

Audited Financial Statements

Mobile Loaves & Fishes, Inc.

*For the Years Ended December 31, 2017 and 2016
With Report of Independent Auditors*

Mobile Loaves & Fishes, Inc.

Audited Financial Statements

For the Years Ended December 31, 2017 and 2016

Contents

Report of Independent Auditors	1-2
Audited Financial Statements	
Statements of Financial Position	4
Statements of Activities.....	5-6
Statements of Functional Expenses	7-8
Statements of Cash Flows	9-10
Notes to Financial Statements	11-27

Report of Independent Auditors

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

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, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

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, 2017 and 2016, 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 23, 2018

Audited Financial Statements

Mobile Loaves & Fishes, Inc.

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,539,525	\$ 2,332,092
Current pledges receivable – unrestricted, net	5,000	-
Current pledges receivable – restricted, net	609,066	454,036
Other receivables	13,628	20,390
Investments	64	26,045
Inventory	16,064	13,998
Notes receivable – current	1,996	875
Prepaid expenses	1,634	15,397
Donated assets	1,500	-
Total current assets	<u>2,188,477</u>	<u>2,862,833</u>
Restricted cash and cash equivalents	916,629	947,335
Long-term pledges receivable – restricted, net	1,664,966	388,626
Notes receivable – non-current	1,304	-
Property and equipment, net	16,708,826	13,365,527
Security deposit	500	800
Total assets	<u>\$ 21,480,702</u>	<u>\$ 17,565,121</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 514,475	\$ 157,720
Accrued payroll expenses	115,633	118,603
Other current liabilities	75,683	51,493
Deferred rental income	15,845	10,182
Note payable – current portion	250,000	250,000
Total current liabilities	<u>971,636</u>	<u>587,998</u>
Note payable – non-current portion, net of unamortized debt issuance costs	<u>877,004</u>	<u>1,121,639</u>
Total liabilities	<u>1,848,640</u>	<u>1,709,637</u>
Net Assets:		
Unrestricted net assets	16,441,401	14,065,487
Temporarily restricted net assets	3,190,661	1,789,997
Total net assets	<u>19,632,062</u>	<u>15,855,484</u>
Total liabilities and net assets	<u>\$ 21,480,702</u>	<u>\$ 17,565,121</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Public support:			
Contributions from public – restricted	\$ -	\$ 6,666,007	\$ 6,666,007
Unrestricted contributions	1,813,806	-	1,813,806
In-kind contributions	270,666	13,560	284,226
Direct mail contributions	250,478	15,398	265,876
Rent income	543,493	-	543,493
Total public support	<u>2,878,443</u>	<u>6,694,965</u>	<u>9,573,408</u>
Special events:			
Special events income	121,575	-	121,575
Special events expense	(89,069)	-	(89,069)
Special events, net	<u>32,506</u>	<u>-</u>	<u>32,506</u>
Micro-enterprise:			
Micro-enterprise income	177,894	-	177,894
Micro-enterprise expense	(156,100)	-	(156,100)
Micro-enterprise, net	<u>21,794</u>	<u>-</u>	<u>21,794</u>
Other program income:			
Other program income	288,106	-	288,106
Other program expense	(65,587)	-	(65,587)
Other program income, net	<u>222,519</u>	<u>-</u>	<u>222,519</u>
Other income:			
Gains on sales/disposals of fixed assets, net	8,839	-	8,839
Gains on sales of stock	780	-	780
Interest income	15	-	15
Other income	49,057	-	49,057
Total other income	<u>58,691</u>	<u>-</u>	<u>58,691</u>
Net assets released from restrictions	<u>5,294,301</u>	<u>(5,294,301)</u>	<u>-</u>
Total support, income, and reclassifications	<u>8,508,254</u>	<u>1,400,664</u>	<u>9,908,918</u>
Expenses:			
Program services	5,358,580	-	5,358,580
Fundraising	354,161	-	354,161
Management and general	379,421	-	379,421
Total expenses	<u>6,092,162</u>	<u>-</u>	<u>6,092,162</u>
Total change in net assets	<u>2,416,092</u>	<u>1,400,664</u>	<u>3,816,756</u>
Net assets:			
Beginning of year	14,065,487	1,789,997	15,855,484
Net assets transferred	(40,178)	-	(40,178)
Net assets, end of year	<u>\$ 16,441,401</u>	<u>\$ 3,190,661</u>	<u>\$ 19,632,062</u>

