

Audited Financial Statements

Mobile Loaves & Fishes, Inc.

*For the Years Ended December 31, 2013 and 2012
With Report of Independent Auditors*

Mobile Loaves & Fishes, Inc.

Audited Financial Statements

For the Years Ended December 31, 2013 and 2012

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Reynolds & Franke, PC

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

We have audited the accompanying financial statements of Mobile Loaves and Fishes, Inc. (“MLF”) (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, 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.

Auditors’ 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors’ 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mobile Loaves and Fishes, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reynolds & Franta, PC

Austin, Texas
May 20, 2014

Audited Financial Statements

Mobile Loaves & Fishes, Inc.

Statements of Financial Position

December 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 661,152	\$ 599,151
Current pledges receivable – unrestricted , net	13,000	-
Current pledges receivable – restricted , net	730,965	114,117
Other receivables	13,249	3,805
Inventory	10,200	-
Notes receivable – current	6,609	6,273
Prepaid expenses	3,375	1,808
Total current assets	<u>1,438,550</u>	<u>725,154</u>
Restricted cash	1,149,568	24,994
Long-term pledges receivable – unrestricted , net	13,000	-
Long-term pledges receivable – restricted , net	1,304,595	265,992
Property and equipment, net	1,862,457	389,285
Security deposit	5,660	6,640
Notes receivable – non-current	5,000	10,000
Total assets	<u>\$ 5,778,830</u>	<u>\$ 1,422,065</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 56,987	\$ 38,554
Accrued payroll expenses	86,350	60,233
Total current liabilities	<u>143,337</u>	<u>98,787</u>
Total liabilities	<u>143,337</u>	<u>98,787</u>
Net Assets:		
Unrestricted net assets	2,450,364	918,175
Temporarily restricted net assets	3,185,129	405,103
Total net assets	<u>5,635,493</u>	<u>1,323,278</u>
Total liabilities and net assets	<u>\$ 5,778,830</u>	<u>\$ 1,422,065</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Activities
For the Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Public support:			
Contributions from public – restricted	\$ -	\$ 3,671,456	\$ 3,671,456
Unrestricted contributions	1,517,313	-	1,517,313
In-kind contributions	267,210	1,538,779	1,805,989
Direct mail contributions	279,645	21,100	300,745
Micro-Enterprise income	38,107	-	38,107
Rent income	8,909	-	8,909
Total public support	<u>2,111,184</u>	<u>5,231,335</u>	<u>7,342,519</u>
Special events:			
Special events income	103,723	-	103,723
Special events expense	(27,885)	-	(27,885)
Special events, net	<u>75,838</u>	<u>-</u>	<u>75,838</u>
Other income:			
Gains on sales and disposals of fixed assets, net	1,336	-	1,336
Loss on sale of stock	(65)	-	(65)
Interest income	9	-	9
Other income	6,485	-	6,485
Total other income	<u>7,765</u>	<u>-</u>	<u>7,765</u>
Net assets released from restrictions	2,451,309	(2,451,309)	-
Total support, income, and reclassifications	<u>4,646,096</u>	<u>2,780,026</u>	<u>7,426,122</u>
Expenses:			
Program services	2,651,385	-	2,651,385
Fundraising	236,072	-	236,072
Management and general	226,450	-	226,450
Total expenses	<u>3,113,907</u>	<u>-</u>	<u>3,113,907</u>
Total change in net assets	1,532,189	2,780,026	4,312,215
Net assets:			
Beginning of year	918,175	405,103	1,323,278
Net assets, end of year	<u>\$ 2,450,364</u>	<u>\$ 3,185,129</u>	<u>\$ 5,635,493</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Activities
For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support:			
Contributions from public – restricted	\$ -	\$ 1,022,557	\$ 1,022,557
Unrestricted contributions	1,682,801	-	1,682,801
In-kind contributions	237,699	9,409	247,108
Direct mail contributions	309,631	108	309,739
Micro-Enterprise income	21,229	-	21,229
Rent income	8,439	-	8,439
Total public support	<u>2,259,799</u>	<u>1,032,074</u>	<u>3,291,873</u>
Special events:			
Special events income	138,693	-	138,693
Special events expense	(33,832)	-	(33,832)
Special events, net	<u>104,861</u>	<u>-</u>	<u>104,861</u>
Other income:			
Gains on sales and disposals of fixed assets, net	15,741	-	15,741
Loss on sale of stock	(4,359)	-	(4,359)
Interest income	12	-	12
Other income	3,888	-	3,888
Total other income	<u>15,282</u>	<u>-</u>	<u>15,282</u>
Net assets released from restrictions	681,951	(681,951)	-
Total support, income, and reclassifications	<u>3,061,893</u>	<u>350,123</u>	<u>3,412,016</u>
Expenses:			
Program services	2,423,813	-	2,423,813
Fundraising	254,481	-	254,481
Management and general	203,869	-	203,869
Total expenses	<u>2,882,163</u>	<u>-</u>	<u>2,882,163</u>
Total change in net assets	179,730	350,123	529,853
Net assets:			
Beginning of year	765,445	54,980	820,425
Net assets transferred	(27,000)	-	(27,000)
Net assets, end of year	<u>\$ 918,175</u>	<u>\$ 405,103</u>	<u>\$ 1,323,278</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Functional Expenses For the Year Ended December 31, 2013

