

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013 AND 2012

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

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Independent Auditor's Report

Board of Directors
Friedens Community Ministries, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the Friedens Community Ministries, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

A handwritten signature in black ink that reads "Krause & Associates, SC". The signature is written in a cursive style.

Krause & Associates, SC
Grafton, Wisconsin
May 14, 2014

FRIEDENS COMMUNITY MINISTRIES, INC.
 STATEMENTS OF FINANCIAL POSITION
 DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 132,543	\$ 116,161
Investment	65,118	56,097
Contribution receivable – United Way	30,630	30,326
Prepaid expenses	<u>6,646</u>	<u>3,643</u>
	<u>234,937</u>	<u>206,227</u>
FIXED ASSETS		
Equipment	28,003	28,526
Less accumulated depreciation	<u>(16,701)</u>	<u>(10,362)</u>
Total fixed assets	<u>11,302</u>	<u>18,164</u>
TOTAL ASSETS	<u>\$ 246,239</u>	<u>\$ 224,391</u>
	=====	=====
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	<u>\$ 55</u>	<u>\$ 50</u>
Total liabilities	55	50
NET ASSETS		
Unrestricted	215,554	194,015
Temporarily restricted	<u>30,630</u>	<u>30,326</u>
Total net assets	<u>246,184</u>	<u>224,341</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 246,239</u>	<u>\$ 224,391</u>
	=====	=====

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

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
		2013	
REVENUE AND SUPPORT			
Contributions	\$ 82,705	\$ -	\$ 82,705
United Way	36,633	30,630	67,263
In-kind			
Donated food	229,360	-	229,360
Other	5,173	-	5,173
Interest and dividends	3,385	-	3,385
Other	1,800	-	1,800
Net unrealized gain/(loss)	5,636	-	5,636
Loss on disposal of assets	(157)	-	(157)
Net assets released from restrictions	<u>30,326</u>	<u>(30,326)</u>	<u>-</u>
Total revenue and support	<u>394,861</u>	<u>304</u>	<u>395,165</u>
EXPENSES			
Program	350,422	-	350,422
Administrative	9,806	-	9,806
Fundraising	<u>13,094</u>	<u>-</u>	<u>13,094</u>
Total expenses	<u>373,322</u>	<u>-</u>	<u>373,322</u>
Change in net assets	21,539	304	21,843
NET ASSETS, beginning of year	<u>194,015</u>	<u>30,326</u>	<u>224,341</u>
NET ASSETS, end of year	<u>\$ 215,554</u>	<u>\$ 30,630</u>	<u>\$ 246,184</u>
	=====	=====	=====

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

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
	<u>2012</u>		
REVENUE AND SUPPORT			
Contributions	\$ 92,477	\$ -	\$ 92,477
United Way	47,047	30,326	77,373
In-kind			
Donated food	267,060	-	267,060
Other	7,840	-	7,840
Annual dinner	15,320	-	15,320
Interest and dividends	1,643	-	1,643
Other	2,274	-	2,274
Net unrealized gain/(loss)	2,752	-	2,752
Net assets released from restrictions	<u>47,569</u>	<u>(47,569)</u>	<u>-</u>
Total revenue and support	<u>483,982</u>	<u>(17,243)</u>	<u>466,739</u>
EXPENSES			
Program	381,950	-	381,950
Administrative	16,187	-	16,187
Fundraising	<u>23,255</u>	<u>-</u>	<u>23,255</u>
Total expenses	<u>421,392</u>	<u>-</u>	<u>421,392</u>
Change in net assets	62,590	(17,243)	45,347
NET ASSETS, beginning of year	<u>131,425</u>	<u>47,569</u>	<u>178,994</u>
NET ASSETS, end of year	<u>\$ 194,015</u>	<u>\$ 30,326</u>	<u>\$ 224,341</u>
	=====	=====	=====

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

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 21,843	\$ 45,347
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	6,705	6,705
Loss on disposal of asset	157	-
(Increase) decrease in contributions receivable	(304)	(2,757)
(Increase) decrease in prepaid expenses	(3,003)	6
Increase (decrease) in accounts payable	5	(409)
Unrealized gain loss on investments	<u>(5,636)</u>	<u>(2,752)</u>
Net cash provided by operating activities	19,767	46,140
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(20,003)
Investment dividends reinvested	<u>(3,385)</u>	<u>(1,643)</u>
Net cash used in investing activities	<u>(3,385)</u>	<u>(21,646)</u>
Net increase in cash and cash equivalents	16,382	24,494
Cash and cash equivalents at beginning of year	<u>116,161</u>	<u>91,667</u>
Cash and cash equivalents at end of year	\$ 132,543 =====	\$ 116,161 =====

No cash paid for interest or income taxes during 2013 and 2012.

