

**Outreach, Inc.
Union, Iowa**

FINANCIAL REPORT

December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Outreach, Inc.
Union, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Outreach, Inc. (a nonprofit organization) which comprise the statements of financial position as of December 31, 2015 and 2014, 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 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 from 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 Outreach, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Adjustment

As discussed in Note 7 to the financial statements, beginning net assets has been restated. Our opinion is not modified with respect to that matter.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 14, 2016

Outreach, Inc.
STATEMENTS OF FINANCIAL POSITION

	December 31	
ASSETS	2015	2014
CURRENT ASSETS		
Cash	\$ 823,769	\$ 585,609
Investments	330,132	326,782
Accounts receivable	170,726	147,529
Inventory	620,625	638,476
Prepaid expenses	9,652	—
Total current assets	<u>1,954,904</u>	<u>1,698,396</u>
PROPERTY AND EQUIPMENT, net	<u>1,501,005</u>	<u>1,398,858</u>
OTHER ASSETS		
Investment in Shallom Farming	220,187	146,943
Trademark	10,000	10,000
Prepaid vehicle lease	2,814	7,034
Total other assets	<u>233,001</u>	<u>163,977</u>
Total assets	<u>\$3,688,910</u>	<u>\$3,261,231</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 9,632	\$ 145
Customer deposits	73,222	12,450
Accrued expenses	64,507	49,476
Accrued retirement plan payable	53,768	—
Accrued expenses, related party	133,080	85,760
Total current liabilities	<u>334,209</u>	<u>147,831</u>
LONG-TERM DEBT, related party	<u>500,000</u>	<u>500,000</u>
Total liabilities	<u>834,209</u>	<u>647,831</u>
NET ASSETS		
Unrestricted (Note 7)	2,842,830	2,575,696
Temporarily restricted	11,871	37,704
Total net assets	<u>2,854,701</u>	<u>2,613,400</u>
Total liabilities and net assets	<u>\$3,688,910</u>	<u>\$3,261,231</u>

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF ACTIVITIES

	<u>Year ended December 31, 2015</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Program revenue	\$5,454,086	\$ —	\$5,454,086
In-kind contributions	1,497,931	—	1,497,931
Cash contributions	73,559	68,365	141,924
Interest	6,066	—	6,066
Grants	—	—	—
Total revenue and support	<u>7,031,642</u>	<u>68,365</u>	<u>7,100,007</u>
EXPENSES			
Program services	<u>6,363,486</u>	—	<u>6,363,486</u>
Supporting services			
Management and general	392,626	—	392,626
Fundraising	<u>102,594</u>	—	<u>102,594</u>
Total supporting services	<u>495,220</u>	—	<u>495,220</u>
Total expenses	6,858,706	—	6,858,706
NET ASSETS RELEASED FROM RESTRICTIONS			
Release of purpose restrictions	<u>94,198</u>	<u>(94,198)</u>	—
CHANGE IN NET ASSETS	267,134	(25,833)	241,301
NET ASSETS			
Beginning of the year	<u>2,575,696</u>	<u>37,704</u>	<u>2,613,400</u>
End of year	<u>\$2,842,830</u>	<u>\$ 11,871</u>	<u>\$2,854,701</u>

See Notes to Financial Statements.

Year ended December 31, 2014

<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
\$4,438,715	\$ -	\$4,438,715
1,935,144	-	1,935,144
78,045	27,704	105,749
5,313	-	5,313
-	10,000	10,000
<u>6,457,217</u>	<u>37,704</u>	<u>6,494,921</u>
<u>5,996,934</u>	<u>-</u>	<u>5,996,934</u>
333,001	-	333,001
<u>76,789</u>	<u>-</u>	<u>76,789</u>
<u>409,790</u>	<u>-</u>	<u>409,790</u>
6,406,724	-	6,406,724
<u>4,875</u>	<u>(4,875)</u>	<u>-</u>
55,368	32,829	88,197
<u>2,520,328</u>	<u>4,875</u>	<u>2,525,203</u>
<u>\$2,575,696</u>	<u>\$ 37,704</u>	<u>\$2,613,400</u>

