

**Audited Financial Statements**

**Mobile Loaves & Fishes, Inc.**

*Years Ended December 31, 2010 and 2009  
with Report of Independent Auditors*

Mobile Loaves & Fishes, Inc.

Audited Financial Statements

*Years Ended December 31, 2010 and 2009*

**Contents**

Report of Independent Auditors .....	1
Financial Statements	
Statements of Financial Position .....	2
Statements of Activities.....	3-4
Statements of Functional Expenses .....	5-6
Statements of Cash Flows .....	7-8
Notes to Financial Statements .....	9-20

## Report of Independent Auditors

To the Board of Directors  
Mobile Loaves & Fishes, Inc.

We have audited the accompanying statements of financial position of Mobile Loaves & Fishes, Inc. as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mobile Loaves & Fishes, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

May 18, 2011

Mobile Loaves & Fishes, Inc.

Statements of Financial Position

December 31, 2010 and 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 533,567	\$ 460,867
Pledges receivable	12,469	-
Pledges receivable – restricted	92,202	43,500
Other receivables	2,188	26,458
Inventory	7,350	31,254
Notes receivable – current	6,444	6,564
Prepaid expenses	553	13,979
Total current assets	<u>654,773</u>	<u>582,622</u>
Restricted cash	86,141	84,972
Property and equipment, net	479,684	439,897
Security deposit	6,280	2,700
Notes receivable – non-current	<u>1,100</u>	<u>7,000</u>
Total assets	<u>\$ 1,227,978</u>	<u>\$ 1,117,191</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 55,462	\$ 90,345
Accrued compensated absences	31,565	25,152
Line of credit	-	99,511
Total current liabilities	<u>87,027</u>	<u>215,008</u>
Total liabilities	<u>87,027</u>	<u>215,008</u>
Net Assets:		
Unrestricted net assets	962,608	773,711
Temporarily restricted net assets	178,343	128,472
Total net assets	<u>1,140,951</u>	<u>902,183</u>
Total liabilities and net assets	<u>\$ 1,227,978</u>	<u>\$ 1,117,191</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statements of Activities  
For the year ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
Public support:			
Contributions from public – restricted	\$ -	\$ 588,941	\$ 588,941
Unrestricted contributions	1,342,330	-	1,342,330
In-kind contributions	46,849	12,148	58,997
Direct mail contributions	216,773	33,395	250,168
Rent income	8,317	-	8,317
Other income	383	-	383
Total public support	<u>1,614,652</u>	<u>634,484</u>	<u>2,249,136</u>
Special events:			
Special events income	192,865	-	192,865
Special events expense	(25,340)	-	(25,340)
Special events, net	<u>167,525</u>	<u>-</u>	<u>167,525</u>
Other income:			
Interest income	1,170	-	1,170
Total other income	<u>1,170</u>	<u>-</u>	<u>1,170</u>
Net assets released from restrictions	584,613	(584,613)	-
Total income and reclassifications	<u>2,367,960</u>	<u>49,871</u>	<u>2,417,831</u>
Expenses:			
Program services	1,907,600	-	1,907,600
Fundraising	126,613	-	126,613
Management and general	144,850	-	144,850
Total expenses	<u>2,179,063</u>	<u>-</u>	<u>2,179,063</u>
Total change in net assets	<u>188,897</u>	<u>49,871</u>	<u>238,768</u>
Net assets:			
Beginning of year	773,711	128,472	902,183
Net assets, end of year	<u>\$ 962,608</u>	<u>\$ 178,343</u>	<u>\$ 1,140,951</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statements of Activities (continued)

