

SACRAMENTO LOAVES & FISHES, INC.

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

**YEARS ENDED
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, 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.
Page two

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, 2017 and 2016, 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 8, 2018

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash	\$ 667,139	\$ 488,235
Certificates of deposit	804,123	802,892
Accounts receivable		11,700
Contributions and bequests receivable	320,658	65,125
Inventories	328,729	371,725
Prepaid expenses	61,498	66,287
Total current assets	2,182,147	1,805,964
 INTEREST IN THE NET ASSETS OF		
MERCY FOUNDATION (Note 3)	339,088	447,852
 PROPERTY AND EQUIPMENT, Net (Note 4)		
	7,850,150	8,048,467
TOTAL ASSETS	\$ 10,371,385	\$ 10,302,283
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accrued expenses and other liabilities	\$ 91,182	\$ 370,431
Current portion of long-term debt	117,451	149,778
Total current liabilities	208,633	520,209
 LONG-TERM DEBT, Net (Note 6)		
	1,831,284	1,616,052
TOTAL LIABILITIES	2,039,917	2,136,261
 NET ASSETS:		
Unrestricted:		
Investment in property and equipment	5,901,415	5,987,482
Board designated	212,505	212,505
Undesignated	1,474,270	228,865
Total unrestricted	7,588,190	6,428,852
Temporarily restricted (Note 7)	743,278	1,737,170
Total net assets	8,331,468	8,166,022
TOTAL LIABILITIES AND NET ASSETS	\$ 10,371,385	\$ 10,302,283

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

SACRAMENTO LOAVES & FISHES, INC.

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2017 AND 2016

UNRESTRICTED NET ASSETS:	<u>2017</u>	<u>2016</u>
REVENUES:		
Contributions and grants	\$ 5,637,422	\$ 5,241,562
Bequests	434,015	115,774
Change in interest in the net assets of Mercy Foundation	236,386	96,249
Rental income	61,646	63,697
Interest income	2,010	2,664
Other income	90,027	70,178
Net assets released from restrictions	<u>1,231,727</u>	<u>108,840</u>
Total revenues	<u>7,693,233</u>	<u>5,698,964</u>
EXPENSES:		
Program services:		
Food and guest services	4,641,312	4,095,538
Educational services	708,725	621,806
Residential services	361,286	345,721
Mental health services	<u>216,320</u>	<u>236,849</u>
Total program services	5,927,643	5,299,914
Supporting services:		
General and administrative	329,971	320,237
Fundraising	<u>276,281</u>	<u>265,883</u>
Total expenses (Note 1)	<u>6,533,895</u>	<u>5,886,034</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>1,159,338</u>	<u>(187,070)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	122,816	366,206
Change in interest in the net assets of Mercy Foundation	(108,764)	200,879
Bequests	223,783	
Net assets released from restrictions	<u>(1,231,727)</u>	<u>(108,840)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(993,892)</u>	<u>458,245</u>
INCREASE IN NET ASSETS	165,446	271,175
NET ASSETS, Beginning of Year	<u>8,166,022</u>	<u>7,894,847</u>
NET ASSETS, End of Year	<u>\$ 8,331,468</u>	<u>\$ 8,166,022</u>

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

SACRAMENTO LOAVES & FISHES, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	<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 and administrative</u>	<u>Fundraising</u>	
Salaries, benefits and taxes	\$ 2,192,453	\$ 385,079	\$ 237,832	\$ 168,366	\$ 276,557	\$ 112,711	\$ 3,372,998
Guest services, clothing and other supplies	714,537	130,711	2,800	1,272			849,320
Food	692,286	29,015	23,710	148			745,159
Depreciation	251,104	44,113	27,146	16,967			339,330
Contributions	255,644	26,915	16,563	11,552			310,674
Occupancy and utilities	158,300	16,262	26,329	6,407	5,038	1,719	214,055
Printing and postage	26,638	17,775	396	400	1,151	144,488	190,848
Professional services	43,794	22,148	4,128	2,580	43,185		115,835
Supplies	84,666	2,860	5,315	663	2,809	509	96,822
Interest and bank charges	79,109	3,234	1,990	1,244			85,577
Equipment, repairs and maintenance	52,515	10,167	6,825	1,988	691		72,186
Liability insurance	48,564	8,532	5,250	3,281			65,627
Autos	14,756	7,644	1	1	45	241	22,688
Public relations and advertising	4,363	970	330	185		15,245	21,093
Miscellaneous	22,583	3,300	2,671	1,266	495	1,368	31,683
Total	<u>\$ 4,641,312</u>	<u>\$ 708,725</u>	<u>\$ 361,286</u>	<u>\$ 216,320</u>	<u>\$ 329,971</u>	<u>\$ 276,281</u>	<u>\$ 6,533,895</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

