

Audited Financial Statements

Mobile Loaves & Fishes, Inc.

*For the Years Ended December 31, 2016 and 2015
With Report of Independent Auditors*

Mobile Loaves & Fishes, Inc.

Audited Financial Statements

For the Years Ended December 31, 2016 and 2015

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Report of Independent Auditors

To the Board of Directors of
Mobile Loaves & 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, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

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 & Fishes, Inc. as of December 31, 2016 and 2015, 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 & Franke, PC

Austin, Texas
May 22, 2017

Audited Financial Statements

Mobile Loaves & Fishes, Inc.

Statements of Financial Position

December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,332,092	\$ 1,623,825
Current pledges receivable – unrestricted, net	-	23,700
Current pledges receivable – restricted, net	454,036	483,138
Other receivables	20,390	5,689
Investments	26,045	4,215
Inventory	13,998	-
Notes receivable – current	875	6,609
Prepaid expenses	15,397	541
Total current assets	2,862,833	2,147,717
Restricted cash	947,335	2,724,011
Long-term pledges receivable – unrestricted, net	-	6,335
Long-term pledges receivable – restricted, net	388,626	668,416
Property and equipment, net	13,365,527	9,515,918
Security deposit	800	6,600
Other assets, net	20,566	-
Total assets	\$ 17,585,687	\$ 15,068,997
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 157,720	\$ 528,264
Accrued payroll expenses	118,603	84,951
Other current liabilities	51,493	11,278
Deferred rental income	10,182	380
Notes payable – current portion	250,000	-
Total current liabilities	587,998	624,873
Notes payable – non-current portion	1,142,205	-
Total liabilities	1,730,203	624,873
Net Assets:		
Unrestricted net assets	14,065,487	10,568,560
Temporarily restricted net assets	1,789,997	3,875,564
Total net assets	15,855,484	14,444,124
Total liabilities and net assets	\$ 17,585,687	\$ 15,068,997

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Public support:			
Contributions from public – restricted	\$ -	\$ 3,426,086	\$ 3,426,086
Unrestricted contributions	2,030,349	-	2,030,349
In-kind contributions	271,438	111,254	382,692
Direct mail contributions	278,287	15,696	293,983
Rent income	177,737	-	177,737
Total public support	<u>2,757,811</u>	<u>3,553,036</u>	<u>6,310,847</u>
Special events:			
Special events income	95,919	-	95,919
Special events expense	(71,058)	-	(71,058)
Special events, net	<u>24,861</u>	<u>-</u>	<u>24,861</u>
Micro-enterprise:			
Micro-enterprise income	63,439	-	63,439
Micro-enterprise expense	(54,606)	-	(54,606)
Micro-enterprise, net	<u>8,833</u>	<u>-</u>	<u>8,833</u>
Other program income:			
Other program income	65,430	-	65,430
Other program expense	(16,824)	-	(16,824)
Other program income, net	<u>48,606</u>	<u>-</u>	<u>48,606</u>
Other income:			
Gains on sales/disposals of fixed assets, net	36,275	-	36,275
Gains on sales of stock	558	-	558
Interest income	28	-	28
Other income	8,789	-	8,789
Total other income	<u>45,650</u>	<u>-</u>	<u>45,650</u>
Net assets released from restrictions	<u>5,638,603</u>	<u>(5,638,603)</u>	<u>-</u>
Total support, income, and reclassifications	<u>8,524,364</u>	<u>(2,085,567)</u>	<u>6,438,797</u>
Expenses:			
Program services	4,212,308	-	4,212,308
Fundraising	324,025	-	324,025
Management and general	333,913	-	333,913
Total expenses	<u>4,870,246</u>	<u>-</u>	<u>4,870,246</u>
Total change in net assets	<u>3,654,118</u>	<u>(2,085,567)</u>	<u>1,568,551</u>
Net assets:			
Beginning of year	10,568,560	3,875,564	14,444,124
Net assets transferred	(157,191)	-	(157,191)
Net assets, end of year	<u>\$ 14,065,487</u>	<u>\$ 1,789,997</u>	<u>\$ 15,855,484</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Public support:			
Contributions from public – restricted	\$ -	\$ 4,568,642	\$ 4,568,642
Unrestricted contributions	1,857,852	-	1,857,852
In-kind contributions	283,753	325,271	609,024
Direct mail contributions	320,821	33,090	353,911
Rent income	15,415	-	15,415
Total public support	<u>2,477,841</u>	<u>4,927,003</u>	<u>7,404,844</u>
Special events:			
Special events income	144,386	-	144,386
Special events expense	(43,538)	-	(43,538)
Special events, net	<u>100,848</u>	<u>-</u>	<u>100,848</u>
Micro-enterprise:			
Micro-enterprise income	18,574	-	18,574
Micro-enterprise expense	(27,338)	-	(27,338)
Micro-enterprise, net	<u>(8,764)</u>	<u>-</u>	<u>(8,764)</u>
Other income:			
Gains on sales/disposals of fixed assets, net	1,341	-	1,341
Losses on sales of stock	(240)	-	(240)
Interest income	26	-	26
Other income	5,000	-	5,000
Total other income	<u>6,127</u>	<u>-</u>	<u>6,127</u>
Net assets released from restrictions	7,710,401	(7,710,401)	-
Total support, income, and reclassifications	<u>10,286,453</u>	<u>(2,783,398)</u>	<u>7,503,055</u>
Expenses:			
Program services	2,962,618	-	2,962,618
Fundraising	246,874	-	246,874
Management and general	320,948	-	320,948
Total expenses	<u>3,530,440</u>	<u>-</u>	<u>3,530,440</u>
Total change in net assets	6,756,013	(2,783,398)	3,972,615
Net assets:			
Beginning of year	<u>3,812,547</u>	<u>6,658,962</u>	<u>10,471,509</u>
Net assets, end of year	<u>\$ 10,568,560</u>	<u>\$ 3,875,564</u>	<u>\$ 14,444,124</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Functional Expenses For the Year Ended December 31, 2016