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF CASH FLOWS

	Year ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 241,301	\$ 88,197
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	66,669	54,955
Bad debt	15,925	24,511
Changes in assets and liabilities		
Accounts receivable	(39,122)	134,950
Inventory	17,851	(140,917)
Prepaid expenses	(5,432)	12,533
Accounts payable	84,832	(25,651)
Accrued expenses	75,803	30,509
Accrued expenses, related party	<u>25,743</u>	<u>18,414</u>
Net cash provided by operating activities	<u>483,570</u>	<u>197,501</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(168,816)	(52,693)
Investment in Shallom Farming	(73,244)	(19,742)
Reinvested interest from certificates of deposit	<u>(3,350)</u>	<u>(3,315)</u>
Net cash (used in) investing activities	<u>(245,410)</u>	<u>(75,750)</u>
INCREASE IN CASH	238,160	121,751
CASH		
Beginning	<u>585,609</u>	<u>463,858</u>
Ending	<u>\$ 823,769</u>	<u>\$ 585,609</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 29,688</u>	<u>\$ 26,250</u>

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES

	Year ended December 31, 2015			
	<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and payroll taxes	\$ 736,811	\$ 93,267	\$ 102,594	\$ 932,672
Commissions	500,467	-	-	500,467
Advertising	26,456	-	-	26,456
Bad debt	-	15,925	-	15,925
Communication	-	91,869	-	91,869
Contract labor	3,399	4,744	-	8,143
Contributions	370,843	-	-	370,843
Depreciation	53,335	13,334	-	66,669
Equipment and maintenance	40,158	43,321	-	83,479
Insurance	7,110	2,006	-	9,116
Miscellaneous	-	4,780	-	4,780
Occupancy	12,795	12,795	-	25,590
Shipping	538,638	12,899	-	551,537
Medical missions	1,779,091	36,308	-	1,815,399
Meal ingredients and packaging	2,102,835	15,165	-	2,118,000
Travel and meetings	134,236	28,916	-	163,152
Professional fees	27,624	564	-	28,188
Office supplies	-	16,733	-	16,733
Interest	29,688	-	-	29,688
Totals	<u>\$6,363,486</u>	<u>\$ 392,626</u>	<u>\$ 102,594</u>	<u>\$6,858,706</u>

See Notes to Financial Statements.

Year ended December 31, 2014

<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
\$ 567,592	\$ 73,235	\$ 76,789	\$ 717,616
394,455	—	—	394,455
26,613	—	—	26,613
—	24,511	—	24,511
—	29,288	—	29,288
2,818	3,933	—	6,751
319,776	—	—	319,776
43,964	10,991	—	54,955
34,492	37,209	—	71,701
18,099	5,105	—	23,204
—	3,962	—	3,962
29,722	29,722	—	59,444
360,362	8,630	—	368,992
2,266,652	46,970	—	2,313,622
1,755,765	12,662	—	1,768,427
117,999	25,419	—	143,418
32,375	661	—	33,036
—	20,703	—	20,703
<u>26,250</u>	<u>—</u>	<u>—</u>	<u>26,250</u>
<u>\$5,996,934</u>	<u>\$ 333,001</u>	<u>\$ 76,789</u>	<u>\$6,406,724</u>

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Outreach, Inc. (the Organization) was founded in January, 2004 as an Iowa nonprofit corporation. The principal business activity of Outreach, Inc. is humanitarian aid and development programs focused in the areas of water, food, medicine, and education. The Organization primarily focuses its humanitarian efforts in the country of Tanzania, East Africa and specifically in the Singida Region.

The humanitarian aid and development activities are supported in part by food packaging events. The Organization facilitates meal packaging events which involve volunteers of all ages in the preparation of nutritional meal packages. The packaging events create nutritional meal packets which are distributed to domestic and international children and families in need.

The Organization has successfully embarked upon many development initiatives by building schools, installation of portable water systems, and construction of centers where most vulnerable children can enjoy a safe and secure environment. The Organization improves the lives of people they serve by providing clean water, nutritious meals, medical services, business development, and education for children, their families, and communities served.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Unrestricted, Temporarily Restricted and Permanently Restricted Net Assets

Financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the *FASB Accounting Standards Codification*. Accordingly, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor imposed stipulations and represent the portion of expendable assets available for support of the Organization's operations.