	Program Services	Fundraising	Management & General	Total
Automobile expense	\$ 143,592	\$ -	\$ -	\$ 143,592
Charitable donations	7,145	-	-	7,145
Continuing education & training	6,793	-	1,140	7,933
Community building events	7,584	-	-	7,584
Contract labor	8,392	-	-	8,392
Merchant and bank fees	21,806	-	-	21,806
Direct mail expense	33,547	33,546	-	67,093
Dues and subscriptions	2,049	90	-	2,139
Facilities expense	287,974	-	-	287,974
Food distributed	714,997	-	-	714,997
Insurance	10,985	-	-	10,985
IT expenses	60,270	5,589	8,352	74,211
License & taxes	6,433	-	502	6,935
Marketing	7,037	7,037	-	14,074
Micro-Enterprise expenses	103,416	-	-	103,416
Miscellaneous expenses	5,331	-	1,608	6,939
Payroll and benefits expenses	743,752	124,812	186,528	1,055,092
Postage and delivery	7,045	-	783	7,828
Printing and reproduction	6,854	-	762	7,616
Professional fees	15,000	60,000	15,906	90,906
Rent expense	71,942	1,561	2,334	75,837
Supplies	146,352	-	5,265	151,617
Telephone	7,942	1,332	1,992	11,266
Recreational vehicle expenses	62,768	-	-	62,768
Travel, meals, and entertainment	19,003	1,627	-	20,630
Total expenses before depreciation	2,508,009	235,594	225,172	2,968,775
Depreciation expense	143,376	478	1,278	145,132
Total expenses	\$ 2,651,385	\$ 236,072	\$ 226,450	\$ 3,113,907
Percentage of total expenses	85%	8%	7%	100.0%

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Functional Expenses For the Year Ended December 31, 2012

	Program Services	Fundraising	Management & General	Total
Automobile expense	\$ 119,604	\$ -	\$ -	\$ 119,604
Charitable donations	13,278	-	-	13,278
Continuing education & training	2,778	855	653	4,286
Contract labor	4,999	-	-	4,999
Merchant and bank fees	18,287	-	-	18,287
Direct mail expense	51,102	51,101	-	102,203
Dues and subscriptions	2,844	240	-	3,084
Facilities expense	220,227	-	-	220,227
Food distributed	672,829	-	-	672,829
Insurance	8,263	-	-	8,263
IT expenses	83,327	3,322	6,334	92,983
License & taxes	7,704	-	251	7,955
Marketing	20,855	22,171	-	43,026
Micro-Enterprise expenses	50,419	-	-	50,419
Miscellaneous expenses	12,689	-	1,556	14,245
Payroll and benefits expenses	667,287	86,721	165,365	919,373
Postage and delivery	6,268	-	697	6,965
Printing and reproduction	5,018	-	558	5,576
Professional fees	30,120	86,280	18,062	134,462
Rent expense	62,290	1,245	2,374	65,909
Supplies	106,776	-	4,586	111,362
Telephone	7,599	988	1,883	10,470
Recreational vehicle expenses	78,671	-	-	78,671
Travel, meals, and entertainment	15,195	808	-	16,003
Total expenses before depreciation	2,268,429	253,731	202,319	2,724,479
Depreciation expense	155,384	750	1,550	157,684
Total expenses	\$ 2,423,813	\$ 254,481	\$ 203,869	\$ 2,882,163
Percentage of total expenses	84%	9%	7%	100.0%