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	5,638,603	(5,638,603)	-
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	3,654,118	(2,085,567)	1,568,551
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 Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Fundraising	Management & General	Total
Automobile expense	\$ 77,465	\$ -	\$ -	\$ 77,465
Charitable donations	6,235	-	-	6,235
Continuing education & training	26,413	165	20,675	47,253
Community building events	97,863	-	-	97,863
Contract labor	24,876	-	2,842	27,718
Merchant and bank fees	58,286	-	-	58,286
Direct mail expense	24,049	24,050	-	48,099
Dues and subscriptions	6,873	970	1,851	9,694
Facilities expense	656,129	-	4,761	660,890
Food distributed	567,469	-	-	567,469
Genesis Garden labor	62,206	-	-	62,206
Insurance	37,917	-	-	37,917
Interest	55,017	-	-	55,017
IT expenses	119,336	17,799	17,675	154,810
License & taxes	6,224	-	802	7,026
Marketing	29,033	29,033	-	58,066
Miscellaneous expenses	9,209	-	12,794	22,003
Payroll and benefits expenses	1,767,983	263,696	261,855	2,293,534
Postage and delivery	5,836	870	864	7,570
Printing and reproduction	19,173	2,860	2,840	24,873
Professional fees	110,154	-	18,523	128,677
Rent expense	49,891	2,062	4,920	56,873
Supplies	369,743	-	16,490	386,233
Telephone	17,407	2,655	2,880	22,942
Trailer expenses	171,623	-	-	171,623
Travel, meals, and entertainment	18,597	4,824	9,649	33,070
Total expenses before depreciation	4,395,007	348,984	379,421	5,123,412
Depreciation expense	963,573	5,177	-	968,750
Total expenses	\$ 5,358,580	\$ 354,161	\$ 379,421	\$ 6,092,162
Percentage of total expenses	88%	6%	6%	100%

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
Interest	30,494	-	-	30,494
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	17,849	-	2,031	19,880
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	3,799,257	318,918	333,913	4,452,088
Depreciation expense	413,051	5,107	-	418,158
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.

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 3,816,756	\$ 1,568,551
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Net assets transferred	(40,178)	(157,191)
Depreciation	968,750	418,158
Debt issuance costs – interest expense	5,365	10,730
Change in allowance for uncollectible receivables	743,163	(39,469)
Non-cash donations of fixed assets	(47,380)	(106,650)
Non-cash donations of common stock	(393,644)	(172,833)
Gains on sales of fixed assets, net	(8,839)	(36,275)
Gains on sales of donated common stock	(780)	(558)
(Increase) decrease in pledges receivable	(2,179,533)	378,396
(Increase) decrease in other receivables	6,762	(14,701)
Increase in inventory	(2,066)	(13,998)
(Increase) decrease in prepaid expenses	13,763	(14,856)
Decrease in security deposit	300	5,800
Increase (decrease) in accounts payable	356,755	(370,544)
Increase (decrease) in accrued payroll expenses	(2,970)	33,652
Increase in other current liabilities	24,190	40,215
Increase in deferred rental income	5,663	9,802
Net cash provided by operating activities	<u>3,266,077</u>	<u>1,538,229</u>
Cash flows from investing activities:		
Collections of notes receivable	2,875	5,734
Purchases of property and equipment	(4,314,535)	(4,167,372)
Issuance of notes receivable	(5,300)	-
Proceeds from sale of donated common stock	420,405	151,561
Proceeds from sales of fixed assets	57,205	42,530
Net cash used in investing activities	<u>(3,839,350)</u>	<u>(3,967,547)</u>
Cash flows from financing activities:		
Proceeds from notes payable	-	1,392,205
Proceeds from line of credit	250,000	250,000
Repayments of line of credit	(250,000)	(250,000)
Repayments of note payable	(250,000)	-
Payments of debt issuance costs	-	(31,296)
Net cash provided by (used in) financing activities	<u>(250,000)</u>	<u>1,360,909</u>
Change in cash and cash equivalents	(823,273)	(1,068,409)
Cash and cash equivalents, beginning of year	3,279,427	4,347,836
Cash and cash equivalents, end of year	<u>\$ 2,456,154</u>	<u>\$ 3,279,427</u>

Mobile Loaves & Fishes, Inc.