	Program Services	Fundraising	Management & General	Total
Automobile expense	\$ 120,508	\$ -	\$ -	\$ 120,508
Charitable donations	9,812	-	-	9,812
Continuing education & training	9,439	704	5,889	16,032
Community building events	46,047	-	-	46,047
Contract labor	16,980	-	-	16,980
Merchant and bank fees	61,027	-	-	61,027
Direct mail expense	27,996	27,996	-	55,992
Dues and subscriptions	5,488	-	332	5,820
Facilities expense	352,749	-	-	352,749
Food distributed	804,462	-	-	804,462
Genesis Garden labor	49,379	-	-	49,379
Insurance	31,853	-	-	31,853
IT expenses	61,706	4,620	5,012	71,338
License & taxes	7,008	-	1,145	8,153
Marketing	24,777	24,777	-	49,554
Miscellaneous expenses	37,613	-	2,031	39,644
Payroll and benefits expenses	1,458,091	251,327	272,682	1,982,100
Postage and delivery	8,920	-	991	9,911
Printing and reproduction	9,444	-	1,049	10,493
Professional fees	11,698	-	18,523	30,221
Rent expense	57,053	2,489	5,768	65,310
Supplies	450,868	-	8,911	459,779
Telephone	15,402	2,655	2,880	20,937
Trailer expenses	100,173	-	-	100,173
Travel, meals, and entertainment	10,034	4,350	8,700	23,084
Total expenses before depreciation	3,788,527	318,918	333,913	4,441,358
Depreciation expense	423,781	5,107	-	428,888
Total expenses	\$ 4,212,308	\$ 324,025	\$ 333,913	\$ 4,870,246
Percentage of total expenses	86%	7%	7%	100%

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Functional Expenses For the Year Ended December 31, 2015

	Program Services	Fundraising	Management & General	Total
Automobile expense	\$ 150,900	\$ -	\$ -	\$ 150,900
Charitable donations	11,852	-	-	11,852
Continuing education & training	9,038	-	1,344	10,382
Community building events	24,705	-	-	24,705
Merchant and bank fees	37,880	-	-	37,880
Direct mail expense	27,592	27,592	-	55,184
Dues and subscriptions	2,901	-	1,017	3,918
Facilities expense	160,260	-	-	160,260
Food distributed	808,953	-	-	808,953
Genesis Garden labor	61,630	-	-	61,630
Insurance	14,796	-	-	14,796
IT expenses	42,123	3,522	5,254	50,899
License & taxes	7,495	-	-	7,495
Marketing	21,353	21,353	-	42,706
Miscellaneous expenses	11,737	1,830	1,656	15,223
Payroll and benefits expenses	1,079,419	185,792	277,149	1,542,360
Postage and delivery	7,065	-	785	7,850
Printing and reproduction	9,005	-	1,001	10,006
Professional fees	2,795	-	13,465	16,260
Rent expense	67,601	2,000	8,117	77,718
Supplies	192,155	-	7,583	199,738
Telephone	12,487	2,149	3,206	17,842
Trailer expenses	23,520	-	-	23,520
Travel, meals, and entertainment	25,953	2,636	-	28,589
Total expenses before depreciation	2,813,215	246,874	320,577	3,380,666
Depreciation expense	149,403	-	371	149,774
Total expenses	\$ 2,962,618	\$ 246,874	\$ 320,948	\$ 3,530,440
Percentage of total expenses	84%	7%	9%	100%