For the year ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
Public support:			
Contributions from public – restricted	\$ -	\$ 279,113	\$ 279,113
Unrestricted contributions	1,140,062	-	1,140,062
In-kind contributions	144,226	825	145,051
Direct mail contributions	134,849	8,453	143,302
Rent income	7,625	-	7,625
Other income	98	-	98
Total public support	<u>1,426,860</u>	<u>288,391</u>	<u>1,715,251</u>
Special events:			
Special events income	214,492	965	215,457
Special events expense	(146,212)	-	(146,212)
Special events, net	<u>68,280</u>	<u>965</u>	<u>69,245</u>
Other income:			
Interest income	662	-	662
Total other income	<u>662</u>	<u>-</u>	<u>662</u>
Net assets released from restrictions	237,188	(237,188)	-
Total income and reclassifications	<u>1,732,990</u>	<u>52,168</u>	<u>1,785,158</u>
Expenses:			
Program services	1,559,965	-	1,559,965
Fundraising	109,732	-	109,732
Management and general	120,723	-	120,723
Total expenses	<u>1,790,420</u>	<u>-</u>	<u>1,790,420</u>
Total change in net assets	<u>(57,430)</u>	<u>52,168</u>	<u>(5,262)</u>
Net assets:			
Beginning of year, as previously stated	854,265	76,304	930,569
Prior period adjustment	(23,124)	-	(23,124)
Beginning of year, restated	<u>831,141</u>	<u>76,304</u>	<u>907,445</u>
Net assets, end of year	<u>\$ 773,711</u>	<u>\$ 128,472</u>	<u>\$ 902,183</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statements of Functional Expenses

For the year ended December 31, 2010

	Program Services	Fundraising	Management & General	Total
Automobile expense	\$ 85,693	\$ -	\$ -	\$ 85,693
Direct mail expense	61,581	61,582	-	123,163
Background check	493	-	-	493
Bank service charge	329	-	-	329
Bus passes	1,581	-	-	1,581
Marketing	26,159	-	-	26,159
Charitable donations	16,836	-	-	16,836
Continuing education & training	1,675	285	199	2,159
Educational seminars	24,277	-	-	24,277
Contract labor	44,628	-	8,414	53,042
Credit card and bank fees	18,136	-	-	18,136
Supplies	42,676	-	6,297	48,973
Dues and subscriptions	2,375	-	594	2,969
Facilities expense	24,721	-	-	24,721
Food distributed	471,136	-	-	471,136
Postage and delivery	5,275	-	586	5,861
Professional fees	14,390	3,825	10,260	28,475
IT expenses	91,032	2,144	4,162	97,338
Insurance	57,231	5,518	12,394	75,143
Payroll expenses	473,354	50,520	96,368	620,242
Printing and reproduction	6,637	58	405	7,100
Telephone	9,577	1,022	1,950	12,549
Travel, meals, and entertainment	18,445	-	-	18,445
Trailer expenses	70,444	-	-	70,444
License & taxes	4,221	-	-	4,221
Rent expense	54,183	1,659	3,221	59,063
Miscellaneous expenses	18,635	-	-	18,635
Special program expenses	86,950	-	-	86,950
Total expenses before depreciation	1,732,670	126,613	144,850	2,004,133
Depreciation expense	174,930	-	-	174,930
Total expenses	\$ 1,907,600	\$ 126,613	\$ 144,850	\$ 2,179,063
<b>Percentage of total expenses</b>	<b>87%</b>	<b>6%</b>	<b>7%</b>	<b>100.0%</b>

See accompanying notes to the financial statements.