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

FRIEDENS COMMUNITY MINISTRIES, INC.
 STATEMENTS OF FUNCTIONAL EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

2013				
	Program	Administrative	Fundraising	Total
OPERATING EXPENSES				
Salaries and wages	\$ 52,158	\$ 6,895	\$ 6,644	\$ 65,697
Employee benefits	-	-	-	-
Payroll taxes	7,684	875	812	9,371
Legal and professional	2,751	259	227	3,237
Temporary help	5,469	-	-	5,469
Office supplies	1,086	102	89	1,277
Postage	251	24	20	295
Maintenance	5,744	541	473	6,758
Acquisition of food	250,239	-	-	250,239
Depreciation	6,705	-	-	6,705
Vehicle	2,114	199	174	2,487
Rent	10,736	461	403	11,600
Miscellaneous	5,485	450	4,252	10,187
Total expenses	\$ 350,422	\$ 9,806	\$ 13,094	\$ 373,322

2012				
	Program	Administrative	Fundraising	Total
OPERATING EXPENSES				
Salaries and wages	\$ 53,714	\$ 12,047	\$ 8,337	\$ 74,098
Employee benefits	-	-	-	-
Payroll taxes	5,904	1,253	873	8,030
Legal and professional	1,113	205	147	1,465
Temporary help	2,656	-	-	2,656
Office supplies	1,939	357	255	2,551
Postage	132	24	18	174
Maintenance	1,852	341	244	2,437
Acquisition of food	289,485	-	-	289,485
Depreciation	6,681	14	10	6,705
Vehicle	1,887	348	248	2,483
Rent	8,880	560	400	9,840
Miscellaneous	7,707	1,038	12,723	21,468
Total expenses	\$ 381,950	\$ 16,187	\$ 23,255	\$ 421,392

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

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Organization and business activity

Friedens Community Ministries, Inc. (Friedens) is a Wisconsin non-stock nonprofit corporation, whose primary purpose is the distribution of food to needy individuals and families in the Milwaukee, WI metropolitan area. The pantry has one permanent location with an office and two satellite locations staffed by volunteers.

2. Accounting method

Friedens follows the accrual method of accounting wherein revenues and expenses are recorded in the period earned or incurred. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Friedens are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted net assets - Net assets subject to donor-imposed restrictions that may or may not be met, either by actions of Friedens and/or the passage of time. When a restriction is met, restricted net assets are transferred to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted net assets – Net assets subject to a donor imposed restriction that they be maintained permanently by Friedens. As of December 31, 2013 and 2012, Friedens has no permanently restricted net assets.

3. Cash and cash equivalents

For purposes of the statements of cash flows, Friedens considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2013 AND 2012

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Investments

Investments are presented at fair value in the statements of financial position. All interest and dividend income is recorded in the unrestricted fund, unless a donor restricts that money. Investment income or loss is included in income (loss) from operations.

Investment securities, in general, are inherently subject to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position and statements of activities.

5. Accounts and contributions receivable

Friedens considers all accounts receivable to be fully collectible; accordingly, no provision for doubtful accounts is included. If amounts become uncollectible, they will be charged to operations when that determination is made.

6. Fixed assets

Fixed assets are recorded at cost or fair market value if donated. Friedens capitalizes all new expenditures for fixed assets in excess of \$500. Maintenance and repairs are expensed currently. Fixed assets are depreciated over the estimated useful lives of the assets using the straight-line method as follows:

Vehicles	5 years
Equipment	5 years

7. Income taxes

Friedens is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Friedens evaluates its tax positions and assesses their uncertainty, if any, through review and application of various sources of tax authority including statutes, regulations, rulings, court cases and widely held administrative practices.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2013 AND 2012

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Income taxes – continued

Friedens' informational returns for 2010, 2011, and 2012 are subject to examination by the IRS, generally for three years after they were filed. Management believes that no uncertain tax positions exist for Friedens at December 31, 2013 and 2012. Friedens has not incurred any interest or penalties for income taxes for the years ended December 31, 2013 and 2012.

8. Donated services and materials

A number of unpaid volunteers have made significant contributions of their time in conjunction with Friedens' programs and services. The value of this contributed time is not included in these financial statements, since they are not susceptible to objective measurement.