Statements of Cash Flows (continued)

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents consists of:		
Unrestricted cash and cash equivalents	\$ 1,539,525	\$ 2,332,092
Restricted cash and cash equivalents	916,629	947,335
Total cash and cash equivalents	<u>\$ 2,456,154</u>	<u>\$ 3,279,427</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 49,652</u>	<u>\$ 19,764</u>
Supplemental non-cash investing activities:		
Non-monetary transaction – Gain on trade-in of trailer	<u>\$ 2,000</u>	<u>\$ 11,000</u>
Non-monetary transaction – Receivables acquired through sale of fixed assets	<u>\$ -</u>	<u>\$ 15,320</u>

See accompanying notes to the financial statements.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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. MLF has been serving in Central Texas since incorporation in 2000. MLF’s mission to provide food and clothing, cultivate community and promote dignity to our homeless brothers and sisters is accomplished through 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 Mobile Loaves & Fishes 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 30,000 volunteers and over 5 million meals served, Mobile Loaves & Fishes 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. A development of Mobile Loaves & Fishes, this transformative residential program exists to love and serve our neighbors who have been living on the streets, while also empowering the surrounding community into a lifestyle of service with the homeless. 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 in 2018.

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 Mobile Loaves & Fishes 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 or services rendered, 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, 2017 and 2016

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 designations 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, 2017 and 2016.

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, 2017 and 2016. 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, 2017 and 2016*

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 2016, 2015, and 2014 are open to examination by the IRS as of December 31, 2017.

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 and cash equivalents, 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. The carrying amount of the note payable approximates fair value because the interest rate approximates the current market interest rate.

Date of Management's Review

These financial statements considered subsequent events through May 23, 2018, the date the financial statements were available to be issued.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016, 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 \$2,500 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, 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, 2017 and 2016, investments consisted of common stock and money market funds valued at \$64 and \$26,045, 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. Debt issuance costs have been recorded as a direct deduction from the face amount of the notes payable (see Note 8). Amortization of debt issuance costs is computed using the straight-line method over the life of the applicable loan and recorded as interest expense. Interest expense for the years ended December 31, 2017 and 2016 was \$5,365 and \$10,730, respectively.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016.

Intentions to Give

MLF received an intention to give from a donor during the year ended December 31, 2017 hoping to contribute towards MLF's Community First! Village over a 10 year period. Since this pledge does not meet the criteria for revenue recognition under FASB ASC 958, it is not reflected as a contribution in the statements of activities until the pledge is collected. As of December 31, 2017 and 2016, totals intentions to give totaled \$900,000 and \$0, respectively.

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, 2017 and 2016. 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 30,435 and 22,452 volunteers have contributed their time to MLF as of December 31, 2017 and 2016, respectively.

Reclassifications

Certain 2016 audited amounts have been reclassified in order to conform to the 2017 financial statement presentation.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 2 – Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various promotional programs and other activities of MLF 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 and restricted 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, 2017 and 2016, MLF had \$1,281,064 and \$2,553,288, 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, 2017 and 2016 as follows:

	2017	2016
Due within one year	\$ 959,066	\$ 454,036
Due between one and five years	1,816,799	498,199
Due in more than five years	478,000	-
Discount to present value	(136,446)	(14,349)
Allowance for uncollectible receivables	(838,387)	(95,224)
Total pledges receivable, net	2,279,032	842,662
Less: Current pledges receivable, net	614,066	454,036
Long-term pledges receivable, net	\$ 1,664,966	\$ 388,626