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 1,568,551	\$ 3,972,615
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net assets transferred	(157,191)	-
Depreciation	418,158	149,774
Amortization of debt issuance costs	10,730	-
Non-cash donations of fixed assets	(106,650)	(314,307)
Non-cash donations of common stock	(172,833)	(26,572)
Gains on sales of fixed assets, net	(36,275)	(1,341)
Losses (gains) on sales of donated common stock	(558)	240
Decrease in pledges receivable	338,927	446,121
Increase in other receivables	(14,701)	(1,862)
Increase in inventory	(13,998)	-
(Increase) decrease in prepaid expenses	(14,856)	5,766
Decrease in security deposit	5,800	360
Increase (decrease) in accounts payable	(370,544)	145,544
Increase in accrued payroll expenses	33,652	13,316
Increase in other current liabilities	40,215	11,278
Increase in deferred rental income	9,802	380
Net cash provided by operating activities	<u>1,538,229</u>	<u>4,401,312</u>
Cash flows from investing activities:		
Collections of notes receivable	5,734	-
Purchases of property and equipment	(4,167,372)	(6,582,593)
Proceeds from sale of donated common stock	151,561	32,110
Proceeds from sales of fixed assets	42,530	4,978
Increase in restricted cash	1,776,676	2,441,312
Net cash used in investing activities	<u>(2,190,871)</u>	<u>(4,104,193)</u>
Cash flows from financing activities:		
Proceeds from notes payable	1,392,205	-
Proceeds from line of credit	250,000	-
Repayments of line of credit	(250,000)	-
Payments of debt issuance costs	(31,296)	-
Net cash provided by financing activities	<u>1,360,909</u>	<u>-</u>
Change in cash and cash equivalents	708,267	297,119
Cash and cash equivalents, beginning of year	1,623,825	1,326,706
Cash and cash equivalents, end of year	<u>\$ 2,332,092</u>	<u>\$ 1,623,825</u>

Mobile Loaves & Fishes, Inc.

Statements of Cash Flows (continued)

For the Years Ended December 31, 2016 and 2015

Supplemental disclosures of cash flow information:

Cash paid for interest	\$	19,764	\$	-
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Supplemental non-cash investing activities:

Non-monetary transaction – Transfer donated trailer from inventory to property and equipment	\$	-	\$	2,000
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Non-monetary transaction – Gain on trade-in of trailer	\$	11,000	\$	-
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Non-monetary transaction – Receivables acquired through sale of fixed assets	\$	15,320	\$	-
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See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 1 – Purpose of Organization

Mobile Loaves & Fishes, Inc. (“MLF”) is a social outreach ministry that empowers communities into a lifestyle of service with the homeless. The organization has been serving in Central Texas since 1998. MLF’s mission to provide food and clothing, cultivate community, and promote dignity to our homeless brothers and sisters is accomplished through our three core programs: the Truck Ministry, Community First! Village, and Community Works.

MLF’s food truck ministry operates 7 nights a week, 365 days a year delivering food, hygiene products, and other life-sustaining items to our homeless neighbors. Every day throughout Central Texas, compassionate MLF volunteers distribute food, clothing, and personal care items via MLF catering trucks to men and women who are living on the streets. With the support of more than 19,000 volunteers and over 5 million meals served, MLF is the largest prepared feeding program to the homeless and working poor in Austin, Texas.

As MLF truck ministry volunteers extend their hands in service and hearts in friendship, connections are made and relationships are built with our homeless neighbors. These relationships are often the foundation for healing and the beginning of the journey home for our homeless brothers and sisters.