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 4,312,215	\$ 529,853
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	145,132	157,684
Net assets transferred	-	(27,000)
Non-cash donation of land and building	(1,536,430)	-
Non-cash donation of common stock	(262,573)	(148,194)
Non-cash donation from forgiveness of line of credit	-	(100,000)
Gains on sales and disposals of fixed assets, net	(1,336)	(15,741)
Losses on sale of donated common stock	65	4,359
Increase in pledges receivable	(1,681,451)	(361,862)
Increase in other receivables	(9,444)	(159)
(Increase) decrease in inventory	(10,200)	4,600
(Increase) decrease in prepaid expenses	(1,567)	8,179
Decrease in security deposit	980	139
Decrease in earnest money	-	23,600
Increase (decrease) in accounts payable	18,433	(34,165)
Increase in accrued payroll expenses	26,117	11,229
Net cash provided by operating activities	999,941	52,522
Cash flows from investing activities:		
Issuance of notes receivable	(1,551)	(20,000)
Collections on notes receivable	6,215	21,980
Non-monetary write-down of notes receivable	-	1,200
Purchases of property and equipment	(88,259)	(122,801)
Proceeds from sale of donated common stock	262,508	143,835
Proceeds from sales of fixed assets	7,721	106,857
(Increase) decrease in restricted cash	(1,124,574)	24,986
Net cash provided by (used in) investing activities	(937,940)	156,057
Cash flows from financing activities:		
Repayments of note payable	-	(18,936)
Proceeds from line of credit	70,000	130,000
Repayments on line of credit	(70,000)	(170,000)
Net cash used in financing activities	\$ -	\$ (58,936)

Mobile Loaves & Fishes, Inc.

Statements of Cash Flows (continued)

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Change in cash and cash equivalents	\$ 62,001	\$ 149,643
Cash and cash equivalents, beginning of year	<u>599,151</u>	<u>449,508</u>
Cash and cash equivalents, end of year	<u>\$ 661,152</u>	<u>\$ 599,151</u>
 Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 3</u>	<u>\$ 1,764</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 1 – Purpose of Organization

Mobile Loaves & Fishes, Inc. (“MLF”) is a social outreach ministry to the homeless that empowers communities into a lifestyle of service with the homeless. MLF’s mission is to provide food and clothing and promote dignity to our homeless brothers and sisters in need. Throughout Central Texas, Providence, Rhode Island, Minneapolis, Minnesota, and New Bedford, Massachusetts, volunteers are accomplishing this mission by distributing daily food, clothing, and personal care items in MLF catering trucks to the homeless in their respective communities (Truck program). MLF has a powerful set of tools to manage a large organization with few staff. The MLF Volunteer Management and Mapping System is located at www.mlf.org and is accessible by the thousands of volunteers who serve.

The relationships developed through the Truck program are often the beginning of the journey home for the homeless. Through the Community First! (CF!) program, MLF helps chronically homeless men and women lift themselves up off the streets into affordable and sustainable housing. While residents are responsible for paying rent and utilities, CF! provides a supportive and empowering community. The development of a Village to provide housing and community for over 200 chronically homeless individuals is planned for 2014. Additionally, Genesis Gardens of the CF! program teaches the principles and practices of organic and sustainable agriculture while encouraging CF! residents and homeless individuals to cultivate relationships and develop community. The bounty from the gardens provides CF! residents and those served by MLF trucks with eggs and healthy fresh fruits and vegetables.

In the ROADS (Relationships & Opportunities Allowing for Dignity & Security) program, MLF develops and offers flexible micro-enterprise opportunities for the chronically homeless to use their individual talents and skills to earn a modest living income. Through relational support, accountability and consistency, MLF provides multiple “roads” for our homeless brothers and sisters to lift themselves from the streets to living in a community with dignity.

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

For the Years Ended December 31, 2013 and 2012

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes

Mobile Loaves & Fishes, Inc. is a nonprofit corporation exempt from federal income taxes under Internal Revenue Code (IRC) 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.

The most significant tax position of MLF is its determination of whether any amounts are subject to unrelated business income tax (UBIT). Management has determined MLF had no activities subject to UBIT during the years ended December 31, 2013 and 2012. All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

MLF is required to file the Form 990 (Return of Organization Exempt from Income Tax), which is subject to examination by the Internal Revenue Service (IRS), generally up to three years from the later of the original due date or the date the tax return was filed. The Forms 990 for 2012, 2011 and 2010 are open to examination by the IRS as of December 31, 2013.

