>\$ 481,128</u>	<u>\$ 367,118</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	<u>\$ 60,142</u>	<u>\$ 54,665</u>

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

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

1. ORGANIZATION

Sacramento Loaves & Fishes, Inc. (Loaves & Fishes), is a nonprofit, public benefit corporation dedicated to feeding the hungry and sheltering the homeless in Sacramento, California. Loaves & Fishes neither solicits nor accepts government funds. Following is a description of Loaves & Fishes' primary programs:

Food and Guest Services

Dining Room – Serves a hot lunch to guests 364 days of the year. On average, 600 to 800 meals are served daily. The dining room utilizes volunteers on a daily basis, comprised of individuals, churches, schools, and community based organizations. The daily meals are nutritionally based containing the proper balance of nutrients. Local vendors, food banks, and individuals contribute food on a regular basis to assist in feeding the homeless and hungry. Items used in the dining room that are not donated are purchased.

Friendship Park – Provides activities, information, and a safe environment for our guests during the day. Friendship Park provides a full service library reading room for guests to use for reading books, periodicals, writing and computer use. Friendship Park serves hot coffee and pastries each morning and provides sleeping bags, tarps, and warm coats to those in need. Friendship Park also performs memorial services for guests who have passed away.

Maryhouse – Provides daytime services to homeless women, children and single fathers. Provides home cooked breakfasts, showers, diapers, personal hygiene products and resources.

Jail Visitation – Provides services to Sacramento County inmates including sending letters to inmates and on behalf of inmates, providing personal toiletry kits, sweatshirts and backpacks, and bus passes to released inmates.

Brother Martin's Ministries (BMM) – A placement and orientation service that includes a complete weekly tour of the facilities for the public interested in volunteering at Loaves & Fishes. BMM staffs personnel responsible for building and yard maintenance of Loaves & Fishes' properties to serve guests in a clean, well maintained environment.

Animal Services – Houses guests' pets during the day while guests use services.

Washhouse – Provides shower and laundry services for men.

Advocacy – Advocates for housing and civil rights on behalf of the homeless.

Education Services

Mustard Seed – Provides instruction to children (ages 3-15), re-enrolls homeless children into public schools, arranges medical and dental visits, and provide Christmas gifts for children.

Residential Services

Sister Nora's Place – Provides long-term overnight shelter, including meals and case management, for up to 14 chronically homeless women with mental health issues.

Hope House – Houses annual Jesuit volunteers.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Mental Health Services

Genesis – Administers a full service mental health clinic, which provides counseling and referral services to guests.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. Loaves & Fishes reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Loaves & Fishes has no permanently restricted net assets.

Revenue recognition – Contributions, grants, and bequests are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in temporarily or permanently restricted net assets. Temporarily restricted net assets become unrestricted, and are reported in the statement of activities as satisfaction of restrictions, when the time restrictions expire or the contributions are used for the restricted purposes. Temporarily restricted net assets whose restrictions are met in the same fiscal year are reported as increases to unrestricted net assets.

Donated goods and services are recognized at the estimated fair value as of the date of donation or service. These totaled \$1,478,859 and \$971,727 in 2015 and 2014, respectively, and consist of food, clothing, gift cards, miscellaneous supplies, and contributed services. No contributed services were received in 2015. Contributed services received in 2014 included architectural fees and labor for building improvements which totaled \$24,458.

Credit risk – Loaves & Fishes minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. Loaves & Fishes has not experienced any losses in such accounts and management believes Loaves & Fishes is not exposed to any significant credit risk related to cash.

Certificates of deposit are stated at cost.

Inventories consist of food, clothing, gift cards and miscellaneous supplies. Inventories are stated at cost if purchased and fair market value if donated, using the first-in, first-out method.

Property and equipment are stated at cost if purchased or, if donated, at fair market value on the date of donation or unconditional promise and depreciated using the straight-line method over estimated useful lives of 5 to 30 years. Loaves & Fishes' policy is to capitalize purchases of \$2,500 or more.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services based on estimates of employees’ time incurred and on usage of resources.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes – Loaves & Fishes is publicly supported and exempt from income taxes under Internal Revenue Code Section 501(c)(3) and corresponding California state codes. Loaves & Fishes applies the accounting principles related to accounting for uncertainty in income taxes and has determined that there is no material impact on the financial statements. With some exceptions, Loaves & Fishes is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2011.

Subsequent events have been evaluated through March 2, 2016, the date the financial statements were available to be issued.