MLF’s Community First! Village is a 27-acre master planned community that provides affordable, permanent housing for the chronically homeless in Central Texas. While residents are responsible for paying rent and utilities, Community First! provides a supportive community, which is essential for enabling our friends who are coming out of chronic homelessness to begin to heal from the ravages of the streets. The Village is designed to accommodate more than 200 formerly homeless men and women, and we expect to reach capacity around mid-2018. A vital part of Community First! Village is Genesis Gardens. Through this program, neighbors from all over Austin come together to practice hospitality, recall what it means to put down roots and share in the abundance of the gardens. The bounty from the gardens provides Community First! residents and those served by MLF trucks with eggs and fresh fruits and vegetables.

Through our Community Works program, MLF provides micro-enterprise opportunities that enable our friends who have experienced homelessness to earn a dignified income. Community Works empowers MLF volunteers to serve alongside our friends as they develop new skills, while also building enduring relationships. Micro-enterprise opportunities available through Community Works include gardening, art, blacksmithing, woodworking and concessions. Our craftsmen and artists receive 100% of the profit from product sales, services rendered, and volunteer education events, creating stability, purpose, healing and friendships that every person needs and deserves.

Mobile Loaves & Fishes — Serving Goodness.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

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.

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, 2016 and 2015.

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 positions of MLF are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT). Management has determined MLF had no UBIT liability from unrelated business activities during the years ended December 31, 2016 and 2015. 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.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements *For the Years Ended December 31, 2016 and 2015*

Note 2 – Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

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 2015, 2014, and 2013 are open to examination by the IRS as of December 31, 2016.

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 periods. Actual results could differ from those estimates.

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, notes receivable, restricted cash, pledges receivable – unrestricted, pledges receivable – restricted, accounts payable, accrued payroll expenses, and other current liabilities. 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 22, 2017, the date the financial statements were available to be issued.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements *For the Years Ended December 31, 2016 and 2015*

Note 2 – Summary of Significant Accounting Policies (continued)

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 and Other Receivables

Accounts and other receivables 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, 2016 and 2015, because management estimates that the receivables are collectible, and write-offs are historically unusual and small.

Inventory

MLF records inventory, which consists of retail items from the Community Market and Community Works programs, at direct cost on the weighted average basis.

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, ten, fifteen, and twenty-seven and a half years for the following categories: buildings and other housing units, vehicles, recreational vehicles, computer equipment, furniture and fixtures, equipment and storage, equipment and tools, and land improvements .

Investments

Investments are stated at fair value. Realized and unrealized gains and losses are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. At December 31, 2016 and 2015, investments consisted of common stock valued at \$26,045 and \$4,215, respectively, (using Level 1 inputs).

Debt Issuance Costs

Debt issuance costs of \$31,296 were paid related to the financing of MLF's construction loan in 2016. Amortization of debt issuance costs is computed using the straight-line method over the life of the loan. Amortization expense for the year ended December 31, 2016 was \$10,730.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements *For the Years Ended December 31, 2016 and 2015*

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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, 2016 and 2015.

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. MLF did not receive contributed services for the years ended December 31, 2016 and 2015. 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 22,452 and 18,868 volunteers have contributed their time to MLF as of December 31, 2016 and 2015, respectively.

Reclassifications

Certain 2015 audited amounts have been reclassified in order to conform to the 2016 financial statement presentation.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements For the Years Ended December 31, 2016 and 2015

Note 2 – Summary of Significant Accounting Policies (continued)

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. 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 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, 2016 and 2015, MLF had \$2,553,288 and \$3,885,242, respectively, in uninsured cash balances. MLF has not experienced any losses in such accounts in the past.

Note 4 – Pledges Receivable

Pledges receivable are due over various years and are summarized at December 31, 2016 and 2015 as follows:

	2016	2015
Due within one year	\$ 454,036	\$ 506,838
Due between one and five years	498,199	840,097
Discount to present value	(14,349)	(30,653)
Allowance for uncollectible receivables	(95,224)	(134,693)
Total pledges receivable, net	842,662	1,181,589
Less: Current pledges receivable, net	454,036	506,838
Long-term pledges receivable, net	\$ 388,626	\$ 674,751

Pledges receivable has been analyzed and a reasonable allowance for uncollectable contributions has been made. Receivable balances have been discounted to their present values at December 31, 2016 and 2015, assuming an interest rate of 2.0%.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 5 – Notes Receivable

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 maintained a security interest in the vehicle.