## Mobile Loaves & Fishes, Inc.

### Statements of Functional Expenses (continued)

*For the year ended December 31, 2009*

	Program Services	Fundraising	Management & General	Total
Advertising	\$ 271	\$ -	\$ -	\$ 271
Direct mail expense	35,421	35,422	-	70,843
Automobile expense	69,955	-	97	70,052
Background check	941	-	-	941
Bank service charge	-	-	849	849
Bus passes	3,428	-	-	3,428
Marketing	19,858	-	257	20,115
Charitable donations	4,121	-	-	4,121
Continuing education & training	6,025	-	630	6,655
Contract labor	51,918	-	997	52,915
Credit card and bank fees	13,154	-	-	13,154
Supplies	49,056	867	5,204	55,127
Dues and subscriptions	763	500	916	2,179
Facilities expense	32,276	-	-	32,276
Food distributed	459,571	-	-	459,571
Postage and delivery	-	-	236	236
Professional fees	13,000	3,000	10,572	26,572
IT expenses	49,150	686	935	50,771
Insurance	33,193	4,093	7,456	44,742
Payroll expenses	409,940	61,283	87,184	558,407
Printing and reproduction	5,307	-	-	5,307
Telephone	11,162	1,669	2,374	15,205
Travel, meals, and entertainment	7,767	-	-	7,767
Trailer expenses	55,586	-	-	55,586
License & taxes	4,373	-	-	4,373
Rent expense	46,260	2,212	3,016	51,488
Miscellaneous expenses	16,176	-	-	16,176
Promotion expense	3,826	-	-	3,826
Total expenses before depreciation	1,402,498	109,732	120,723	1,632,953
Depreciation expense	157,467	-	-	157,467
Total expenses	\$ 1,559,965	\$ 109,732	\$ 120,723	\$ 1,790,420
Percentage of total expenses	87%	6%	7%	100.0%

*See accompanying notes to the financial statements.*

Mobile Loaves & Fishes, Inc.

Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	2010	2009
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 238,768	\$ (5,262)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	174,930	157,467
Prior period adjustment	-	(23,124)
Loss on repossession of property and equipment	-	6,108
(Increase) decrease in pledges receivable	(61,171)	28,400
(Increase) decrease in other receivables	24,270	(24,158)
(Increase) decrease in inventory	23,904	(23,924)
(Increase) decrease in prepaid expenses	13,426	(5,537)
(Increase) decrease in security deposit	(3,580)	(900)
Increase (decrease) in accounts payable and accrued expenses	(34,883)	40,867
Increase (decrease) in accrued compensated absences	6,413	25,152
Net cash provided by operating activities	<u>382,077</u>	<u>175,089</u>
<b>Cash flows from investing activities:</b>		
Issuance of notes receivable	(8,700)	(2,543)
Collections on notes receivable	3,995	7,220
Forgiveness of debt	10,725	-
Purchase of property and equipment, net	(214,717)	(122,783)
(Increase) decrease in restricted cash	(1,170)	(80,568)
Net cash used in investing activities	<u>(209,867)</u>	<u>(198,674)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	-	99,500
Repayments on line of credit	(99,511)	(60,489)
Net cash provided by (used in) financing activities	<u>(99,511)</u>	<u>39,011</u>
Change in cash and cash equivalents	72,699	15,426
Cash and cash equivalents, beginning of year	460,867	445,441
Cash and cash equivalents, end of year	<u>\$ 533,566</u>	<u>\$ 460,867</u>

Mobile Loaves & Fishes, Inc.

Statements of Cash Flows (continued)

*For the years ended December 31, 2010 and 2009*

	2010	2009
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<b>\$ 4,452</b>	\$ 2,328
Non-cash investing transaction:		
Write-down of note receivable and repossession of trailer	\$ -	4,217

*See accompanying notes to the financial statements.*

# Mobile Loaves & Fishes, Inc.

## Notes to Financial Statements

*December 31, 2010 and 2009*

### **Note 1 – Purpose of Organization**

Mobile Loaves & Fishes, Inc. (MLF) is a social outreach ministry to the homeless. MLF's mission is "We provide food and clothing, and promote dignity, to our homeless brothers and sisters in need". The mission is accomplished primarily through the daily distribution of meals, personal care items, and clothing to people in need throughout the Central Texas, New Orleans, Louisiana, Providence, Rhode Island, Nashville, Tennessee, Minneapolis, Minnesota, and New Bedford, Massachusetts communities. Volunteers drive MLF's trucks, all of which have been outfitted as catering vehicles, to specific areas around their respective communities distributing food, clothing and personal care items. It is the goal of MLF to expand its truck operations to every city throughout the United States that has a homeless and working poor population. MLF has a powerful set of tools that allow it to manage a large organization with few staff. These tools, the MLF Volunteer Management and Mapping System, are located at [www.mlf.org](http://www.mlf.org) and are accessible by the thousands of volunteers who serve.

