

**Outreach, Inc.
Union, Iowa**

FINANCIAL REPORT

December 31, 2016

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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, 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 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, 2016 and 2015, 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.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
February 16, 2018

Outreach, Inc.
STATEMENTS OF FINANCIAL POSITION

ASSETS	December 31	
	2016	2015
CURRENT ASSETS		
Cash	\$ 492,648	\$ 823,769
Investments	333,528	330,132
Accounts receivable	206,656	170,726
Inventory	958,376	620,625
Prepaid expenses	63,770	9,652
Total current assets	<u>2,054,978</u>	<u>1,954,904</u>
PROPERTY AND EQUIPMENT, net	<u>1,484,245</u>	<u>1,501,005</u>
OTHER ASSETS		
Investment in Shallom Farming	253,094	220,187
Trademark	10,000	10,000
Prepaid vehicle lease	-	2,814
Total other assets	<u>263,094</u>	<u>233,001</u>
Total assets	<u>\$3,802,317</u>	<u>\$3,688,910</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,267	\$ 9,632
Customer deposits	152,887	73,222
Accrued expenses	79,370	64,507
Accrued retirement plan payable	-	53,768
Accrued expenses, related party	81,576	133,080
Total current liabilities	<u>315,100</u>	<u>334,209</u>
LONG-TERM DEBT, related party	<u>500,000</u>	<u>500,000</u>
Total liabilities	<u>815,100</u>	<u>834,209</u>
NET ASSETS		
Unrestricted	2,968,717	2,842,830
Temporarily restricted	18,500	11,871
Total net assets	<u>2,987,217</u>	<u>2,854,701</u>
Total liabilities and net assets	<u>\$3,802,317</u>	<u>\$3,688,910</u>

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF ACTIVITIES

	Year ended December 31, 2016		
	Unrestricted	Temporarily restricted	Total
REVENUE AND SUPPORT			
Program revenue	\$4,958,372	\$ —	\$4,958,372
In-kind contributions	519,225	—	519,225
Cash contributions	61,423	25,819	87,242
Interest	5,814	—	5,814
Total revenue and support	<u>5,544,834</u>	<u>25,819</u>	<u>5,570,653</u>
EXPENSES			
Program services	5,019,157	—	5,019,157
Supporting services			
Management and general	302,872	—	302,872
Fundraising	116,108	—	116,108
Total supporting services	<u>418,980</u>	<u>—</u>	<u>418,980</u>
Total expenses	<u>5,438,137</u>	<u>—</u>	<u>5,438,137</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Release of purpose restrictions	19,190	(19,190)	—
CHANGE IN NET ASSETS	125,887	6,629	132,516
NET ASSETS			
Beginning of the year	2,842,830	11,871	2,854,701
End of year	<u>\$2,968,717</u>	<u>\$ 18,500</u>	<u>\$2,987,217</u>

See Notes to Financial Statements.

Year ended December 31, 2015

<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
\$5,454,086	\$ —	\$5,454,086
1,497,931	—	1,497,931
73,559	68,365	141,924
6,066	—	6,066
<u>7,031,642</u>	<u>68,365</u>	<u>7,100,007</u>
6,363,486	—	6,363,486
392,626	—	392,626
<u>102,594</u>	<u>—</u>	<u>102,594</u>
<u>495,220</u>	<u>—</u>	<u>495,220</u>
6,858,706	—	6,858,706
<u>94,198</u>	<u>(94,198)</u>	<u>—</u>
267,134	(25,833)	241,301
<u>2,575,696</u>	<u>37,704</u>	<u>2,613,400</u>
<u>\$2,842,830</u>	<u>\$ 11,871</u>	<u>\$2,854,701</u>

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF CASH FLOWS

	Year ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 132,516	\$ 241,301
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	58,365	66,669
Bad debt	-	15,925
Changes in assets and liabilities		
Accounts receivable	(35,930)	(39,122)
Inventory	(337,751)	17,851
Prepaid expenses	(51,304)	(5,432)
Accounts payable	(8,365)	84,832
Accrued expenses	40,760	75,803
Accrued expenses, related party	(51,504)	25,743
Net cash provided by (used in) operating activities	(253,213)	483,570
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(41,605)	(168,816)
Investment in Shallom Farming	(32,907)	(73,244)
Reinvested interest from certificates of deposit	(3,396)	(3,350)
Net cash (used in) investing activities	(77,908)	(245,410)
NET INCREASE (DECREASE) IN CASH	(331,121)	238,160
CASH		
Beginning	823,769	585,609
Ending	\$ 492,648	\$ 823,769
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 29,688	\$ -

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES

	Year ended December 31, 2016			
	Program services	Management and general	Fundraising	Total
Salaries and payroll taxes	\$ 833,869	\$ 105,553	\$ 116,108	\$1,055,530
Commissions	511,576	-	-	511,576
Advertising	30,884	-	-	30,884
Bad debt	-	-	-	-
Communication	-	28,317	-	28,317
Contract labor	3,850	5,375	-	9,225
Contributions	244,817	-	-	244,817
Depreciation	46,692	11,673	-	58,365
Equipment and maintenance	34,458	37,173	-	71,631
Insurance	20,103	5,670	-	25,773
Miscellaneous	-	6,399	-	6,399
Occupancy	14,951	14,950	-	29,901
Shipping	541,501	12,968	-	554,469
Medical missions	679,474	13,867	-	693,341
Meal ingredients and packaging	1,839,438	13,266	-	1,852,704
Travel and meetings	156,576	33,729	-	190,305
Professional fees	30,968	632	-	31,600
Office supplies	-	13,300	-	13,300
Interest	30,000	-	-	30,000
Totals	<u>\$5,019,157</u>	<u>\$ 302,872</u>	<u>\$ 116,108</u>	<u>\$5,438,137</u>

See Notes to Financial Statements.