The note receivable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
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 (verbally extended to 2016).	\$ -	\$ 5,000
Less current portion	-	(5,000)
Non-current portion	<u>\$ -</u>	<u>\$ -</u>

MLF created a promissory note due to MLF for a participant who purchased a vehicle. During the terms of the promissory note, MLF maintained a security interest in the vehicle. The note receivable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</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
Less current portion	-	(1,609)
Non-current portion	<u>\$ -</u>	<u>\$ -</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 5 – Notes Receivable (continued)

MLF created a promissory note due to MLF for a participant who purchased a vehicle. During the terms of the promissory note, MLF maintains a security interest in the vehicle. The note receivable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Date of note: 12/20/2016, amount of note: \$1,000, interest 0%. Payment terms are \$100 due at time of agreement signature and 36 payments of \$25 beginning 12/30/2016 and continuing semi-monthly through 6/15/18.	\$ 875	\$ -
Less current portion	<u>(875)</u>	-
Non-current portion	<u>\$ -</u>	<u>\$ -</u>

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

Year ending December 31,

2017	<u>\$ 875</u>
Total	<u>\$ 875</u>

Note 6 – Property and Equipment

At December 31, 2016 and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,536,430	\$ 1,536,430
Land improvements	5,702,970	-
Buildings and other housing units	3,063,870	7,990
Vehicles	695,723	805,287
Recreational vehicles	1,218,952	573,161
Computer equipment	68,327	6,773
Furniture and fixtures	39,785	1,837
Equipment and storage	700,533	421,171
CIP: Community First! Village	<u>1,827,076</u>	<u>7,453,999</u>
Total cost	14,853,666	10,806,648
Less: accumulated depreciation	<u>(1,488,139)</u>	<u>(1,290,730)</u>
Property and equipment, net	<u>\$ 13,365,527</u>	<u>\$ 9,515,918</u>

Total depreciation expense was \$418,158 and \$149,774, respectively, for the years ended December 31, 2016 and 2015.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements *For the Years Ended December 31, 2016 and 2015*

Note 6 – Property and Equipment (continued)

For the years ended December 31, 2016 and 2015, MLF made purchases of property and equipment totaling \$4,167,372 and \$6,582,593, 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.

Community First! Village – Land Improvements & Site Development

In 2014, MLF began the process of constructing the Community First! Village on land that was donated during 2013. As part of this process, MLF entered into a construction contract for site development and land improvements in August 2014 with Contractor #1 totaling \$2,559,832, which was subject to additions, deletions or other revisions by change orders which are to be agreed upon by both MLF and the contractor. Changes orders and additions totaled \$2,021,016 during the construction process which increased the total contract cost to \$4,580,848. MLF incurred \$1,064,942 and \$3,185,504 of costs with Contractor #1 for the years ended December 31, 2016 and 2015, respectively. The site development and land improvements, such as sidewalks, roads, drainage facilities, sewers, bridges, fences, and landscaping, were substantially completed and placed into service October 1, 2016, which is the date MLF reclassified the construction-in-progress to land improvements and began depreciating the assets.

Community First! Village – Buildings

During August 2015, MLF entered into construction contracts for the Bath Houses and the Medical and Operations Buildings with Contractor #2 totaling \$1,807,352, which was subject to additions, deletions or other revisions by change orders which are to be agreed upon by both MLF and the contractor. Changes orders and additions totaled \$96,116 during the construction process which increased the total contract cost to \$1,903,468. MLF incurred \$914,781 and \$988,687 of costs with Contractor #2 for the years ended December 31, 2016 and 2015, respectively. The Bath Houses and the Medical and Operations Building with Contractor #2 were substantially completed and opened for service July 1, 2016, which was the date MLF reclassified the construction-in-progress to building and began depreciating the assets.

Construction-in-Progress – Community First! Village

During August 2016, MLF entered into a construction contract for the Sanctuary and Hospitality Center with Contractor #3 totaling \$2,627,150, which is subject to additions, deletions or other revisions by change orders which are to be agreed upon by both MLF and the contractor. MLF incurred \$396,458 of costs with Contractor #3 for the year ended December 31, 2016. As of May 22, 2017, the construction has not yet been completed.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 6 – Property and Equipment (continued)

Construction-in-Progress – Community First! Village (continued)

In October 2016, MLF entered into a construction contract to build four outdoor kitchens with Contractor #4 totaling \$99,977, which is subject to additions, deletions or other revisions by change orders which are to be agreed upon by both MLF and the contractor. MLF incurred \$30,600 of costs with Contractor #4 for the year ended December 31, 2016. As of May 22, 2017, the construction has not yet been completed.