9. Allocation of functional expenses

Allocations presented on the statements of functional expenses are estimated by management based upon staff time devoted to the various functions or the purpose of the expense.

10. Use of estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through May 14, 2014, which is the date that the financial statements were available to be issued. The YMCA of Metropolitan Milwaukee has decided to close the John C. Cudahy location, which will require Friedens to close its location in that building. Friedens plans to relocate elsewhere in the neighborhood.

FRIEDENS COMMUNITY MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2013 AND 2012

B – FAIR VALUE MEASUREMENT

Friedens has adopted fair value measurement guidance for financial assets and financial liabilities. The guidance defines fair value, establishes a framework for measuring value in generally accepted accounting principles and expands disclosure about fair value measurements.

Fair value is defined to be 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. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or a liability.

In addition, the guidance permits an entity to choose to measure eligible financial instruments and other items at fair value. Friedens has not made any fair value elections as of December 31, 2013.

Fair value is defined to be 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. A three-level hierarchy has been established for fair value measurements based upon the inputs to the valuation of an asset or a liability.

Level 1 – Valuation is based on quoted prices for identical assets and liabilities in active markets.

Level 2 – Valuation is derived from inputs that are other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 – Valuation is derived from unobservable inputs that are not corroborated by market data.

Assets that were accounted for at fair value on a recurring basis as of December 31, 2013 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment	\$ 65,118	\$ -	\$ -	\$ 65,118
	=====	=====	=====	=====

FRIEDENS COMMUNITY MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2013 AND 2012

C - INVESTMENTS

The estimated fair value of Friedens' investments at December 31, 2013 and 2012 is as follows:

	2013	
	Cost	Fair Value
Investment, mutual fund	\$ 52,120	\$ 65,118
	=====	=====
	2012	
	Cost	Fair Value
Investment, mutual fund	\$ 48,731	\$ 56,097
	=====	=====

D- LEASE COMMITMENTS

Friedens operates three pantries under three separate lease arrangements. Its main pantry in the Martha Cogs building was used under a no-cost arrangement with the State of Wisconsin. Commencing January 1, 2013, Friedens entered into an operating lease for the space. Rent expense is \$480 per month. The agreement is perpetual, with 90 days notice of termination required. Friedens recorded \$4,000 of in-kind income and rent expense related to the donation of this space in 2012. Rent expense under this lease was \$5,760 in 2013.

The second pantry, Despensa de la Paz, is located on the near-south side of Milwaukee, in space owned by the Council for the Spanish Speaking. The lease does not stipulate a rental payment; Friedens made a contribution to the organization in the amount of \$2,000 in 2012, of which \$667 was included as prepaid expenses at December 31, 2012 and was expensed in 2013. The agreement is perpetual, with 120 days notice of termination required. Friedens recorded \$1,333 of in-kind income and rent expense related to the donation of this space in 2013.

Friedens' third pantry is in the John C. Cudahy YMCA in Milwaukee; the space was leased in April of 2011 under a perpetual lease agreement requiring 120 days written notice and no lease payment. Friedens' recorded \$3,840 of in-kind income and rent expense related to the donation of this space for 2013 and 2012, respectively.

Rent expense was \$10,736 and \$9,840 in 2013 and 2012, respectively. There are no required minimum lease payments.

FRIEDENS COMMUNITY MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2013 AND 2012

E – NON-CASH CONTRIBUTIONS AND EXPENDITURES

Friedens receives and distributes food under a government program, The Emergency Food Assistance Program (TEFAP), and other grants. Most of this food is donated to the pantry by the government or other granting agencies. The estimated value of this food is recorded as both revenue and expense at the time of receipt. 212,876 and 273,397 pounds of food were distributed in this manner in 2013 and 2012, respectively.

During 2013 and 2012, Friedens received \$5,173 and \$7,840, respectively, of in-kind donations of rent.

A significant amount of volunteer labor is received by Friedens for support purposes. No amounts have been recognized for these services in the accompanying statements of activities because the criteria for recognition of such volunteer efforts under SFAS No. 116 have not been satisfied.

F – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2013 and 2012:

	2013	2012
Timing restrictions	\$ 30,630 =====	\$ 30,326 =====

H – CONCENTRATION OF RISK

During the years ended December 31, 2013 and 2012, cash contributions totaling \$86,497 and \$99,373, which represents 58% and 54%, respectively, of the total cash contributions were received from five major contributors.