Additionally, MLF has developed a revolutionary new housing initiative called Community First! where gently used travel trailers are purchased and placed in RV Parks for the chronically homeless. This affordable, sustainable and permanent housing model is designed on a Housing First model. MLF currently has plans to develop its own community, based on the RV community model.

### **Note 2 – Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The financial statements of MLF are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### **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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

*December 31, 2010 and 2009*

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Income Taxes**

Mobile Loaves & Fishes, Inc. is a non-profit corporation exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), except to the extent of unrelated business income, if any. In addition, under IRC Section 509(a)(1), MLF is a public charity and, thus, donations to MLF qualify for the maximum allowable charitable deduction.

**Basis of Presentation**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendation of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958).

Net assets of MLF and changes therein are classified and reported as follows:

Unrestricted net assets – These types of net assets are not subject to donor-imposed stipulations. This also includes Board-designated net assets for specific purposes, since these restrictions may be reversed by the Board at anytime in the future.

Temporarily restricted net assets – These types of net assets are subject to donor-imposed stipulations, which limit their use by MLF to a specific purpose and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – These types of net assets are subject to donor-imposed stipulations, which require them to be maintained permanently by MLF. Generally, the donors of these assets permit MLF to use all or part of the income earned on any related investments for general or specific use.

MLF did not have any permanently restricted net assets as of December 31, 2010 and 2009.

## Mobile Loaves & Fishes, Inc.

### Notes to Financial Statements (continued)

*December 31, 2010 and 2009*

#### **Note 2 – Summary of Significant Accounting Policies (continued)**

##### **Fair Value of Financial Instruments**

MLF follows FASB ASC 820 *Fair Value Measurements and Disclosures*, (formerly SFAS 157, as amended by FASB Financial Staff Position (FSP) No. 157-2, on the effective date of SFAS 157). Those provisions relate to the MLF's financial assets and liabilities carried at fair value and MLF's fair value disclosures related to financial assets and liabilities. FASB ASC 820 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

MLF's financial instruments consist principally of cash and cash equivalents, pledges receivable, other receivables, inventory, fixed assets, accounts payable and accrued expenses, and a line of credit (all Level 1 inputs). MLF believes all of the financial instruments' recorded values approximate current market values.

##### **Reclassifications**

Certain 2009 audited amounts have been reclassified in order to conform with the 2010 financial statement presentation.

##### **Subsequent Events Review**

These financial statements considered subsequent events through May 18, 2011, the date the financial statements were available to be issued.

##### **Cash Equivalents**

MLF considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. In addition, MLF considers donated investments which will be sold immediately to be cash equivalents.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

*December 31, 2010 and 2009*

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Accounts Receivable**

Accounts receivable are recorded at the amount MLF expects to collect on outstanding balances. MLF has not set up an allowance for uncollectible receivables at December 31, 2010 and 2009, because management estimates that the receivables are collectible, and write-offs are historically unusual and small.

**Inventory**

Inventory consists of donated kitchen appliances and vehicles that are being sold on consignment. This inventory is recorded and valued at the expected sales price. Inventory also includes donated grocery gift cards that may be purchased or given away. Grocery gift cards are recorded at their redemption value.

**Property and Equipment**

Property and equipment items in excess of \$1,500 are capitalized at cost, including costs of significant improvements. Donated fixed assets are recorded at estimated fair value of the date of receipt. Depreciation is computed on a straight-line basis using estimated useful lives of three, five, and seven years for the following categories: vehicles, computer equipment, kitchen and other equipment, and website design.

**Donations and Contributions Receivable**

Contributions, including promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. When donor restrictions expire, that is, when a stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the statements of activities as net assets released from restrictions. As of December 31, 2009, MLF had received a promise to give of \$25,000, conditional upon the return of a signed grant agreement. This is not reflected as a receivable or as revenue for the year ended December 31, 2009. Pledges receivable were \$104,671 and \$43,500, respectively, as of December 31, 2010 and 2009.

