

**Outreach, Inc.
Union, Iowa**

FINANCIAL REPORT

December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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
October 4, 2019

Outreach, Inc.
STATEMENTS OF FINANCIAL POSITION

	December 31	
ASSETS	2018	2017
CURRENT ASSETS		
Cash	\$ 164,670	\$ 575,652
Investments	269,367	457,723
Accounts receivable	362,982	249,360
Inventory	828,713	717,880
Prepaid expenses	46,849	50,547
Total current assets	<u>1,672,581</u>	<u>2,051,162</u>
PROPERTY AND EQUIPMENT, net	<u>1,392,279</u>	<u>1,439,590</u>
OTHER ASSETS		
Investment in Shallom Farming	356,371	281,063
Receivable from Shallom Farming	70,882	70,882
Trademark	10,000	10,000
Total other assets	<u>437,253</u>	<u>361,945</u>
Total assets	<u>\$3,502,113</u>	<u>\$3,852,697</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 27,383	\$ 51,484
Customer deposits	172,377	187,808
Accrued expenses	25,077	13,953
Accrued expenses, related party	72,191	94,945
Total current liabilities	<u>297,028</u>	<u>348,190</u>
LONG-TERM DEBT, related party	<u>500,000</u>	<u>500,000</u>
Total liabilities	<u>797,028</u>	<u>848,190</u>
NET ASSETS		
Without donor restrictions	2,686,369	2,985,791
With donor restrictions	18,716	18,716
Total net assets	<u>2,705,085</u>	<u>3,004,507</u>
Total liabilities and net assets	<u>\$3,502,113</u>	<u>\$3,852,697</u>

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF ACTIVITIES

	<u>Year ended December 31, 2018</u>		
	<u>Without donor Restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Program revenue	\$4,660,244	\$ —	\$4,660,244
Donated meals	1,428,108	—	1,428,108
In-kind contributions	—	—	—
Cash contributions	52,774	21,438	74,212
Interest	6,786	—	6,786
Miscellaneous	359	—	359
Total revenue and support	<u>6,148,271</u>	<u>21,438</u>	<u>6,169,709</u>
EXPENSES			
Program services	<u>5,929,803</u>	—	<u>5,929,803</u>
Supporting services			
Management and general	430,431	—	430,431
Fundraising	<u>108,897</u>	—	<u>108,897</u>
Total supporting services	<u>539,328</u>	—	<u>539,328</u>
Total expenses	6,469,131	—	6,469,131
NET ASSETS RELEASED FROM RESTRICTIONS			
Release of purpose restrictions	<u>21,438</u>	<u>(21,438)</u>	—
CHANGE IN NET ASSETS	(299,422)	—	(299,422)
NET ASSETS			
Beginning of the year	<u>2,985,791</u>	<u>18,716</u>	<u>3,004,507</u>
End of year	<u>\$2,686,369</u>	<u>\$ 18,716</u>	<u>\$2,705,085</u>

See Notes to Financial Statements.

Year ended December 31, 2017

<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
\$4,714,710	\$ —	\$4,714,710
1,644,281	—	1,644,281
18,881	—	18,881
70,925	45,039	115,964
6,301	—	6,301
<u>71,532</u>	<u>—</u>	<u>71,532</u>
<u>6,526,630</u>	<u>45,039</u>	<u>6,571,669</u>
<u>6,086,716</u>	<u>—</u>	<u>6,086,716</u>
343,617	—	343,617
<u>124,046</u>	<u>—</u>	<u>124,046</u>
<u>467,663</u>	<u>—</u>	<u>467,663</u>
6,554,379	—	6,554,379
<u>44,823</u>	<u>(44,823)</u>	<u>—</u>
17,074	216	17,290
<u>2,968,717</u>	<u>18,500</u>	<u>2,987,217</u>
<u>\$2,985,791</u>	<u>\$ 18,716</u>	<u>\$3,004,507</u>

See Notes to Financial Statements.