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, 2017 and 2016, assuming an interest rate of 2.0%.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 5 – Notes Receivable

MLF created promissory notes due to MLF for participants who purchased vehicles. During the terms of the promissory notes, MLF maintained security interest in the vehicles. The notes receivable at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Date of note: 11/27/2017, amount of note: \$400, interest 0%, payment terms include monthly payments of \$50 starting 1/10/18 ending 8/10/18.	\$ 400	\$ -
Less current portion	<u>(400)</u>	-
Non-current portion	<u>\$ -</u>	<u>\$ -</u>
Date of note: 11/17/2017, amount of note: \$1,400, interest 0%, payment terms include monthly payments of \$58 starting 1/15/18 ending 12/15/20.	\$ 1,400	\$ -
Less current portion	<u>(696)</u>	-
Non-current portion	<u>\$ 704</u>	<u>\$ -</u>
Date of note: 1/26/2017, amount of note: \$2,500, interest 0%, payment terms include a one-time payment due 1/26/17, 30 \$25 payments from 1/1/17 through 9/30/17, and 15 \$100 payments beginning 4/1/18 through 6/30/19.	\$ 1,500	\$ -
Less current portion	<u>(900)</u>	-
Non-current portion	<u>\$ 600</u>	<u>\$ -</u>
Date of note: 12/20/2016, amount of note: \$1,000, interest 0%. Payment terms were \$100 due at time of agreement signature and 36 payments of \$25 beginning 12/30/2016 and continuing semi-monthly through 6/15/18. This note was forgiven during 2017 and MLF recorded a loss on disposal of fixed asset of \$525.	\$ -	\$ 875
Less current portion	<u>-</u>	-
Non-current portion	<u>\$ -</u>	<u>\$ 875</u>

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 5 – Notes Receivable (continued)

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

<i>Year Ending December 31,</i>	
2018	\$ 1,996
2019	1,304
Total	<u>\$ 3,300</u>

Note 6 – Property and Equipment

At December 31, 2017 and 2016, property and equipment consisted of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,536,430	\$ 1,536,430
Land improvements	5,706,471	5,702,970
Buildings and other housing units	7,390,757	3,063,870
Vehicles	746,338	695,723
Recreational vehicles	1,672,904	1,218,952
Computer equipment	126,739	68,327
Furniture and fixtures	130,979	39,785
Equipment and storage	906,058	700,533
CIP: Community First! Village	682,580	1,827,076
Total cost	<u>18,899,256</u>	<u>14,853,666</u>
Less: accumulated depreciation	<u>(2,190,430)</u>	<u>(1,488,139)</u>
Property and equipment, net	<u>\$ 16,708,826</u>	<u>\$ 13,365,527</u>

Total depreciation expense was \$968,750 and \$418,158, respectively, for the years ended December 31, 2017 and 2016.

For the years ended December 31, 2017 and 2016, MLF made purchases of property and equipment totaling \$4,314,535 and \$4,167,372, 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.

During the year ended December 31, 2017, MLF purchased approximately 21 trailer homes totaling \$605,450 from one vendor.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements *For the Years Ended December 31, 2017 and 2016*

Note 6 – Property and Equipment (continued)

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 were 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. 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 related 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 were 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. 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 related 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 was subject to additions, deletions or other revisions by change orders which were agreed upon by both MLF and the contractor. MLF incurred \$2,333,175 and \$396,458 of costs with Contractor #3 for the years ended December 31, 2017 and 2016, respectively. The construction for the Sanctuary and Hospitality Center was completed and placed into service in December 2017 which was the date MLF reclassified the related construction-in-progress to buildings and began depreciating the asset.