Note 7 – Line of Credit & Standby Letter of Credit

MLF had a line of credit for \$100,000 from First-Citizens Bank & Trust Company which expired on April 23, 2015. Interest was due monthly on the outstanding balance and was charged at a variable rate of prime plus 1.75%. There was no outstanding balance at December 31, 2015.

During 2014, MLF entered into a line of credit agreement for \$200,000 with Frost Bank which expired on January 16, 2016. During 2016, the agreement was extended to March 2017. Interest is due monthly on the outstanding balance and is charged at a variable rate of prime plus 1.25%. There were no outstanding balances at December 31, 2016 and 2015.

During August 2016, MLF entered into a revolving line of credit agreement with Frost Bank totaling \$300,000 set to mature August 22, 2017. The agreement calls for a variable interest rate. During 2016, MLF drew and re-paid \$250,000 on the line of credit. There were no outstanding balances at December 31, 2016.

MLF renewed their standby letter of credit agreement for \$279,802 (originally dated March 25, 2015) with Frost Bank to expire on March 25, 2018. The City of Austin has been named the beneficiary of the standby letter of credit and the City of Austin, Planning and Development Review Department can draw any part or all of the total amount if it is necessary for the completion of MLF's Community First! Village project. Within 24 hours of a draw, MLF is required to pay the face amount of each draft drawn plus interest charged on the unpaid balance of each cash advance until paid at a per annum rate equal to the lesser of (a) a rate equal to the Prime Rate of Bank plus 3% per annum or (b) the highest rate permitted by applicable law. There were no outstanding balances at December 31, 2016 and 2015.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 8 – Construction Loan Agreement

In October 2014, MLF entered into a construction loan agreement with Frost Bank. Frost Bank agrees to lend to MLF the lesser of (a) \$2,112,000 or (b) 80% of the appraised value of the land and improvements on an as-completed basis, in advances, from time to time. However, any amount repaid may not be re-borrowed. Interest at a rate specified in the note agreement shall be computed on the principal debt which exists from time to time and shall be computed with respect to each advance only from the date of advance. Each application for advance shall be submitted by MLF to Frost Bank within a reasonable time (but not less than 5 business days) prior to the requested date (which must be a business day) of the advance. Advances shall be made only for costs and expenses specified in the approved budget, and then only for work performed, services rendered or materials furnished; no advance shall be made for advance unearned payments. At December 31, 2016, outstanding balances total \$1,392,205. MLF requested no advances during the year ended December 31, 2015.

For the advances received, interest shall accrue and be due and payable quarterly as it accrues on the 15th day of January, April, July, and October of each calendar year, beginning January 15, 2015, and continuing regularly and quarterly thereafter until October 15, 2020 (the “Maturity Date”). In addition to interest, principal shall be due and payable in quarterly installments of \$62,500 each, payable on the 15th day of January, April, July, and October of each calendar year, beginning January 15 2017, and continuing regularly and quarterly thereafter until the Maturity Date, when the entire principal and accrued interest then remaining unpaid, shall be then due and payable; interest being calculated on the unpaid principal each day principal is outstanding and all payments made credit to any collection costs and late charges, to the discharge of the interest accrued and to the reduction of principal, in such order as Frost Bank shall determine. Interest on the outstanding and unpaid principal balance shall be computed at a per annum rate equal to the lesser of (a) a rate equal to *The Wall Street Journal* London, Interbank Offered Rate plus 2.5% per annum, with said rate to be adjusted quarterly to reflect any change in *The Wall Street Journal* London, Interbank Offered Rate at the time of any such change or (b) the highest rate permitted by applicable law.

Future maturities of notes payable at December 31, 2016 are as follows:

<i>Year ending December 31,</i>	
2017	\$ 250,000
2018	250,000
2019	250,000
2020	250,000
2021	250,000
Thereafter	142,205
Total	<u>\$ 1,392,205</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 9 – Employee Pension Plan

Effective January 1, 2014, MLF initiated a new 401(k) retirement plan. All employees at least 18 years of age are eligible for the plan and 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, 2016 and 2015 were \$44,145 and \$33,192, respectively.