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). Accordingly, 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 any time 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 statements 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, 2013 and 2012.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 2 – Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

MLF follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which relates to 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, other receivables, inventory, notes receivable, prepaid expenses, restricted cash, pledges receivable – unrestricted, pledges receivable – restricted, security deposit, accounts payable, and accrued payroll expenses. MLF believes all of the financial instruments' recorded values approximate current market values due to the short maturity of these instruments.

Date of Management's Review

These financial statements considered subsequent events through May 20, 2014, the date the financial statements were available to be issued.

Reclassifications

Certain 2012 audited amounts have been reclassified in order to conform with the 2013 financial statement presentation.

Cash and Cash Equivalents

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

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, 2013 and 2012, because management estimates that the receivables are collectible, and write-offs are historically unusual and small.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements *For the Years Ended December 31, 2013 and 2012*

Note 2 – Summary of Significant Accounting Policies (continued)

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, seven, and twenty-seven and a half years for the following categories: buildings and other housing units, vehicles, recreational vehicles, computer equipment, computer software, furniture and fixtures, equipment and storage, and website design.

Donations, Contributions, and Pledges 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. MLF did not have any conditional promises to give for the years ended December 31, 2013 and 2012.

Pledges are recognized as revenues when the donor's commitment is received. Pledges are recognized at the estimated present value of the future net cash flows, net of allowances. All pledges receivable are recorded at net realizable value for the years ended December 31, 2013 and 2012.

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.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 2 – Summary of Significant Accounting Policies (continued)

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 \$3,308 and \$1,373, respectively, meet the criteria for recognition in the financial statements for the years ended December 31, 2013 and 2012. 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 17,790 and 17,328 volunteers have contributed their time to MLF as of December 31, 2013 and 2012, 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.

Note 3 – 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 insured by the Federal Deposit Insurance Corporation (FDIC). Effective December 31, 2010 through December 31, 2012, deposit insurance coverage by the FDIC entailed unlimited coverage for non-interest bearing accounts and \$250,000 per bank per entity for all other accounts. Effective January 1, 2013, deposit insurance coverage by the FDIC changed to \$250,000 per bank per entity for all interest bearing and non-interest bearing accounts. At December 31, 2013 and 2012, MLF had \$1,276,594 and \$46,421, respectively, in uninsured cash balances. MLF has not experienced any losses in such accounts in the past.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 4 – Pledges Receivable

Pledges receivable are due over various years and are summarized for the years ended December 31, 2013 and 2012 as follows:

	2013	2012
Due within one year	\$ 743,965	\$ 114,117
Due between one and five years	1,413,893	275,918
Due in more than five years	225,000	-
Discount to present value	(83,012)	(9,926)
Allowance for uncollectible receivables	(238,286)	-
Total pledges receivable, net	<u>2,061,560</u>	<u>380,109</u>
Less: Current pledges receivable, net	<u>743,965</u>	<u>114,117</u>
Long-term pledges receivable, net	<u>\$ 1,317,595</u>	<u>\$ 265,992</u>

Pledges receivable has been analyzed and a reasonable allowance for uncollectable contributions has been made. Receivable balances have been discounted to their present values for the years ended December 31, 2013 and 2012, assuming an interest rate of 2.00%.

Note 5 – Notes Receivable

During January 2012, MLF entered into a promissory note with Trinity Episcopal Church of New Orleans, Louisiana due to MLF for the purchase of a vehicle (see Note 10) totaling \$22,000 with 0% interest. Such amount shall be paid to MLF by Trinity in four \$5,500 quarterly installments while MLF maintains security interest in the vehicle. Trinity paid the full \$22,000 during 2012.

