

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2017 AND 2016

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	2
Financial Statements	
Statements of Financial Position	4
Statements of Activities and Changes in Net Assets	5 - 6
Statements of Cash Flows	7
Statements of Functional Expenses	8
Notes to Financial Statements	9

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, 2017 and 2016, 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, 2017 and 2016, 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
June 15, 2018

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 93,106	\$ 94,635
Investment	70,412	77,073
Contribution receivable – United Way	28,944	28,944
Grants receivable	-	12,091
Accounts receivable	-	6,444
Prepaid expenses	<u>9,981</u>	<u>14,279</u>
	<u>202,443</u>	<u>233,466</u>
FIXED ASSETS		
Equipment	45,960	17,210
Less accumulated depreciation	<u>(15,521)</u>	<u>(10,085)</u>
Total fixed assets	<u>30,439</u>	<u>7,125</u>
TOTAL ASSETS	<u>\$ 232,882</u>	<u>\$ 240,591</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 10,283	\$ 6,762
Deferred revenue	<u>10,000</u>	<u>5,000</u>
Total liabilities	20,283	11,762
NET ASSETS		
Unrestricted	158,655	198,180
Temporarily restricted	<u>53,944</u>	<u>30,649</u>
Total net assets	<u>212,599</u>	<u>228,829</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 232,882</u>	<u>\$ 240,591</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
		2017	
REVENUE AND SUPPORT			
Contributions	\$ 118,482	\$ 25,000	\$ 143,482
United Way	36,060	28,944	65,004
In-kind			
Donated food	1,629,799	-	1,629,799
Special event:			
Revenue	\$ 23,477		
Expenses	<u>(3,310)</u>	20,167	20,167
Interest and dividends	3,784	-	3,784
Realized gain on investments	3,929	-	3,929
Other	41	-	41
Net unrealized gain/(loss)	627	-	627
Gain on disposal of assets	4,906	-	4,906
Net assets released from restrictions	<u>30,649</u>	<u>(30,649)</u>	<u>-</u>
Total revenue and support	<u>1,848,444</u>	<u>23,296</u>	<u>1,871,739</u>
EXPENSES			
Program	1,847,990	-	1,847,990
Administrative	13,992	-	13,992
Fundraising	<u>25,987</u>	<u>-</u>	<u>25,987</u>
Total expenses	<u>1,887,969</u>	<u>-</u>	<u>1,887,969</u>
Change in net assets	(39,525)	23,296	(16,230)
NET ASSETS, beginning of year	<u>198,180</u>	<u>30,649</u>	<u>228,829</u>
NET ASSETS, end of year	<u>\$ 158,655</u>	<u>\$ 53,944</u>	<u>\$ 212,599</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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
	2016		
REVENUE AND SUPPORT			
Contributions	\$ 130,937	\$ 30,000	\$ 160,937
United Way	44,670	28,944	73,614
In-kind			
Donated food	580,399	-	580,399
Special event:			
Revenue	\$ 16,531		
Expenses	<u>(2,418)</u>	14,113	14,113
Interest and dividends	2,509	-	2,509
Other	30	-	30
Net unrealized gain/(loss)	2,726	-	2,726
Gain on disposal of assets	10,108	-	10,108
Net assets released from restrictions	<u>58,925</u>	<u>(58,925)</u>	<u>-</u>
Total revenue and support	<u>844,417</u>	<u>19</u>	<u>844,436</u>
EXPENSES			
Program	775,615	-	775,615
Administrative	13,667	-	13,667
Fundraising	<u>23,194</u>	<u>-</u>	<u>23,194</u>
Total expenses	<u>812,476</u>	<u>-</u>	<u>812,476</u>
Change in net assets	31,941	19	31,960
NET ASSETS, beginning of year	<u>166,239</u>	<u>30,630</u>	<u>196,869</u>
NET ASSETS, end of year	<u>\$ 198,180</u>	<u>\$ 30,649</u>	<u>\$ 228,829</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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (16,230)	\$ 31,960
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation	5,769	1,503
Gain on disposal of assets	(4,906)	(10,108)
Realized and unrealized (gain) loss on investments	(4,556)	(2,726)
(Increase) decrease in receivables	18,535	(16,849)
(Increase) decrease in prepaid expenses	4,298	(7,977)
Increase (decrease) in accounts payable	3,521	1,985
Increase (decrease) in deferred revenue	5,000	5,000
Net cash provided by (used in) operating activities	11,431	2,788
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(32,750)	(3,390)
Proceeds received from disposal of asset	8,573	10,108
Proceeds from sale of investments	15,000	-
Investment dividends reinvested	(3,783)	(2,509)
Net cash used in investing activities	(12,960)	4,209
Net increase (decrease) in cash and cash equivalents	(1,529)	6,997
Cash and cash equivalents at beginning of year	94,635	87,638
Cash and cash equivalents at end of year	\$ 93,106	\$ 94,635

Supplemental cash flow information:

In-kind contributions received	\$1,629,799	\$ 580,399
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No cash paid for interest or income taxes during 2017 and 2016.