Note 10 – Related Party Transactions

As part of the construction of Community First! Village, MLF has purchased construction materials and supplies, and paid for repairs/maintenance services, from a company owned by the family of one of MLF's Board members. MLF's Board of Directors and the Board member have fully complied with MLF's conflict of interest policy and the use of the company has been approved by MLF's Board of Directors. The arrangement between MLF and the company is an arm's length transaction and is fair and reasonable from MLF's perspective. The price paid, or the cost to MLF, is either consistent or in most cases lower, with the market rate for the products being purchased. For the years ended December 31, 2016 and 2015, MLF paid \$330,839 and \$561,434, respectively, for material, supplies, and repairs/maintenance services to the company.

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, St. Francis of Assisi (SFA) of San Antonio, Texas, 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, SFA, OTC, SJA, and SPM parishioners.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 10 – Related Party Transactions (continued)

In April 2016, MLF notified the Truck Communities of OTC, SFA, SJA, SME, and SPM that MLF will be terminating the operating agreements with these out-of-area locations no later than December 31, 2016 to focus their efforts on the Community First! Village and the Austin area Truck Communities. MLF transferred each of the communities their funds in their truck community's new 501(c)(3) bank account dedicated to operating a ministry with a like mission "to provide food and clothing and promote dignity to our homeless brothers and sisters in need." MLF gave each community the option to purchase their truck community assets, including the truck, totaling \$10,000 each, if they desired to continue to operate as their own ministry. In addition, MLF communicated to each community that the use of MLF branding must cease. See Note 14 for the transfers of net assets to these communities during 2016.

Note 11 – Commitments and Contingencies

During February 2016, MLF entered into a 7 year rental agreement with a company for the use of laundry equipment. The company will pay MLF a monthly commission from the income generated from the equipment, in arrears, having first deducted the various fees, taxes, and charges associated with the use, possession, and operation of the equipment. The commission shall total an amount equal to 50% over the net income, paid monthly. Either party may terminate this agreement and recover incidental and inconsequential damages if either party commits a breach of the agreement.

MLF entered into a lease agreement for office space with an expiration date of March 31, 2017. MLF will continue the office lease month-to-month until Fall 2017 when MLF expects their Sanctuary & Hospitality Center at Community First! Village to be fully completed. In addition, MLF has entered into two storage space agreements with expiration dates of December 31, 2016 and February 29, 2017. For the years ended December 31, 2016 and 2015, MLF received in-kind land lease expenses totaling \$10,000 and \$2,000, respectively. Total facility rent expenses for the years ended December 31, 2016 and 2015 were \$42,530 and \$29,206, respectively. MLF has also entered into a lease agreement for equipment with an expiration date of September 2, 2019. Total equipment rent expenses for the years ended December 31, 2016 and 2015 were \$6,697 and \$5,408, respectively.

Future minimum lease payments at December 31, 2016 are as follows:

Year ending December 31,	
2017	\$ 16,571
2018	4,788
2019	3,192
Total minimum lease payments	<u>\$ 24,551</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 12 – Funds Held by Others

MLF is the beneficiary of the Mobile Loaves & Fishes Endowment Fund, a charitable fund established in 2007 and administered independently by the Austin Community Foundation for the Capital Area (“ACF”). The purpose of the fund is to feed the hungry and to provide accessible, attractive, and gratifying means for individuals to serve their communities, thus, inspiring a lifestyle of volunteering to serve. As part of the Fund agreement, MLF granted the Austin Community Foundation variance power and, therefore, the assets of the Fund are irrevocably held and managed by Austin Community Foundation. ACF has the authority to distribute any principal amount of the fund at its sole discretion, from time to time. The value of the fund was \$80,700 and \$75,268 at December 31, 2016 and 2015, respectively.

Note 13 – Conditional Pledges

During 2016, a donor recommended a Foundation to commit to a \$1,000,000 pledge to be paid to MLF over 10 years (\$100,000 per year). If the Foundation does not make the annual payment to MLF, the donor will commit to pay MLF the remaining amount. Due to the conditional nature of the pledge, MLF did not record the contribution income and related pledge receivable for the year ended December 31, 2016.

In December 2016, St. David’s Foundation made a \$1,200,000 conditional pledge to the Community First! Village Sanctuary & Hospitality Center under the condition that certain deliverables are met during 2017. Due to the conditional nature of this pledge, MLF did not record the contribution income and related pledge receivable for the year ended December 31, 2016.