Year ended December 31, 2015

<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
\$ 736,811	\$ 93,267	\$ 102,594	\$ 932,672
500,467	—	—	500,467
26,456	—	—	26,456
—	15,925	—	15,925
—	91,869	—	91,869
3,399	4,744	—	8,143
370,843	—	—	370,843
53,335	13,334	—	66,669
40,158	43,321	—	83,479
7,110	2,006	—	9,116
—	4,780	—	4,780
12,795	12,795	—	25,590
538,638	12,899	—	551,537
1,779,091	36,308	—	1,815,399
2,102,835	15,165	—	2,118,000
134,236	28,916	—	163,152
27,624	564	—	28,188
—	16,733	—	16,733
<u>29,688</u>	<u>—</u>	<u>—</u>	<u>29,688</u>
<u>\$6,363,486</u>	<u>\$ 392,626</u>	<u>\$ 102,594</u>	<u>\$6,858,706</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 that the principal be invested in perpetuity 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.

Restricted and Unrestricted Support

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.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted and Unrestricted Support (continued)

All contributions are considered to be available for the programs of the Organization unless specifically restricted by the donor. Contributions are recorded as revenue at the earlier of the date of the receipt or the date an unconditional promise is given by a donor.

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.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalent.

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.

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 straight-line and accelerated depreciation methods over the following estimated useful lives:

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

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.

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, 2016 and 2015 was \$30,884 and \$26,456, respectively.

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 2013.

Customer Deposits

Customer deposits consist primarily of money collected customers ahead of planned food packaging events.

Credit Risk

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

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, 2016 and 2015.

The following table presents information about the Organization's investments measured at fair value as of December 31, 2016 and 2015.

<u>Certificates of deposit</u>	<u>Level 1</u>	<u>Level 2 and 3</u>	<u>Total</u>
December 31, 2016	\$ <u>333,528</u>	\$ <u>—</u>	\$ <u>333,528</u>
December 31, 2015	\$ <u>330,132</u>	\$ <u>—</u>	\$ <u>330,132</u>

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

	December 31	
	2016	2015
Land	\$ 284,540	\$ 284,540
Buildings	1,283,814	1,273,348
Furniture and equipment	160,032	141,718
Vehicles	<u>90,185</u>	<u>77,360</u>
	1,818,571	1,776,966
Less accumulated depreciation	<u>334,326</u>	<u>275,961</u>
Property and equipment, net	<u><u>\$1,484,245</u></u>	<u><u>\$1,501,005</u></u>

Depreciation expense for December 31, 2016 and 2015 was \$58,365 and \$66,669, respectively.

NOTE 4 OTHER ASSETS

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, 2015, equivalent in U.S. dollars, was incurred to acquire the Shallom shares. During July 2016 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 \$253,094 and \$220,187 as of December 31, 2016 and 2015, respectively.

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 2015. 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 totaled \$703 and \$4,220 for the years ended December 31, 2016 and 2015, respectively. At the end of the lease agreement the organization utilized the purchase agreement and the vehicle is recognized in property and equipment at December 31, 2016.

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, 2018 and is expected to be renewed. The balance of the note at December 31, 2016 and 2015 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.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 CONCENTRATION OF RISK (continued)

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

	December 31	
	2016	2015
Cash	\$ 3,523	\$ 5,408
Property and equipment, net	265,109	273,349
Investment in Shallom Farming	253,094	220,187
Total	\$ 521,726	\$ 498,944

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, 2016.

NOTE 7 RELATED PARTY TRANSACTIONS

Amounts included in accrued expenses due to related party for the years ended December 31, 2016 and 2015 were \$81,576 and \$133,080, 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 \$30,000 and \$29,688 for the years ended December 31, 2016 and 2015, respectively.

NOTE 8 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 \$519,225 and \$1,497,931 during the years ended December 31, 2016 and 2015, 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 9 RESTRICTIONS ON ASSETS

Net assets were temporarily restricted for the following purposes at December 31, 2016 and 2015.

	2016	2015
Dairy goat project	\$ 18,000	\$ —
Medicine	500	—
Mission programs	—	11,871
	\$ 18,500	\$ 11,871

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 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 \$-0- and \$13,342 for the years ended December 31, 2016 and 2015, respectively.

NOTE 11 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 16, 2018, the date which financial statements were available to be issued. There were no subsequent events that were required to be accrued or disclosed.