In October 2016, MLF entered into a construction contract to build four outdoor kitchens with Contractor #4 totaling \$99,977, which was subject to additions, deletions or other revisions by change orders which were agreed upon by both MLF and the contractor. MLF incurred \$90,205 and \$30,600 of costs with Contractor #4 for the years ended December 31, 2017 and 2016, respectively. The construction for all four outdoor kitchens were completed and placed into service in September 2017, which is the date MLF reclassified the related construction-in-progress to buildings and began depreciating the assets.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements *For the Years Ended December 31, 2017 and 2016*

Note 7 – Line of Credit & Standby Letter of Credit

During 2014, MLF entered into a line of credit agreement for \$200,000 with Frost Bank which expired on January 16, 2016. In March 2016, the agreement was extended to March 2017. In August 2016, MLF renewed and increased their line of credit agreement with Frost Bank to \$300,000 set to mature August 22, 2017. In August 2017, MLF renewed and increased their revolving line of credit agreement to \$500,000 with Frost Bank to expire on August 29, 2018. The agreement calls for a variable interest rate. During the years ended December 31, 2017 and 2016, MLF drew and re-paid \$250,000 on the line of credit each year. There were no outstanding balances at December 31, 2017 and 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, 2017 and 2016.

Note 8 – Note Payable

In October 2014, MLF entered into a construction loan agreement with Frost Bank. Frost Bank agreed 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, 2017 and 2016, outstanding balances totaled \$1,142,205 and \$1,392,205, respectively. In addition, at December 31, 2017 and 2016, the balance of unamortized debt issuance costs totaled \$15,201 and \$20,566, respectively. MLF requested no advances during the years ended December 31, 2017 and 2016.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

Note 8 – Note Payable (continued)

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, 2017 are as follows:

<i>Year Ending December 31,</i>	
2018	\$ 250,000
2019	250,000
2020	250,000
2021	250,000
2022	142,205
Total	<u>\$ 1,142,205</u>

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, 2017 and 2016 were \$40,552 and \$44,145, respectively.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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, 2017 and 2016, MLF paid \$232,901 and \$330,839, 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.

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 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 16 for the transfers of net assets to these communities during 2017 and 2016.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements For the Years Ended December 31, 2017 and 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 continued the office lease month-to-month until December 2017 when MLF's Sanctuary & Hospitality Center at Community First! Village was fully completed. In addition, MLF entered into a storage space agreement with an expiration date of February 29, 2017. For the years ended December 31, 2017 and 2016, MLF received in-kind land lease expenses totaling \$12,000 and \$10,000, respectively. Total facility rent expenses for the years ended December 31, 2017 and 2016 were \$30,012 and \$42,530, respectively. MLF has also entered into two lease agreements for office equipment set to expire in September 2019 and June 2021. Total equipment rent expenses for the years ended December 31, 2017 and 2016 were \$14,852 and \$5,408, respectively.

Future minimum lease payments at December 31, 2017 are as follows:

<i>Year Ending December 31,</i>	
2018	\$ 10,248
2019	8,652
2020	5,460
2021	2,275
Total minimum lease payments	<u>\$ 26,635</u>

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 \$91,567 and \$80,700 at December 31, 2017 and 2016, respectively.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

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 all of the pledge as contribution income and related pledge receivable for the year ended December 31, 2016. During the years ended December 31, 2017 and 2016, MLF received and recognized \$100,000 each year related to this pledge.

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. During the year ended December 31, 2017, MLF met most of the conditions of the pledge and \$900,000 was recognized as revenue. MLF met the final conditions of the pledge in January 2018 and the remaining \$300,000 will be recognized as revenue during the year ended December 31, 2018.

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 10 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. MLF recorded the \$1,200,000 unconditional portion of the pledge receivable and related contribution income during the year ended December 31, 2017. MLF will not record the contribution income and related pledge receivable for the conditional portion of the pledge totaling \$800,000 until the contingency has been met. At December 31, 2017, the unconditional pledge receivable totaled \$1,000,000.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

Note 14 – Temporarily Restricted Net Assets

MLF received the following temporarily restricted support for the year ended December 31, 2017:

	<u>Beginning Balance</u>	<u>Donations Received</u>	<u>Released from Restrictions</u>	<u>Ending Balance</u>
Temporarily Restricted Donations:				
Community First!	\$ 1,750,527	\$ 6,546,527	\$ (5,120,609)	\$ 3,176,445
CF! Genesis Gardens	-	19,886	(19,886)	-
Gridmates	9,083	-	(9,083)	-
Truck operations	4,887	33,452	(34,654)	3,685
Micro-Enterprise Fund	-	10,919	(10,919)	-
Other Program Services	25,500	84,181	(99,150)	10,531
	<u>\$ 1,789,997</u>	<u>\$ 6,694,965</u>	<u>\$ (5,294,301)</u>	<u>\$ 3,190,661</u>