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Organization is limited by donor imposed stipulations either expire by passage of time or can be fulfilled by actions of the Organization pursuant to those stipulations. As donor imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets.

Permanently restricted net assets represent assets that are subject to donor restrictions requiring in perpetuity that the principal be invested and the income only be used. Although such assets may not be expended, the investment income earned on them is generally to be expended for a specific purpose. The Organization currently has no such assets.

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been made.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) for an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated their material tax positions and determined there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosures in the financial statements. The Organization is subject to routine audits by tax authorities; however, there are currently no audits for any tax periods in progress. Management believes the Organization is no longer subject to income tax examinations for years prior to 2012.

Investments

The Organization carries investments in certificates of deposit, whose costs approximate fair value, in the statements of financial position.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be written off when that determination is made.

Inventory

The Organization's inventory consists principally of food ingredients and direct supplies used in packaging events. The Organization values its inventory at the lower of cost first-in, first-out method (FIFO) or market.

Restricted and Unrestricted Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor imposed restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restrictions that are met in the same year as the contribution is made are reported as unrestricted support.

Functional Allocation of Expenses

Expenditures have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Financial Instruments

The Organization's financial instruments are cash, accounts receivable, investments and accounts payable. The recorded values of cash, accounts receivable and accounts payable approximate their fair values based on their short-term nature. The fair value of investments is detailed in Note 2.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Shipping Costs

The Organization classified freight billed to customers as program revenue and the related freight costs as shipping expenses.

Advertising

The Organization uses advertising to promote its programs and these costs are expensed as incurred. Advertising expense for December 31, 2015 and 2014 was \$26,456 and \$26,613, respectively.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Major expenditures for property and equipment are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. Items of property and equipment sold, retired or otherwise disposed of are removed from the asset and related accumulated depreciation accounts and any resulting gains or losses are reflected in operations.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	40
Furnishings, fixtures, and equipment	5-20
Vehicles	5-10

Credit Risk

The Organization has amounts on deposit with a financial institution in excess of FDIC insurance limits at various times throughout the year.

Reclassifications

Certain amounts in the prior year financial statement have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 2 INVESTMENTS

The Organization measures the fair value of financial instruments in accordance with generally accepted accounting principles, using a fair value hierarchy consisting of three input levels, generally ranging from the most objective to the most subjective. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are generally available indirect information, such as quoted prices for identical or similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. Level 3 inputs are the most subjective, are generally based on the management's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances. None of the Organization's investments were valued using Level 2 and 3 inputs at December 31, 2015 and 2014.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 INVESTMENTS (continued)

The following table presents information about the Organization's investments measured at fair value as of December 31, 2015 and 2014.

<u>Certificates of deposit</u>	<u>Level 1</u>	<u>Level 2 and 3</u>	<u>Total</u>
December 31, 2015	\$ <u>330,132</u>	\$ <u>—</u>	\$ <u>330,132</u>
December 31, 2014	\$ <u>326,782</u>	\$ <u>—</u>	\$ <u>326,782</u>

NOTE 3 PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 284,540	\$ 284,540
Buildings	1,273,348	1,109,509
Furniture and equipment	141,718	156,851
Vehicles	<u>77,360</u>	<u>77,360</u>
	1,776,966	1,628,260
Less accumulated depreciation	<u>275,961</u>	<u>229,402</u>
Property and equipment, net	<u>\$1,501,005</u>	<u>\$1,398,858</u>

Depreciation expense for December 31, 2015 and 2014 was \$66,669 and \$54,955, respectively.