## Mobile Loaves & Fishes, Inc.

### Notes to Financial Statements (continued)

*December 31, 2010 and 2009*

#### **Note 2 – Summary of Significant Accounting Policies (continued)**

##### **Contributions of Food, Clothing, and Other Non-cash Items**

Contributions of food, clothing, and other non-cash items for use in assistance programs that meet the criteria for recognition are recorded at fair value. However, MLF receives a significant volume of these types of contributions from the general public, which are not recorded in the financial statements because fair value of the contributions cannot be readily determined.

##### **Contributed Services**

Generally, when fair value of contributed professional services can be readily determined, a contribution received is recognized with an equal amount for expense incurred. Contributed services in the amount of \$2,700 and \$38,084, respectively, meet the criteria for recognition in the financial statements for the years ended December 31, 2010 and 2009. In addition, countless individuals volunteer their time and perform a variety of tasks that are essential to MLF in providing its program services, but these services do not meet the criteria for recognition as contributed services and are, therefore, not reflected in the financial statements. MLF receives hundreds of volunteer hours each week and MLF estimates that approximately 11,951 and 12,768 volunteers contributed their time during 2010 and 2009, respectively.

##### **Functional Allocation of Expenses**

The costs of providing the various promotional programs and other activities of the organization have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among programs and supporting services benefited. Overhead costs have been allocated based on periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of MLF.

During 2010 and 2009, MLF made purchases of property and equipment totaling \$214,717 and \$122,783, respectively. All the property and equipment is used 100% on program services. The allocation of the property and equipment is reflected in the statements of functional expenses through depreciation expense, which recognizes the cost of the property and equipment over their useful lives.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

December 31, 2010 and 2009

**Note 3 – Notes Receivable**

Through the Community First! (CF) program, MLF created five promissory notes due to MLF for five participants in the Community First! (CF) program. During the terms of the promissory notes, MLF maintains a security interest in all the travel trailers/fifth wheels. Notes receivable at December 31, 2010 and 2009 consist of the following:

	2010	2009
Date of note: 3/11/05, amount of note: \$6,000, interest 0%, payment terms are \$25 a month starting April 1, 2005 ending February 1, 2010, then one payment of \$4,525 on March 1, 2010. During the year ended December 31, 2010, this note was completely paid off.	\$ -	\$ 4,575
Date of note: 5/17/05, amount of note: \$15,500, interest 0%, payment terms are \$25 a month starting June 1, 2005 ending April 1, 2010, then one payment of \$14,525 on May 1, 2010. During the year ended December 31, 2007, there was a write down of this note of \$4,000 due to exchange of trailer. During the year ended December 31, 2009, this note was completely written off and the trailer repossessed.	-	-
Date of note: 11/18/05, amount of note: \$11,500, interest 0%, payment terms are \$200 a month starting January 1, 2006 ending August 1, 2011, then one payment of \$100 on September 1, 2011. During the year ended December 31, 2009, this note was completely paid off.	-	-
Date of note: 12/09/05, amount of note: \$7,500, interest 0%, payment terms are \$25 a month starting January 1, 2006 ending December 1, 2010, then one payment of \$6,000 on January 1, 2011. During the year ended December 31, 2010, \$125 of payments were received and the remaining \$6,200 was completely written off due to the tenant moving out.	-	6,325
Date of note: 09/03/10, amount of note: \$8,100, interest 0%, payment terms are one payment of \$700 due September 8, 2010, 500 a month starting October 1, 2010 ending November 1, 2011, then one payment of \$400 on December 1, 2011.	<b>5,900</b>	-
Total	<b>5,900</b>	10,900
Less current portion	<b>(5,900)</b>	(4,900)
Non-current portion	<b>\$ -</b>	<b>\$ 6,000</b>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

December 31, 2010 and 2009

**Note 3 – Notes Receivable (continued)**

Future minimum payments to be received from notes receivable - CF are as follows:

Year ending December 31,	
2011	\$ 5,900
Total	\$ 5,900

MLF created three promissory notes due to MLF for three participants who purchased a vehicle. During the terms of the promissory notes, MLF maintains a security interest in all the vehicles. Notes receivable at December 31, 2010 and 2009 consist of the following:

