

FRIEDENS COMMUNITY MINISTRIES, INC.
MILWAUKEE, WISCONSIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 23, 2017

FRIEDENS COMMUNITY MINISTRIES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 94,635 | \$ 87,638 |
| Investment | 77,073 | 71,838 |
| Contribution receivable – United Way | 28,944 | 30,630 |
| Grants receivable | 12,091 | - |
| Accounts receivable | 6,444 | - |
| Prepaid expenses | <u>14,279</u> | <u>6,302</u> |
| | <u>233,466</u> | <u>196,408</u> |
| FIXED ASSETS | | |
| Equipment | 17,210 | 33,823 |
| Less accumulated depreciation | <u>(10,085)</u> | <u>(28,585)</u> |
| Total fixed assets | <u>7,125</u> | <u>5,238</u> |
| | | |
| TOTAL ASSETS | <u>\$ 240,591</u> | <u>\$ 201,646</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| LIABILITIES | | |
| Accounts payable | \$ 6,762 | \$ 4,777 |
| Deferred revenue | <u>5,000</u> | <u>-</u> |
| Total liabilities | 11,762 | 4,777 |
| | | |
| NET ASSETS | | |
| Unrestricted | 198,180 | 166,239 |
| Temporarily restricted | <u>30,649</u> | <u>30,630</u> |
| Total net assets | <u>228,829</u> | <u>196,869</u> |
| | | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 240,591</u> | <u>\$ 201,646</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 |
| Other | - | - | - |
| 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.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-------------------|
| | | 2015 | |
| REVENUE AND SUPPORT | | | |
| Contributions | \$ 109,414 | \$ - | \$ 109,414 |
| United Way | 30,630 | 30,630 | 61,260 |
| In-kind | | | |
| Donated food | 526,001 | - | 526,001 |
| Other | 5,245 | - | 5,245 |
| Interest and dividends | 4,487 | - | 4,487 |
| Other | 123 | - | 123 |
| Net unrealized gain/(loss) | (4,536) | - | (4,536) |
| Loss on disposal of assets | - | - | - |
| Net assets released from restrictions | <u>30,630</u> | <u>(30,630)</u> | <u>-</u> |
| Total revenue and support | <u>701,994</u> | <u>-</u> | <u>701,994</u> |
| EXPENSES | | | |
| Program | 718,812 | - | 718,812 |
| Administrative | 14,562 | - | 14,562 |
| Fundraising | <u>25,424</u> | <u>-</u> | <u>25,424</u> |
| Total expenses | <u>758,798</u> | <u>-</u> | <u>758,798</u> |
| Change in net assets | (56,804) | - | (56,804) |
| NET ASSETS, beginning of year | <u>223,043</u> | <u>30,630</u> | <u>253,673</u> |
| NET ASSETS, end of year | <u>\$ 166,239</u> | <u>\$ 30,630</u> | <u>\$ 196,869</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, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ 31,960 | \$ (56,804) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities | | |
| Depreciation | 1,503 | 5,833 |
| Unrealized (gain) loss on investments | (2,726) | 4,536 |
| (Increase) decrease in receivables | (16,849) | - |
| (Increase) decrease in prepaid expenses | (7,977) | (1,328) |
| Increase (decrease) in accounts payable | 1,985 | 4,640 |
| Increase (decrease) in deferred revenue | <u>5,000</u> | <u>-</u> |
| Net cash provided by (used in) operating activities | 12,896 | (43,123) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | (3,390) | (5,820) |
| Investment dividends reinvested | <u>(2,509)</u> | <u>(4,487)</u> |
| Net cash used in investing activities | <u>(5,899)</u> | <u>(10,307)</u> |
| Net increase (decrease) in cash and cash equivalents | 6,997 | (53,430) |
| Cash and cash equivalents at beginning of year | <u>87,638</u> | <u>141,068</u> |
| Cash and cash equivalents at end of year | <u>\$ 94,635</u> | <u>\$ 87,638</u> |

No cash paid for interest or income taxes during 2016 and 2015.

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, 2016 AND 2015

| 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 | \$ 775,615 | \$ 13,667 | \$ 23,194 | \$ 812,476 |

| 2015 | | | | |
|---------------------------|------------|----------------|-------------|------------|
| | Program | Administrative | Fundraising | Total |
| OPERATING EXPENSES | | | | |
| Salaries and wages | \$ 72,650 | \$ 7,479 | \$ 15,954 | \$ 96,083 |
| Employee benefits | 9,889 | 1,082 | 1,391 | 12,362 |
| Payroll taxes | 6,202 | 643 | 1,311 | 8,156 |
| Legal and professional | 3,080 | 1,933 | 433 | 5,446 |
| Temporary help | 2,333 | - | - | 2,333 |
| Office supplies | 2,670 | 292 | 375 | 3,337 |
| Postage | 121 | 13 | 17 | 151 |
| Maintenance | 3,619 | 1,310 | - | 4,929 |
| Acquisition of food | 571,357 | - | - | 571,357 |
| Depreciation | 5,833 | - | - | 5,833 |
| Vehicle | 5,041 | 551 | 709 | 6,301 |
| Rent | 18,008 | 504 | 648 | 19,160 |
| Miscellaneous | 18,009 | 755 | 4,586 | 23,350 |
| Total expenses | \$ 718,812 | \$ 14,562 | \$ 25,424 | \$ 758,798 |

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

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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, set to open in 2017 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, 2016 and 2015, 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, 2016 AND 2015

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, 2016 AND 2015

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, 2016 and 2015. Friedens has not incurred any interest or penalties for income taxes for the years ended December 31, 2016 and 2015.

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 May 23, 2017, which is the date that the financial statements were available to be issued.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

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, 2016.

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, 2016 are as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------|------------------|----------------|----------------|------------------|
| Investment | <u>\$ 77,073</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 77,073</u> |

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

C - INVESTMENTS

The estimated fair value of Friedens' investments at December 31, 2016 and 2015 is as follows:

| | 2016 | |
|-------------------------|------------------|------------------|
| | Cost | Fair Value |
| Investment, mutual fund | <u>\$ 61,288</u> | <u>\$ 77,073</u> |
| | 2015 | |
| | Cost | Fair Value |
| Investment, mutual fund | <u>\$ 58,779</u> | <u>\$ 71,838</u> |

D- 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 2016 and 2015 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 2016 and 2015, 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 2016 and 2015 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. Friedens' recorded \$9,750 and \$11,400 of rent expense related to this space in 2016 and 2015 respectively.

Rent expense was \$17,510 and \$19,160 in 2016 and 2015, respectively. There are no required minimum lease payments.

FRIEDENS COMMUNITY MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016 AND 2015

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. 635,435 and 437,138 pounds of food were distributed in this manner in 2016 and 2015, respectively.

During 2015, Friedens received \$5,245, of in-kind donations of rent and other supplies.

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, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---------------------|------------------|------------------|
| Timing restrictions | <u>\$ 30,649</u> | <u>\$ 30,630</u> |

G – CONCENTRATION OF RISK

During the years ended December 31, 2016 and 2015, cash contributions totaling \$154,763 and \$115,003, which represents 66% and 67%, respectively, of the total cash contributions received from five and four major contributors, respectively.