During June 2012, MLF entered into a promissory note with Sunrise Community Church due to MLF for the purchase of a vehicle. During the terms of the promissory note, MLF maintains a security interest in the vehicle. The note receivable at December 31, 2013 and 2012 consisted of the following:

	2013	2012
Date of note: 6/13/12, amount of note: \$20,000, interest 0%. Payment terms are \$4,500 due at time of agreement signature, \$5,500 due on 8/30/13, and two payments of \$5,000 due 8/30/14 and 8/30/15.	\$ 10,000	\$ 15,500
Less current portion	(5,000)	(5,500)
Non-current portion	<u>\$ 5,000</u>	<u>\$ 10,000</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 5 – Notes Receivable (continued)

MLF created two promissory notes due to MLF for two 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, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
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 and one payment of \$1,000 on 8/31/11. A new note was entered into on 1/4/13 that increased the balance by \$1,551, interest 0%, payment terms are \$75 on each and every Friday of each week starting 1/18/13 and continuing weekly until the principal balance of this Note has been paid in full.	\$ 1,609	\$ 243
Date of note: 5/2/11, amount of note: \$4,330, interest 0%. Payment terms are \$200 a month starting June 1, 2011 and thereafter until January 1, 2013, then one payment of \$330 on February 1, 2013.	-	530
Total	1,609	773
Less current portion	(1,609)	(773)
Non-current portion	\$ -	\$ -

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

Year ending December 31,	
2014	\$ 6,609
2015	5,000
Total	<u>\$ 11,609</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

Note 6 – Property and Equipment

At December 31, 2013 and 2012, property and equipment consisted of the following:

	2013	2012
Land	\$ 1,536,430	\$ -
Buildings and other housing units	10,893	10,893
Vehicles	720,924	716,224
Recreational vehicles	512,251	473,031
Computer equipment	43,652	42,000
Computer software	5,100	5,100
Furniture and fixtures	1,310	1,310
Equipment and storage	124,432	89,559
Website design	35,022	35,022
Total cost	<u>2,990,014</u>	<u>1,373,139</u>
Less: accumulated depreciation	<u>(1,127,557)</u>	<u>(983,854)</u>
Property and equipment, net	<u>\$ 1,862,457</u>	<u>\$ 389,285</u>

Total depreciation expense was \$145,132 and \$157,684, respectively, for the years ended December 31, 2013 and 2012.

In May 2012, MLF entered into an agreement to sell land and a building, which was donated to MLF in 2011, for a sales price of \$57,000. During 2012, MLF recognized a net loss on the sale of land and building of \$27,971 after payment \$857 in settlement charges and \$735 in property taxes.

MLF received a non-cash contribution of land valued at \$1,525,000 during 2013. MLF incurred \$11,430 in fees for the appraisal, title insurance, state guaranty, recording, escrow, courier, tax certificate, and deed preparation, all related to the donation of the land, which was added to the amount recorded in the statements of financial position, increasing the value of the land to \$1,536,430. The land was appropriately recorded on the statements of activities as a restricted non-cash contribution during the year ended December 31, 2013. In 2014, MLF intends to use this land for the development of the Community First! Village.

For the years ended December 31, 2013 and 2012, MLF made purchases of property and equipment totaling \$88,259 and \$120,878, respectively. Approximately 99% of all property and equipment is used 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

For the Years Ended December 31, 2013 and 2012

Note 7 – Line of Credit

MLF has a line of credit for \$100,000 from a bank to expire on April 23, 2014, which was extended from the original expiration date of April 23, 2013. Interest is due monthly on the outstanding balance and is charged at a variable rate of prime plus 1.75%. There were no outstanding balances for the years ended December 31, 2013 and 2012.

On September 14, 2010, MLF entered into a revolving line of credit with a member of the Board of Directors that expired on September 14, 2012, which was extended from the original expiration date of 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. During 2012, the amount outstanding against this line of credit was forgiven by the member of the Board of Directors and \$100,000 was recorded to unrestricted contributions.

Note 8 – Notes Payable

In October 2011, MLF obtained a loan in the amount of \$41,107, to be repaid in monthly installments of \$1,215 over a three-year period, to finance the purchase of a truck. The interest rate was based on the highest prime rate as published in The Wall Street Journal on the last business day of the month plus a margin of 0.75%, resulting in an initial interest rate of 4% based on a year of 360 days. The truck was pledged to secure the loan. Terms of the loan call for monthly payments of principal and interest totaling \$1,215, beginning November 2, 2011 and ending on October 2, 2014. MLF repaid the balance of the note payable during 2012 resulting in no outstanding balance as of December 31, 2012.

Note 9 – Employee Pension Plan

In 2008, MLF initiated a qualified retirement plan. Employees were eligible for employer match immediately upon employment. MLF matches the employee's elective deduction up to 5% of gross salary and matching contributions will vest 100% after an employee has completed three years of employment. Employer contributions for the years ended December 31, 2013 and 2012 were \$12,666 and \$11,025, respectively.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 10 – 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. MLF operates in a separate facility that includes storage, food preparation space, and parking for vehicles owned and provided free of charge by SJN.