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>

Note 15 – 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 years ended December 31, 2017 and 2016, MLF paid \$12,534 and \$7,312, respectively, in insurance premiums related to this policy.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements For the Years Ended December 31, 2017 and 2016

Note 16 – Transfers of Net Assets

During the year ended December 31, 2017, MLF transferred net assets to the following community (see Note 10):

St. Joan of Arc (SJA)	<u>\$ 40,178</u>
Total net assets transferred	<u><u>\$ 40,178</u></u>

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

Open Table of Christ 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)	<u>44,197</u>
Total net assets transferred	<u><u>\$ 157,191</u></u>

Note 17 – Change in Accounting Principle

During the year ended December 31, 2017, management of MLF adopted FASB's Accounting Standard Updated (ASU) No. 2015-03 Interest-Imputation of Interest (Subtopic 835-30) in order to simplify the presentation of debt issuance costs. MLF recorded the cumulative effect of the adoption of this accounting principle retrospectively to the financial statements for the years ended December 31, 2017 and 2016. This consisted of reclassifying the debt issuance costs to a liability (contra-liability account) and a direct deduction of the note payable from a non-current asset account. In addition, the amortization of the debt issuance costs was reclassified to interest expense rather than depreciation expense.

To properly reflect the accounting principle change retrospectively, MLF's year ended December 31, 2016 financial statements were restated to reflect the following adjustments: 1) debt issuance costs, net were reclassified from a non-current asset account to a current liability account in order to directly deduct the non-current portion of the note payable totaling \$20,566 rather than reflect the fees as deferred charges; and 2) \$10,730 of amortized debt issuance costs were reclassified from depreciation expense to interest expense. No changes were made to MLF's net assets to reflect the change in accounting principle for the year ended December 31, 2016.

Mobile Loaves & Fishes, Inc.

Notes to Financial Statements

For the Years Ended December 31, 2017 and 2016

Note 18 – Subsequent Events

From January 1, 2018 to the audit report date, MLF has received \$160,000 in long-term pledges restricted to Pave the Way Home Phase 1 and approximately \$4,226,000 in long-term pledges restricted to MLF's Ten Year Plan campaign.

In February 2018, a Foundation made a \$1,000,000 conditional pledge to MLF under the condition that certain deliverables are met.

During March 2018, MLF entered into an agreement to replace the standby letter of credit required by the City of Austin, which expired in March 2018 (see Note 7), with surety bonds totaling \$279,802, which were purchased by Contractor #1 (see Note 6). The surety bond agreement is set to expire December 31, 2020.

From January 1, 2018 to the audit report date, MLF has purchased 7 trailer homes totaling \$195,560 from one vendor.

In April 2018, MLF entered into a two-year Memorandum of Understanding ("MOU") with Austin Recovery, Inc. (a Texas not-for-profit organization), effective May 1, 2018, to create and operate a substance abuse Intensive Outpatient Program ("IOP") for MLF's Community First! Village neighbors. Contributions to support this MOU and program will come to MLF in either quarterly or annual installments from the J Campbell Murrell Fund based on the agreed upon budget. MLF will pay Austin Recovery, Inc. \$11,263 per month from May 1, 2018 through December 31, 2018 to provide one counselor on site and all the oversight, expertise, management and overhead from Austin Recovery, Inc. that this entails. Beginning January 1, 2019, MLF shall pay Austin Recovery, Inc. \$11,263 if there is one counselor on site full time and \$19,220 if two counselors are on site full time. After the first few months, Austin Recovery, Inc. will gather data to evaluate billing third party payers for IOP services and share a summary with MLF. If third party reimbursements are received, they will be deposited by Austin Recovery, Inc. and will reduce the amount Austin Recovery, Inc. receives from MLF each month.