	2010	2009
Date of note: 12/9/2008, amount of note: \$1,920, interest 0%, payment terms are \$100 a month starting January 15, 2009 ending September 15, 2009, then one payment of \$20 on October 15, 2009 and one payment of \$1,000 on September 15, 2011. On 9/24/09, note balance was increased by \$1,543, and payment terms changed to one payment of \$150 on 9/30/10, semi-monthly payments of \$100 beginning on 10/15/09 and continuing through 8/15/10, one payment of \$43 on 8/31/10, then one payment of \$1,000 on 8/31/11.	<b>\$ 1,243</b>	\$ 2,543
Date of note: 2/11/2008, amount of note: \$921, interest 0%. Payment terms are \$100 a month starting March 11, 2008 and thereafter until the note balance is paid off.	<b>101</b>	121
Date of note: 8/23/2010, amount of note: \$600, interest 0%. Payment terms are one payment of \$100 due September 1, 2010, \$100 a month starting October 1, 2010 and thereafter until May 1, 2011, then one payment of \$100 on September 1, 2012.	<b>300</b>	-
Total	<b>1,644</b>	2,664
Less current portion	<b>(544)</b>	(1,664)
Non-current portion	<b>\$ 1,100</b>	\$ 1,000

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

December 31, 2010 and 2009

**Note 3 – Notes Receivable (continued)**

Future minimum payments to be received from notes receivable - vehicles are as follows:

Year ending December 31,	
2011	\$ 544
2012	1,100
Total	<u>\$ 1,664</u>

**Note 4 – Property and Equipment**

At December 31, 2010 and 2009, property and equipment consisted of the following:

	2010	2009
Vehicles	\$ 724,371	\$ 641,814
Trailers	407,384	318,416
Computer equipment	40,394	34,437
Computer software	2,700	2,700
Storage unit	5,945	2,045
Furniture and equipment	1,310	9,771
Kitchen and other equipment	59,816	56,919
Website design	34,993	23,837
Total cost	<u>1,276,913</u>	<u>1,089,939</u>
Less: accumulated depreciation	<u>(797,229)</u>	<u>(650,042)</u>
Property and equipment, net	<u>\$ 479,684</u>	<u>\$ 439,897</u>

Total depreciation expense was \$174,930 and 157,467, respectively, for the years ended December 31, 2010 and 2009.

**Note 5 – Line of Credit**

On October 24, 2009, MLF renewed a line of credit for \$100,000 from a bank to expire on October 24, 2010. Interest was due monthly on the outstanding balance and was charged at the Wall Street Journal Prime Floating Rate (5.5% as of December 31, 2009). There is an outstanding balance of \$0 and 99,511, respectively, as of December 31, 2010 and 2009.

## Mobile Loaves & Fishes, Inc.

### Notes to Financial Statements (continued)

*December 31, 2010 and 2009*

#### **Note 5 – Line of Credit (continued)**

On September 14, 2010, MLF entered into a revolving line of credit from a member of the Board of Directors to expire on September 14, 2011. Terms of this line of credit call for the credit limit to be \$70,000 initially and increasing to \$100,000 on October 25, 2010. The agreement follows MLF's conflict of interest policy and was approved by the Board of Directors. The annual interest rate is 4% and interest-only payments are due monthly on the outstanding balance beginning on September 30, 2010, and continuing on the last day of the month thereafter. In addition, the interest rate must remain equal or better than similar agreements and terms available from other persons or entities in the community, so the agreement remains in the best interest of MLF. There is an outstanding balance of \$0 as of December 31, 2010.

#### **Note 6 – Concentrations of Credit Risk**

Financial instruments which potentially subject MLF to credit risk principally consist of cash and cash equivalents. To minimize this risk, MLF places its temporary cash investments with high credit quality financial institutions. Effective December 31, 2010, deposit insurance coverage by the FDIC was changed to unlimited coverage for non-interest bearing checking accounts and \$250,000 per bank per entity for all other accounts. These new coverages will be effective until December 31, 2012. At December 31, 2010 and 2009, MLF had \$76,971 and \$0 in uninsured cash balances, respectively. MLF has not experienced any losses in such accounts in the past. In addition, in early 2011, MLF addressed this issue to make sure all funds were fully insured.