NOTE 4 OTHER ASSETS

Other assets consist of the following:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Investment in Shallom Farming	\$ 220,187	\$ 146,943
Trademark	10,000	10,000
Prepaid vehicle lease	<u>2,814</u>	<u>7,034</u>
	<u>\$ 233,001</u>	<u>\$ 163,977</u>

During 2012, the President of the Organization acted as an agent with authorization from the Board of Directors to acquire shares of Shallom Farming and Plantations (T) Limited (Shallom). An aggregate investment totaling \$146,943 for the year ended December 31, 2014, equivalent in U.S. dollars, was incurred to acquire the Shallom shares. During July 2015 the purchase of the Shallom shares was finalized and approved by the necessary Tanzanian authorities, 49 shares (48 voting and 1 non-voting) are assigned to the Organization. The investment in the Shallom shares are reported at cost which totaled \$220,187 as of December 31, 2015.

Trademark asset consists of costs associated with establishing a trademark. This asset is not amortized.

The Organization entered into a vehicle leasing agreement in July 2014. The Organization paid the balance on the lease in one upfront payment of \$13,715 which is expensed over the life of the lease at \$352 per month for thirty-nine months. The total lease expense for both years ended December 31, 2015 and 2014 was \$4,220.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT, RELATED PARTY

The Organization's long-term debt, related party, consists of one mortgage promissory note secured by certain real estate of the Organization. The note is with Hammer Management Systems, Inc., owned by Floyd Hammer, Outreach, Inc. President. The note's interest rate is 6.0% and matures on February 26, 2017. The balance of the note at December 31, 2015 and 2014 was \$500,000.

NOTE 6 CONCENTRATION OF RISK

There exist certain inherent risks which are common to the Organization's mission to third world countries. Those risks would include, but not limited to, fluctuations in the availability and market price of the commodities which the Organization distributes, and the political, social, cultural and economic risks associated with the conduct of commerce, and providing mission based services, in a foreign environment.

The following table identifies the Organization's assets located in Africa:

	December 31	
	2015	2014
Cash	\$ 5,408	\$ 9,379
Property and equipment, net	273,349	291,645
Investment in Shallom Farming	220,187	146,943
Total	\$ 498,944	\$ 447,967

Management evaluates the viability of the above assets on an ongoing basis, and has determined that there is no impairment of value which should be reflected at December 31, 2015.

NOTE 7 PRIOR PERIOD ADJUSTMENT

The statement of activities and change in unrestricted net assets have been restated to reflect prior period adjustments to accounts receivable, inventory, and accounts payable balances.

These adjustments resulted in the following restatement of unrestricted net assets at December 31, 2014:

	Unrestricted Net Assets
Balance, December 31, 2014, as previously stated	\$2,609,720
Accounts receivable	(34,602)
Inventory	9,656
Accounts payable	(9,078)
Balance, December 31, 2014, as restated	\$2,575,696

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 8 RELATED PARTY TRANSACTIONS

Amounts included in accrued expenses due to related party for the years ended December 31, 2015 and 2014 were \$133,080 and \$85,760, respectively.

The Organization has executed a real estate mortgage agreement with a related party, which is addressed in Note 5. Interest expense on this mortgage totaled \$29,688 and \$26,250 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 DONATED SERVICES

The value of donated services to the Organization consist of professional fees, medical supplies, travel and other costs associated with sponsored medical and charitable missions to Africa and totaled \$1,497,931 and \$1,935,144 during the years ended December 31, 2015 and 2014, respectively. These services are reflected within in-kind contribution revenue and program service expenses on the accompanying statements of activities.

In addition, volunteers provide services throughout the year that are not recognized as contributions in the financial statements, because the recognition criteria was not met. It is impracticable to determine the fair market value of all donated services by the volunteers of Outreach, Inc. beyond those required to be recognized as income.

NOTE 10 RESTRICTIONS ON ASSETS

At June 30, 2015, temporarily restricted net assets are available to fund future packaging events, mission programs and retirement plan contributions.

NOTE 11 RETIREMENT PLAN

The Organization sponsors a defined contribution retirement plan for all employees. Participants may contribute discretionary amounts within allowable limits under current tax laws. The Organization's contribution to the plan is discretionary and totaled \$53,768 for the year ended December 31, 2015.

NOTE 12 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 14, 2016, the date which financial statements were available to be issued. There were no subsequent events that were required to be accrued or disclosed.