St. Thomas More Catholic Church (STM) of Austin, Texas, St. Louis Catholic Church (STL) of Austin, Texas, the Downtown Alliances 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, 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, OTC, SJA, and SPM parishioners. All applicable 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.

In September 2011, all activities from the Center of Contemplative Justice (CCJ) of Nashville, Tennessee split off from MLF to become The Nashville Food Project (“NFP”), a Tennessee non-profit corporation. This resulted in \$24 of net assets being transferred from MLF to NFP for the year ended December 31, 2012 (see Note 12).

In January 2012, all activities from the Trinity Episcopal Church (NO) of New Orleans, Louisiana split off from MLF to become a Louisiana non-profit corporation (“Trinity”). This resulted in \$11,052 of net assets being transferred from MLF to Trinity (see Note 12). MLF transferred all tangible assets to Trinity and Trinity purchased a truck from MLF in the amount of \$22,000 through a written promissory note (see Note 5). MLF reported a gain of approximately \$21,785 during 2012 on the sale of the truck to Trinity. Per the separation agreement, MLF transferred by quit claim bill of sale any and all its interest in any tangible personal property and other assets physically located at and used in the Ministry and MLF charged Trinity for its portion of the Fall 2011 Direct Mail expenses. Payment was made to MLF by January 31, 2012 and Trinity received proceeds due to it by February 28, 2012.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 11 – Commitments and Contingencies

MLF has entered into a lease agreement for office space with an expiration date of May 31, 2014 and storage space with an expiration of August 1, 2014. Total facility rent expenses for the years ended December 31, 2013 and 2012 were \$25,800 and \$24,000, respectively. MLF has also entered into a lease agreement for equipment with an expiration date of February 14, 2016. Total equipment rent expenses for the years ended December 31, 2013 and 2012 were \$4,389 and \$4,788, respectively. Future minimum lease payments at December 31, 2013 are as follows:

Year ending December 31,		
2014	\$	15,538
2015		4,788
2016		798
Total minimum lease payments	\$	<u>21,124</u>

During November 2011, MLF entered into an agreement to purchase approximately 23.75 acres of land in Travis County, Texas. Per the agreement, which was modified in 2012, the purchase price by MLF at closing was estimated to be \$259,800. As of December 31, 2011, MLF had paid \$15,000 into escrow, which was nonrefundable, and \$2,100 of earnest money, which was refundable if MLF terminated within 140 days of the effective date of the agreement. Neither the escrow deposit nor the earnest money could be credited towards the purchase price on the closing date. The estimated closing date of the contract was August 13, 2012, which was extended from the original close date, and MLF paid option fees during 2012 due to the extensions.

During August 2011, MLF entered into an agreement to purchase approximately 3.18 acres of land in Travis County, Texas. Per the agreement, the purchase price by MLF at closing was estimated to be \$51,249. As of December 31, 2011, MLF had paid \$5,000 into escrow, which was nonrefundable and could not be credited towards the purchase price, and \$1,500 of earnest money. The earnest money was nonrefundable; however, it could be credited towards the purchase price at the closing date. The estimated closing date of the contract was August 15, 2012, which was extended from the original close date.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 11 – Commitments and Contingencies (continued)

During 2012, MLF released their options to purchase the two tracts of land. A major supporter of MLF (the “Lessor”) purchased the land in 2012 and began leasing use of the land to MLF by entering into a lease agreement which commenced on September 1, 2012, and expired August 31, 2013, which was extended until December 2013. For each lease term, MLF shall pay rent of \$12,000 per year in advance on or before September 1st of each year. The Lessor forgave MLF’s 2013 and 2012 lease payments; therefore, MLF recorded the forgiven lease payments of \$12,000 and \$4,000, respectively, as unrestricted in-kind contributions and lease expenses in the statements of activities for the years ended December 31, 2013 and 2012. Due to MLF releasing their purchase options and entering into the land lease, earnest money totaling \$0 and \$43,600 and leasehold improvements totaling \$189,463 and \$51,300 were written off and expensed during 2013 and 2012, respectively.