#### **Note 7 – Related Party Transactions**

St. John Neumann Catholic Church (SJN) of Austin, Texas began a ministry program of providing food, clothing, and personal care items to the needy in the Austin community in 1998. This program grew through the generous volunteer efforts of SJN parishioners resulting in the formal organization of MLF in 2000 as a non-profit corporation under the laws of the State of Texas. SJN has also provided additional funds and non-cash contributions of food and clothing since MLF's formal beginning of operation. The church is expected to play a vital role in MLF's continued funding and other support. MLF operates in a separate facility that includes storage, food preparation space, and parking for vehicles owned and provided free of charge by SJN.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

*December 31, 2010 and 2009*

**Note 7 – Related Party Transactions (continued)**

St. Thomas More Catholic Church (STM) of Austin, Texas, St. Louis Catholic Church (STL) of Austin, Texas, the Downtown Ministry of Churches (DAC) of Austin, Texas, Lake Hills Church (LHC) of Austin, Texas, Riverbend Church (RBC) of Austin, Texas, St. Margaret Mary (SMM) of Austin, Texas, Austin Ridge Bible Church (ARB) of Austin, Texas, St. Mark the Evangelist (SME) of San Antonio, Texas, Trinity Episcopal Church (NO) of New Orleans, Louisiana, St. Francis of Assisi (SFA) of San Antonio, Texas, Center of Contemplative Justice (CCJ) of Nashville, Tennessee, River United Methodist Communities (RIP) of Providence, Rhode Island, Open Table of Christ (OTC) of Providence, Rhode Island, St. Joan of Arc (SJA) of Minneapolis, Minnesota, and St. Paul United Methodist (SPM) of New Bedford, Massachusetts have also become involved in the ministry program of MLF. The parishioners of these churches help raise the funds necessary to outfit and operate additional catering trucks. These trucks run daily per the operating routine of MLF and are supported by a large volunteer base of STM, STL, DAC, LHC, RBC, SMM, ARB, SME, NO, SFA, CCJ, RIP, OTC, SJA, and SPM parishioners. The churches are expected to continue to play a significant role in hosting MLF activities and volunteers from each church community are expected to continue to play a significant role in the continued funding and support of MLF.

**Note 8 – Lease Commitments**

MLF has entered into a lease agreement for office space with an expiration date of May 31, 2011 and storage space with an expiration of August 1, 2011. Total facility expenses for the years ended December 31, 2010 and 2009, were \$28,800 and \$37,475, respectively, and included in-kind donated space for trailer refurbishing of \$12,000 and \$24,000, respectively.

Future minimum lease payments at December 31, 2010 are as follows:

Year ending December 31,	
2011	9,700
Total minimum lease payments	<u>\$ 9,700</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

December 31, 2010 and 2009

**Note 9 – Employee Pension Plan**

In 2008, MLF initiated a qualified retirement plan. Employees were eligible for employer match immediately upon employment. MLF matched the employee’s elective deduction up to 5% of gross salary through May 31, 2009, but suspended employer matching contributions effective June 1, 2009. Any matching contributions will vest 100% after an employee has completed three years of employment. Employer contributions for the years ended December 31, 2010 and 2009 were \$0 and \$4,133, respectively.

**Note 10 – Temporarily Restricted Net Assets**

MLF received the following temporarily restricted support for the year ended December 31, 2010:

	Beginning Balance	Donations Received	Released from Restrictions	Ending Balance
Temporarily Restricted Donations:				
Community First	\$ -	\$ 149,168	\$ (149,168)	\$ -
CF Tenant Funds	1,747	4,075	(451)	5,371
CF Trailer Funds	30,150	163,644	(101,276)	92,518
CF Development Fund	11,960	-	(11,960)	-
Building M Fund	3,500	-	(3,500)	-
Maintenance Employee Fund	9,744	56,960	(45,085)	21,619
Trucks - Consolidated	3,691	75,316	(77,872)	1,135
Disaster Relief	65	25	(1)	89
LIFT	1,335	375	(204)	1,506
Micro-Enterprise Project	14,316	-	(12,725)	1,591
Other Program Services	10,823	102,106	(107,951)	4,978
Karpophero Project	1,141	16,272	(17,413)	-
Website	-	10,000	(10,000)	-
CCJ Garden Project	-	21,543	(7,007)	14,536
Time Restriction	40,000	35,000	(40,000)	35,000
	<u>\$ 128,472</u>	<u>\$ 634,484</u>	<u>\$ (584,613)</u>	<u>\$ 178,343</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements (continued)

December 31, 2010 and 2009

**Note 10 – Temporarily Restricted Net Assets (continued)**

MLF received the following temporarily restricted support for the year ended December 31, 2009:

	Beginning Balance	Donations Received	Released from Restrictions	Ending Balance
Temporarily Restricted Donations:				
Community First	\$ -	\$ 28,198	\$ (28,198)	\$ -
CF Tenant Funds	1,675	3,900	(3,828)	1,747
CF Trailer Funds	1,418	74,233	(45,501)	30,150
CF Development Fund	-	16,500	(4,540)	11,960
Future Operations	60,000	-	(60,000)	-
Building M Fund	11,900	-	(8,400)	3,500
Maintenance Employee Fund	-	45,145	(35,401)	9,744
Trucks - Consolidated	-	48,630	(44,939)	3,691
Disaster Relief	-	65	-	65
LIFT	-	3,085	(1,750)	1,335
Micro-Enterprise Project	-	15,000	(684)	14,316
Other Program Services	1,311	12,950	(3,438)	10,823
Karpophero Project	-	1,650	(509)	1,141
Time Restriction	-	40,000	-	40,000
	<u>\$ 76,304</u>	<u>\$ 289,356</u>	<u>\$ (237,188)</u>	<u>\$ 128,472</u>

**Note 11 – Prior Period Adjustments**

During the current year audit, management determined that MLF needed to revise the 2009 financial statements for the following: (1) 2009 grant revenue in 2010, (2) 2009 donation as an unrestricted contribution, and (3) no accrual for compensated absences in 2008 and 2009. Therefore, an adjustment of \$40,000 was made to increase 2009 grant revenue and pledges receivable - restricted, \$1,141 to increase 2009 temporarily restricted net assets and decrease 2009 unrestricted net assets at December 31, 2009, and \$2,028 and \$23,124 to increase 2009 and 2008, respectively, for accrued compensated absences at December 31, 2008 and 2009. The 2009 financial statements presented herein have been restated.

May 18, 2011

To the Board of Directors  
Mobile Loaves & Fishes, Inc.

We have audited the financial statements of Mobile Loaves & Fishes, Inc. (MLF) for the years ended December 31, 2010 and 2009, and have issued our report thereon dated May 18, 2011. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 28, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with generally accepted accounting principles in the United States of America. Our audit of the financial statements do not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of MLF. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated in our meeting about planning matters on March 1, 2011.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by MLF are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed. We noted no transactions entered into by MLF during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were as follows:

Management's estimate of allocations related to functional expenses is based on analysis by MLF's management and staff. We evaluated the key factors and assumptions used to develop the allocations and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation expense is based on the useful lives assigned to each fixed asset. We evaluated the key factors and assumptions used to develop the useful lives used in the calculation of depreciation expense and determined that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statements users. The most sensitive disclosure affecting the financial statements was as follows:

The disclosure of MLF's temporarily restricted activity in Note 10 of the financial statements. We evaluated the current year activity and feel that the temporarily restricted balances and activity are properly reflected in the financial statements.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, an entry to properly reclass a donation originally coded to 2010 to 2009 for \$40,000 and an entry to properly record a liability and the related expense for accrued compensated absences for \$31,565 were the only misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 18, 2011.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to MLF’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as MLF’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Mobile Loaves & Fishes, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Reynolds & Franke, PC