3. INTEREST IN THE NET ASSETS OF MERCY FOUNDATION

The Mercy Foundation (Foundation) is a nonprofit organization that was established to support the works of the Sisters of Mercy. The Foundation solicits contributions for and holds funds on behalf of the Sisters of Mercy and its sponsored and supported ministries, including Loaves & Fishes as a support ministry. In accordance with professional standards, Loaves & Fishes and the Foundation are considered financially interrelated organizations. When the Foundation receives contributions for the benefit of Loaves & Fishes they recognize contribution revenue and temporarily restricted net assets. Loaves & Fishes recognizes their interest in the net assets of the Foundation which represents donor restricted contributions and pledges received by the Foundation for the benefit of Loaves & Fishes. Changes in the interest in net assets of the Foundation are shown as unrestricted when distributions are made from the Foundation to Loaves & Fishes unless restricted for a specific purpose by the original donor. Loaves & Fishes’ interest in net assets of the Foundation are considered time restricted until distributed by the Foundation.

The change in the interest in net assets of the Foundation for the years ended December 31 includes the following:

	<u>2015</u>	<u>2014</u>
Change in interest in net assets of the Foundation	\$ 185,047	\$ 1,138,111
Distributions – temporarily restricted – purpose restrictions	(230,716)	(112,849)
Distributions – unrestricted	<u>(267,898)</u>	<u>(56,000)</u>
Net increase (decrease) in interest in net assets of the Foundation	<u>\$ (313,567)</u>	<u>\$ 969,262</u>

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 6,567,453	\$ 6,551,905
Land	1,426,946	1,426,946
Equipment	549,027	545,673
Vehicles	189,865	105,888
Construction in progress	<u>327,272</u>	<u>140,626</u>
Total	9,060,563	8,771,038
Less accumulated depreciation	<u>(3,284,801)</u>	<u>(3,032,784)</u>
Property and equipment, net	<u>\$ 5,775,762</u>	<u>\$ 5,738,254</u>

5. LINE OF CREDIT

Loaves & Fishes has a \$300,000 revolving line of credit with a bank, secured by real estate in Sacramento County. The line calls for a variable interest rate at the bank's index rate (prime rate) less 0.50%. The bank's index rate was 3.25% at December 31, 2015 and 2014. Interest only payments are due monthly until maturity on September 15, 2016. There were no amounts outstanding on this line of credit at December 31, 2015 and 2014.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

6. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2015</u>	<u>2014</u>
Promissory note totaling \$3,000,000 that allows for draws as necessary for construction of the new Friendship Park, secured by property at North C Street and North 12 th Street in Sacramento, payable in 12 monthly interest only payments, followed by monthly principal and interest payments totaling \$16,463, with interest calculated using the interest rate of 4.375%. All unpaid principal and interest is due October 1, 2026. Loaves and Fishes is required to maintain \$1,000,000 of working capital which is to be measured at fiscal year-end.	\$ 675,035	
Mortgage payable, secured by property at North C Street in Sacramento, payable in monthly installments of \$5,093 including interest at 6.25%, unpaid principal and interest due September 2021, paid in full in October 2015.		\$ 681,261
Note payable, secured by property at North 12 th Street in Sacramento, payable in monthly installments of \$6,250, including interest at 0.00%, maturing June 2019.	<u>225,500</u>	<u>308,500</u>
Total	<u>900,535</u>	<u>989,761</u>
Less current portion	<u>(111,912)</u>	<u>(90,456)</u>
Long-term debt, net	<u>\$ 788,623</u>	<u>\$ 899,305</u>

In February 2016, Loaves & Fishes drew an additional \$430,154 on the new promissory note increasing the principal balance to \$1,105,189. The following future minimum payment schedule includes the additional draw on the loan.

Scheduled annual maturities of long-term debt are as follows:

Year ending December 31 2015,

2016	\$ 111,912
2017	240,343
2018	211,688
2019	167,338
2020	174,808
Thereafter	<u>424,600</u>
Total	<u>\$ 1,330,689</u>

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Time restriction – Interest in the net assets of Mercy Foundation	\$ 655,695	\$ 969,262
Purpose restrictions:		
Friendship Park relocation	477,965	215,349
Mercy Corps Volunteer program	59,200	5,542
Mustard Seed	44,783	206,364
Maryhouse	24,989	70,846
Friendship Park operations	4,000	5,000
Other projects	<u>12,293</u>	<u>2,293</u>
Total	<u>\$ 1,278,925</u>	<u>\$ 1,474,656</u>