

SACRAMENTO LOAVES & FISHES, INC.

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

**YEARS ENDED
DECEMBER 31, 2016 AND 2015**

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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

February 28, 2017

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash	\$ 488,235	\$ 481,128
Certificates of deposit	802,892	1,522,414
Accounts receivable	11,700	7,651
Contributions receivable	65,125	59,200
Inventories	371,725	306,633
Prepaid expenses	<u>66,287</u>	<u>64,952</u>
Total current assets	1,805,964	2,441,978
 INTEREST IN THE NET ASSETS OF MERCY FOUNDATION (Note 3)	 447,852	 655,695
 PROPERTY AND EQUIPMENT, Net (Note 4)	 <u>8,048,467</u>	 <u>5,775,762</u>
 TOTAL ASSETS	 <u>\$ 10,302,283</u>	 <u>\$ 8,873,435</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accrued expenses and other liabilities	\$ 370,431	\$ 78,053
Current portion of long-term debt	<u>149,778</u>	<u>111,912</u>
Total current liabilities	520,209	189,965
 LONG-TERM DEBT, Net (Note 6)	 <u>1,616,052</u>	 <u>788,623</u>
 TOTAL LIABILITIES	 <u>2,136,261</u>	 <u>978,588</u>
 NET ASSETS:		
Unrestricted:		
Investment in property and equipment	5,987,482	4,875,227
Board designated	212,505	712,505
Undesignated	<u>228,865</u>	<u>1,028,190</u>
Total unrestricted	6,428,852	6,615,922
Temporarily restricted (Note 7)	<u>1,737,170</u>	<u>1,278,925</u>
Total net assets	<u>8,166,022</u>	<u>7,894,847</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 10,302,283</u>	 <u>\$ 8,873,435</u>

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

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2016 AND 2015

UNRESTRICTED NET ASSETS:	<u>2016</u>	<u>2015</u>
REVENUES:		
Contributions and grants	\$ 5,241,562	\$ 5,357,260
Bequests	115,774	426,819
Change in interest in the net assets of Mercy Foundation	96,249	267,898
Rental income	63,697	105,168
Interest income	2,664	2,589
Other income	70,178	47,218
Net assets released from restrictions	<u>108,840</u>	<u>230,780</u>
Total revenues	<u>5,698,964</u>	<u>6,437,732</u>
EXPENSES:		
Program services:		
Food and guest services	4,095,538	4,190,403
Educational services	621,806	712,442
Residential services	345,721	360,396
Mental health services	<u>236,849</u>	<u>209,744</u>
Total program services	5,299,914	5,472,985
Supporting services:		
General and administrative	320,237	309,980
Fundraising	<u>265,883</u>	<u>296,254</u>
Total expenses (Note 1)	<u>5,886,034</u>	<u>6,079,219</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>(187,070)</u>	<u>358,513</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	366,206	117,900
Change in interest in the net assets of Mercy Foundation	200,879	(82,851)
Net assets released from restrictions	<u>(108,840)</u>	<u>(230,780)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>458,245</u>	<u>(195,731)</u>
INCREASE IN NET ASSETS	271,175	162,782
NET ASSETS, Beginning of Year	<u>7,894,847</u>	<u>7,732,065</u>
NET ASSETS, End of Year	<u>\$ 8,166,022</u>	<u>\$ 7,894,847</u>

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

SACRAMENTO LOAVES & FISHES, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016