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, 2017 AND 2016

	2017			
	Program	Administrative	Fundraising	Total
OPERATING EXPENSES				
Salaries and wages	\$ 82,643	\$ 9,223	\$ 15,535	\$ 107,401
Employee benefits	10,424	1,086	1,520	13,030
Payroll taxes	6,625	737	1,232	8,594
Legal and professional	2,958	308	431	3,697
Temporary help	7,918	905	226	9,049
Office supplies	5,460	569	796	6,825
Postage	187	20	27	234
Maintenance	3,878	-	-	3,878
Acquisition of food	1,679,021	-	-	1,679,021
Depreciation	5,769	-	-	5,769
Vehicle	14,328	-	-	14,328
Rent	18,008	480	672	19,160
Miscellaneous	10,771	664	5,548	16,983
Total expenses	<u>\$1,847,990</u>	<u>\$ 13,992</u>	<u>\$ 25,987</u>	<u>\$1,887,969</u>

	2016			
	Program	Administrative	Fundraising	Total
OPERATING EXPENSES				
Salaries and wages	\$ 84,424	\$ 9,369	\$ 15,650	\$ 109,443
Employee benefits	8,932	930	1,303	11,165
Payroll taxes	6,595	731	1,217	8,543
Legal and professional	2,751	522	401	3,674
Temporary help	6,035	710	355	7,100
Office supplies	3,283	342	478	4,103
Postage	157	17	23	197
Maintenance	4,386	-	-	4,386
Acquisition of food	616,823	-	-	616,823
Depreciation	1,503	-	-	1,503
Vehicle	4,709	-	-	4,709
Rent	16,358	480	672	17,510
Miscellaneous	19,659	566	3,095	23,320
Total expenses	<u>\$ 775,615</u>	<u>\$ 13,667</u>	<u>\$ 23,194</u>	<u>\$ 812,476</u>

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

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 network of four food pantries are located throughout the City of Milwaukee and staffed primarily by volunteers, with the assistance of a small paid staff. Three of the pantries are operated exclusively by Friedens at locations leased by Friedens. The fourth pantry, opened in 2017 and is operated jointly with a local church and is located in the church property.

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, 2017 and 2016, 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, 2017 AND 2016

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. Deferred revenue and prepaid expenses

Prepaid expenses represent disbursements paid in advance for the subsequent fiscal year. Deferred revenue consists of unearned revenue related events and rental in the subsequent fiscal year.

8. 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 COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Income taxes - continued

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' informational returns 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, 2017 and 2016. Friedens has not incurred any interest or penalties for income taxes for the years ended December 31, 2017 and 2016.

9. 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.

10. 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.

11. 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.

12. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure in the financial statements through June 15, 2018, which is the date that the financial statements were available to be issued.

FRIEDENS COMMUNITY MINISTRIES, INC.
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 DECEMBER 31, 2017 AND 2016

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.

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, 2017.

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, 2017 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment	<u>\$ 70,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,412</u>

C - INVESTMENTS

The estimated fair value of Friedens' investments at December 31, 2017 and 2016 is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Investment, mutual funds	<u>\$ 54,000</u>	<u>\$ 70,412</u>	<u>\$ 61,288</u>	<u>\$ 77,073</u>

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

D – CONTRIBUTIONS RECEIVABLE

Friedens received unconditional promises to give in the amount of \$28,944 and \$28,944 for the years ended December 31, 2017 and 2016. Management has determined that the promises to give are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at December 31, 2017 and 2016. The promises to give balance consists of the following at December 31, 2017 and 2016:

	2017	2016
Promises to give (less than one year)	<u>\$ 28,944</u>	<u>\$ 28,944</u>

E- LEASE COMMITMENTS

Friedens operates three pantries under three separate lease arrangements. Commencing January 1, 2013, Friedens entered into an operating lease for the space in the Marsha Coggs building. Rent expense is \$480 per month. The agreement is perpetual, with 90 days notice of termination required. Rent expense under this lease was \$5,760 and \$5,760 in 2017 and 2016 respectively.

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 and \$2,000 in 2017 and 2016, respectively. The agreement is perpetual, with 120 days notice of termination required. Friedens recorded \$2,000 and \$2,000 of rent expense related to this space in 2017 and 2016 respectively.

Friedens' third pantry is in the Hope House of Milwaukee the space was leased commencing January 1, 2016 for a term of one year and continues on a month-to-month basis thereafter, with 90 days notice of termination required. Rent expense is \$950 per month. Friedens' recorded \$11,400 and \$9,570 of rent expense related to this space in 2017 and 2016 respectively.

Rent expense was \$19,160 and \$17,510 in 2017 and 2016, respectively. There are no required minimum lease payments.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

F – 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. 1,041,827 and 635,435 pounds of food were distributed in this manner in 2017 and 2016, respectively. The value of the donated food is based on fair market value of the donation. If the fair market value is not provided by the donating agency, it is calculated based on the estimated cost per pound. The cost per pound used to determine the estimated fair market value was \$1.96 and \$1.00 in 2017 and 2016, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Friedens’ programs. No amounts have been recognized in the statements of activities because the criteria for recognition under U.S. GAAP have not been satisfied.

Friedens received donated personal property which Friedens used as auction and raffle items and supplies for the charity events held during the year ended December 31, 2017 and 2016. Revenue received from the sale of the auction and raffle items is reflected in the statements of activities and no amounts have been reflected for the donation of supplies for the charity events in the statements of activities.

G – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2017 and 2016:

	2017	2016
Timing restrictions	\$ 28,944	\$ 30,649
Equipment	25,000	-
Total	\$ 53,944	\$ 30,649

H – CONCENTRATION OF RISK

During the years ended December 31, 2017 and 2016, cash contributions totaling \$143,803 and \$154,763, which represents 66% and 66%, respectively, of the total cash contributions received from five major contributors, respectively.