Note 14 – Transfers of Net Assets

During the year ended December 31, 2016, MLF transferred net assets to the following communities (see Note 10):

Open Table of Chris United Methodist Church (OTC)	\$	34,276
St. Francis of Assisi Catholic Church (SFA)		54,810
St. Mark the Evangelist Catholic Church (SME)		23,908
St. Paul’s United Methodist Church (SPM)		44,197
		<hr/>
Total net assets transferred	\$	<u>157,191</u>

As of December 31, 2016, SJA was still in the process of setting up their own 501(c)(3) bank account and MLF plans to transfer SJA’s net assets by Summer 2017.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 15 – Temporarily Restricted Net Assets

MLF received the following temporarily restricted support for the year ended December 31, 2016:

	<u>Beginning Balance</u>	<u>Donations Received</u>	<u>Released from Restrictions</u>	<u>Ending Balance</u>
Temporarily Restricted Donations:				
Community First!	\$ 3,774,516	\$ 3,323,111	\$ (5,347,100)	\$ 1,750,527
CF! Genesis Gardens	2,675	63,856	(66,531)	-
Gridmates	44,514	516	(35,947)	9,083
Truck operations	-	97,981	(93,094)	4,887
Micro-Enterprise Fund	-	25,072	(25,072)	-
Other Program Services	53,859	42,500	(70,859)	25,500
	<u>\$ 3,875,564</u>	<u>\$ 3,553,036</u>	<u>\$ (5,638,603)</u>	<u>\$ 1,789,997</u>

MLF received the following temporarily restricted support for the year ended December 31, 2015:

	<u>Beginning Balance</u>	<u>Donations Received</u>	<u>Released from Restrictions</u>	<u>Ending Balance</u>
Temporarily Restricted Donations:				
Community First!	\$ 6,658,962	\$ 4,650,507	\$ (7,534,953)	\$ 3,774,516
CF! Genesis Gardens	-	78,439	(75,764)	2,675
Gridmates	-	44,514	-	44,514
Truck operations	-	62,428	(62,428)	-
Micro-Enterprise Fund	-	31,115	(31,115)	-
Other Program Services	-	60,000	(6,141)	53,859
	<u>\$ 6,658,962</u>	<u>\$ 4,927,003</u>	<u>\$ (7,710,401)</u>	<u>\$ 3,875,564</u>

Note 16 – Key Man Life Insurance Policy

In June 2016, MLF acquired a \$1,000,000 life insurance policy on the President/CEO. MLF is paying the annual premiums and the policy period is 10 years, expiring on June 20, 2026, with a policy contract amount increase of \$50,000 annually and a total increase limit of \$250,000. MLF is the owner/beneficiary of the policy. During the year ended December 31, 2016, MLF paid \$7,312 in insurance premiums related to this policy.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

Note 17 – Subsequent Events

In March 2017, MLF renewed and increased their line of credit agreement to \$300,000 with Frost Bank to expire on March 25, 2018. Interest is due monthly on the outstanding balance and is charged at a variable rate of prime plus 1.25%. MLF has not drawn on the line of credit as of May 22, 2017.

MLF received a long-term pledge from Austin DMO, Inc. dba Downtown Austin Alliance (the “Alliance”) in May 2017 totaling \$2,000,000 payable in annual installments over a maximum ten-year period beginning in October 2017 and continuing until the final installment in October 2026. Payments beyond October 2022 are contingent on the reauthorization of the Public Improvement District (PID) beyond its current expiration date of April 30, 2023. Should the PID not be reauthorized, this agreement shall immediately terminate. In addition, MLF must submit a business plan beginning September 1, 2017 and must provide the annual Form 990 and audited financial statements as soon as they are complete. The funds are restricted for capital improvements for Community First! Village phases 2, 3, and 4 and for addressing the needs of people who are chronically homeless. MLF shall not commingle the Alliance funds with other programs or operations of MLF. The Alliance may terminate this pledge agreement at any time or without cause.

During 2017, MLF has incurred an additional \$138,705 of construction materials and supplies, and paid for repairs/maintenance services from the related party company (see Note 10).

During 2017, MLF has incurred an additional \$236,312 and \$53,590 of construction costs with Contractor #3 and Contractor #4, respectively, for MLF’s Community First! Village (see Note 6).