	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	\$ 2,119,031	\$ 363,489	\$ 237,708	\$ 182,725	\$ 246,293	\$ 115,694	\$ 3,264,940
Guest services, clothing and other supplies	584,890	115,323	4,556	1,506		40	706,315
Food	603,959	2,381	7,544	68			613,952
Depreciation	166,798	30,116	20,850	13,900			231,664
Contributions	174,412	18,755	13,385	9,456			216,008
Printing and postage	33,592	16,149	1,045	996	1,449	135,521	188,752
Occupancy and utilities	132,528	14,393	23,718	6,693	5,340	1,433	184,105
Professional services	48,944	29,684	14,954	13,424	62,187		169,193
Supplies	76,830	4,457	4,255	1,127	1,471	644	88,784
Equipment, repairs and maintenance	62,529	7,819	8,301	1,285	2,712	233	82,879
Liability insurance	39,333	7,102	4,917	3,278			54,630
Public relations and advertising	12,138	749	178	119		9,259	22,443
Bank charges	14,332	2,588	1,791	1,194			19,905
Autos	6,723	4,590	68	45	7	182	11,615
Miscellaneous	19,499	4,211	2,451	1,033	778	2,877	30,849
Total	<u>\$ 4,095,538</u>	<u>\$ 621,806</u>	<u>\$ 345,721</u>	<u>\$ 236,849</u>	<u>\$ 320,237</u>	<u>\$ 265,883</u>	<u>\$ 5,886,034</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	770,662	1,075	6,670	121			778,528
Depreciation	181,452	32,762	22,682	15,121			252,017
Contributions	140,576	12,747	8,825	5,883			168,031
Printing and postage	19,589	15,506	338	489	2,628	136,517	175,067
Occupancy and utilities	138,115	22,518	22,928	6,430	6,048	1,259	197,298
Professional services	22,930	23,253	11,746	11,302	62,487	36,000	167,718
Supplies	53,404	53	1,941	871	2,867	909	60,045
Equipment, repairs and maintenance	58,046	8,423	7,206	1,464	4,537	772	80,448
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
Interest and bank charges	52,268	2,018	1,397	931			56,614
Autos	4,653	9,854			24	355	14,886
Miscellaneous	45,044	8,295	6,650	3,053	402	776	64,220
Total	<u>\$ 4,190,403</u>	<u>\$ 712,442</u>	<u>\$ 360,396</u>	<u>\$ 209,744</u>	<u>\$ 309,980</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.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 271,175	\$ 162,782
Reconciliation to net cash provided by operating activities:		
Depreciation	231,664	252,017
Donated investments	(35,110)	(44,801)
Proceeds from sale of donated investments	35,110	44,801
Changes in:		
Accounts receivable	(4,049)	(4,335)
Contributions receivable	(5,925)	(59,200)
Inventories	(65,092)	(82,774)
Prepaid expenses	(1,335)	24,363
Interest in the net assets of Mercy Foundation	207,843	313,567
Accounts payable and accrued expenses	<u>(2,777)</u>	<u>17,972</u>
Net cash provided by operating activities	<u>631,504</u>	<u>624,392</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(166,919)	(289,525)
Purchases of certificates of deposit	(602,160)	(852,348)
Proceeds from sale and maturity of certificates of deposit	<u>1,321,682</u>	<u>720,717</u>
Net cash provided (used) by investing activities	<u>552,603</u>	<u>(421,156)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt		675,035
Principal payments on long-term debt	<u>(1,177,000)</u>	<u>(764,261)</u>
Net cash used by financing activities	<u>(1,177,000)</u>	<u>(89,226)</u>
NET INCREASE IN CASH	7,107	114,010
CASH, Beginning of Year	<u>481,128</u>	<u>367,118</u>
CASH, End of Year	<u>\$ 488,235</u>	<u>\$ 481,128</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment financed through accounts payable	<u>\$ 295,155</u>	<u>\$</u>
Property and equipment financed through long-term debt	<u>\$ 2,042,295</u>	<u>\$</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid - expensed	<u>\$</u>	<u>\$ 37,128</u>
Interest paid - capitalized	<u>\$ 58,160</u>	<u>\$ 4,922</u>

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

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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, 2016 AND 2015

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 \$1,281,343 and \$1,478,859 in 2016 and 2015, respectively, and consist of food, clothing, gift cards, miscellaneous supplies, and contributed services.

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.

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.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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 2012.

Subsequent events have been evaluated through February 28, 2017, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2016 that require recognition or disclosure in such consolidated financial statements.

Reclassification – Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

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>2016</u>	<u>2015</u>
Change in interest in the net assets of the Foundation	\$ 297,128	\$ 185,047
Distributions – temporarily restricted – purpose restrictions	(408,722)	(230,716)
Distributions – unrestricted	<u>(96,249)</u>	<u>(267,898)</u>
Net decrease in interest in the net assets of the Foundation	<u>\$ (207,843)</u>	<u>\$ (313,567)</u>

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 6,567,453	\$ 6,567,453
Land	1,426,946	1,426,946
Equipment	618,241	549,027
Vehicles	189,865	189,865
Construction in progress	<u>2,762,427</u>	<u>327,272</u>
Total	11,564,932	9,060,563
Less accumulated depreciation	<u>(3,516,465)</u>	<u>(3,284,801)</u>
Property and equipment, net	<u>\$ 8,048,467</u>	<u>\$ 5,775,762</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, 2016 and 2015. Interest only payments are due monthly until maturity on August 15, 2017. There were no amounts outstanding on this line of credit at December 31, 2016 and 2015.

6. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2016</u>	<u>2015</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 19 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 May 1, 2027. Loaves and Fishes is required to maintain \$1,000,000 of working capital which is to be measured at fiscal year-end.	\$ 1,617,330	\$ 675,035
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>148,500</u>	<u>225,500</u>
Total	1,765,830	900,535
Less current portion	<u>(149,778)</u>	<u>(111,912)</u>
Long-term debt, net	<u>\$ 1,616,052</u>	<u>\$ 788,623</u>

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

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

Year ending December 31 2016,

2017	\$	149,778
2018		206,208
2019		138,631
2020		144,820
2021		151,284
Thereafter		<u>975,109</u>
Total	\$	<u>1,765,830</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Time and purpose restriction – Interest in the net assets of Mercy Foundation	\$ 447,852	\$ 655,695
Purpose restrictions:		
Friendship Park relocation	1,162,199	477,965
Mustard Seed	66,989	44,783
Maryhouse	22,933	24,989
Dining room	17,500	
Friendship Park operations	2,305	4,000
Mercy Corps Volunteer program		59,200
Other projects	<u>17,392</u>	<u>12,293</u>
Total	<u>\$ 1,737,170</u>	<u>\$ 1,278,925</u>