Note 12 – Transfer of Net Assets

Transfer of net assets for the years ended December 31, 2013 and 2012 consisted of transfers to the following organizations:

	2013	2012
The Nashville Food Project	\$ -	\$ 24
Soma Austin – Ellory’s Hugs	-	14,114
Trinity Episcopal Church New Orleans, LA	-	11,052
ReWork Project	-	1,810
Total net assets transferred	<u>\$ -</u>	<u>\$ 27,000</u>

The Nashville Food Project and Trinity Episcopal Church of New Orleans, Louisiana split off from MLF in 2011 and 2012, respectively (see Note 10). Soma Austin – Ellory’s Hugs and ReWork Project were organizations MLF partnered with in past years for various projects; however, during 2012, MLF transferred the restricted funds directly back to these organizations. The transfers of funds were reflected as releases from temporarily restricted net assets for the year ended December 31, 2012.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2013 and 2012

Note 13 – Temporarily Restricted Net Assets

MLF received the following temporarily restricted support for the year ended December 31, 2013:

	<u>Beginning Balance</u>	<u>Donations Received</u>	<u>Released from Restrictions</u>	<u>Ending Balance</u>
Temporarily Restricted Donations:				
CF! Village future year pledges	\$ 380,109	\$ 4,974,822	\$ (2,175,802)	\$ 3,179,129
CF! operations	-	99,349	(99,349)	-
CF! Tenant Funds	927	350	(1,277)	-
CF! Genesis Gardens	-	15,865	(15,865)	-
Truck Purchase Fund	14,873	-	(14,873)	-
Truck operations	-	90,590	(90,590)	-
LIFT	3,028	-	(3,028)	-
Micro-Enterprise Fund	-	39,059	(39,059)	-
Other Program Services	6,166	11,300	(11,466)	6,000
	<u>\$ 405,103</u>	<u>\$ 5,231,335</u>	<u>\$ (2,451,309)</u>	<u>\$ 3,185,129</u>

MLF received the following temporarily restricted support for the year ended December 31, 2012:

	<u>Beginning Balance</u>	<u>Donations Received</u>	<u>Released from Restrictions</u>	<u>Ending Balance</u>
Temporarily Restricted Donations:				
Community First! (CF!) Village	\$ -	\$ 330,105	\$ (330,105)	\$ -
CF! Village future year pledges	-	380,109	-	380,109
CF! operations	-	69,797	(69,797)	-
CF! Tenant Funds	1,478	-	(551)	927
CF! Recreational Vehicles Fund	19,614	-	(19,614)	-
CF! Genesis Gardens	-	22,406	(22,406)	-
Maintenance Employee Fund	-	8,400	(8,400)	-
Truck Purchase Fund	-	46,000	(31,127)	14,873
Truck operations	-	93,050	(93,050)	-
Development Director Fund	-	11,500	(11,500)	-
LIFT	5,093	150	(2,215)	3,028
Micro-Enterprise Fund	16,088	54,271	(70,359)	-
Other Program Services	12,707	16,286	(22,827)	6,166
	<u>\$ 54,980</u>	<u>\$ 1,032,074</u>	<u>\$ (681,951)</u>	<u>\$ 405,103</u>

Reynolds & Franke, PC

CERTIFIED PUBLIC ACCOUNTANTS

May 20, 2014

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

We have audited the financial statements of Mobile Loaves & Fishes, Inc. (“MLF”) for the year ended December 31, 2013, and have issued our report thereon dated May 20, 2014. 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 March 24, 2014, 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 does 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 24, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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 during 2013. We noted no transactions entered into by MLF during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 allowance for uncollectible pledges receivable is based on a percentage of outstanding pledges receivable at December 31, 2013. We evaluated the key factors and assumptions used to develop the percentage used in the calculation of the allowance and determined that the estimate 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.

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 13 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.

The financial statement disclosures are neutral, consistent, and clear.

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 misstatements identified during the audits, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We are pleased to report that there were no uncorrected financial statement misstatements that are material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 20, 2014.

Management Consultations with Other Independent Accountants

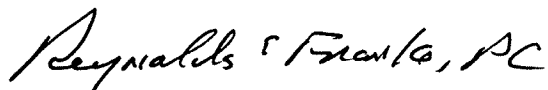
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to MLF's financial statements or a determination of the type of auditors' 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,

A handwritten signature in cursive script that reads "Reynolds & Franke, PC".

Reynolds & Franke, PC