	<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 and administrative</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
Occupancy and utilities	132,528	14,393	23,718	6,693	5,340	1,433	184,105
Printing and postage	33,592	16,149	1,045	996	1,449	135,521	188,752
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
Interest and bank charges	14,332	2,588	1,791	1,194			19,905
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
Autos	6,723	4,590	68	45	7	182	11,615
Public relations and advertising	12,138	749	178	119		9,259	22,443
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.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 165,446	\$ 271,175
Reconciliation to net cash provided by operating activities:		
Depreciation	339,330	231,664
Donated investments	(43,254)	(35,110)
Proceeds from sale of donated investments	43,254	35,110
Changes in:		
Accounts receivable	11,700	(4,049)
Contributions and bequests receivable	(255,533)	(5,925)
Inventories	42,996	(65,092)
Prepaid expenses	4,789	(1,335)
Interest in the net assets of Mercy Foundation	108,764	207,843
Accrued expenses and other liabilities	3,421	(2,777)
Net cash provided by operating activities	<u>420,913</u>	<u>631,504</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(141,013)	(166,919)
Purchases of certificates of deposit	(551,726)	(602,160)
Proceeds from sale and maturity of certificates of deposit	<u>550,495</u>	<u>1,321,682</u>
Net cash provided (used) by investing activities	<u>(142,244)</u>	<u>552,603</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	<u>(99,765)</u>	<u>(1,177,000)</u>
NET INCREASE IN CASH	178,904	7,107
CASH, Beginning of Year	<u>488,235</u>	<u>481,128</u>
CASH, End of Year	<u>\$ 667,139</u>	<u>\$ 488,235</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment financed through accounts payable	<u>\$</u>	<u>\$ 295,155</u>
Property and equipment financed through long-term debt	<u>\$</u>	<u>\$ 2,042,295</u>
Accounts payable extinguished through long-term debt	<u>\$ 282,670</u>	<u>\$</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid - expensed	<u>\$ 66,249</u>	<u>\$</u>
Interest paid - capitalized	<u>\$ 12,770</u>	<u>\$ 58,160</u>

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

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, pastries and distributes breakfast items each morning and also 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.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

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 \$1,513,137 and \$1,281,343 in 2017 and 2016, 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.

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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.

Subsequent events have been evaluated through March 8, 2018, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2017 that require recognition or disclosure in such financial statements.

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>2017</u>	<u>2016</u>
Change in interest in the net assets of the Foundation	\$ 127,622	\$ 297,128
Distributions – temporarily restricted – purpose restrictions		(408,722)
Distributions – unrestricted	<u>(236,386)</u>	<u>(96,249)</u>
Net decrease in interest in the net assets of the Foundation	<u>\$ (108,764)</u>	<u>\$ (207,843)</u>

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 9,411,652	\$ 6,567,453
Land	1,426,946	1,426,946
Equipment	641,495	618,241
Vehicles	224,352	189,865
Construction in progress	<u>1,500</u>	<u>2,762,427</u>
Total	11,705,945	11,564,932
Less accumulated depreciation	<u>(3,855,795)</u>	<u>(3,516,465)</u>
Property and equipment, net	<u>\$ 7,850,150</u>	<u>\$ 8,048,467</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 4.25% at December 31, 2017 and 2016. Interest only payments are due monthly until maturity on August 15, 2018. There were no amounts outstanding on this line of credit at December 31, 2017 and 2016.

6. LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2017</u>	<u>2016</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 \$10,426, 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.	\$ 1,875,235	\$ 1,617,330
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>73,500</u>	<u>148,500</u>
Total	1,948,735	1,765,830
Less current portion	<u>(117,451)</u>	<u>(149,778)</u>
Long-term debt, net	<u>\$ 1,831,284</u>	<u>\$ 1,616,052</u>

SACRAMENTO LOAVES & FISHES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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

Years ending December 31:

2018	\$	117,451
2019		45,912
2020		47,962
2021		50,103
2022		52,339
Thereafter		<u>1,634,968</u>
Total	\$	<u>1,948,735</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
Time and purpose restriction – Interest in the net assets of Mercy Foundation	\$ 339,088	\$ 447,852
Time restricted for subsequent year's activity	223,783	
Purpose restrictions:		
Mustard Seed	66,170	66,989
Mercy Corps volunteer program	57,000	
Dining room	33,638	17,500
Maryhouse	11,664	22,933
Friendship Park operations	3,716	2,305
Friendship Park relocation		1,162,199
Other projects	<u>8,219</u>	<u>17,392</u>
Total	\$ <u>743,278</u>	\$ <u>1,737,170</u>