Outreach, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES

	Year ended December 31, 2018			
	Program services	Management and general	Fundraising	Total
Salaries and payroll taxes	\$ 782,081	\$ 98,998	\$ 108,897	\$ 989,976
Commissions	571,223	-	-	571,223
Advertising	29,066	-	-	29,066
Bad debt	-	9,406	-	9,406
Communication	-	43,600	-	43,600
Conferences and conventions	13,593	-	-	13,593
Contract labor	24,144	33,702	-	57,846
Contributions	219,240	-	-	219,240
Depreciation	44,200	11,050	-	55,250
Equipment and maintenance	49,657	53,569	-	103,226
Insurance	19,587	5,524	-	25,111
Miscellaneous	-	28,603	-	28,603
Occupancy	13,439	13,439	-	26,878
Rents and leases	47,755	47,755	-	95,510
Shipping	510,750	12,231	-	522,981
Medical missions	87,842	1,793	-	89,635
Meal ingredients and packaging	1,771,762	12,777	-	1,784,539
Donated meals	1,428,108	-	-	1,428,108
Travel and meetings	185,114	39,876	-	224,990
Professional fees	36,825	752	-	37,577
Consulting fees	61,252	1,250	-	62,502
Office supplies	-	16,106	-	16,106
Interest	34,165	-	-	34,165
Totals	<u>\$5,929,803</u>	<u>\$ 430,431</u>	<u>\$ 108,897</u>	<u>\$6,469,131</u>

See Notes to Financial Statements.

Year ended December 31, 2017

<u>Program services</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Total</u>
\$ 890,875	\$ 112,769	\$ 124,046	\$1,127,690
487,359	—	—	487,359
19,246	—	—	19,246
—	411	—	411
—	36,208	—	36,208
27,290	—	—	27,290
24,106	33,650	—	57,756
248,044	—	—	248,044
47,625	11,906	—	59,531
29,221	31,522	—	60,743
16,234	4,579	—	20,813
—	8,445	—	8,445
12,610	12,610	—	25,220
25,579	25,578	—	51,157
487,322	11,670	—	498,992
150,398	3,069	—	153,467
1,791,116	12,917	—	1,804,033
1,644,281	—	—	1,644,281
131,775	28,386	—	160,161
23,635	482	—	24,117
—	—	—	—
—	9,415	—	9,415
<u>30,000</u>	<u>—</u>	<u>—</u>	<u>30,000</u>
<u>\$6,086,716</u>	<u>\$ 343,617</u>	<u>\$ 124,046</u>	<u>\$6,554,379</u>

Outreach, Inc.
STATEMENTS OF CASH FLOWS

	Year ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (299,422)	\$ 17,290
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	55,250	59,531
Gain on disposal of property and equipment	–	(1,225)
Donated property and equipment	–	(16,001)
Bad debt	9,406	411
Changes in assets and liabilities		
Accounts receivable	(123,028)	(43,115)
Inventory	(110,833)	240,496
Prepaid expenses	3,698	13,223
Accounts payable	(24,101)	50,217
Accrued expenses	(4,307)	(30,496)
Accrued expenses, related party	<u>(22,754)</u>	<u>13,369</u>
Net cash provided by (used in) operating activities	<u>(516,091)</u>	<u>303,700</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	–	2,350
Purchase of property and equipment	(7,939)	–
Investment in, and receivable from, Shallom Farming	(75,308)	(98,851)
Proceeds from certificates of deposit	193,194	–
Purchase of certificates of deposit, net	–	(119,732)
Reinvested interest from certificates of deposit	<u>(4,838)</u>	<u>(4,463)</u>
Net cash (used in) investing activities	<u>105,109</u>	<u>(220,696)</u>
INCREASE (DECREASE) IN CASH	(410,982)	83,004
CASH		
Beginning	<u>575,652</u>	<u>492,648</u>
Ending	\$ <u>164,670</u>	\$ <u>575,652</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ <u>34,165</u>	\$ <u>–</u>

See Notes to Financial Statements.

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 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.

Basis of Presentation

As required by the Not-for-Profit Entities Topic of the *FASB Accounting Standards Codification*, the Organization reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions are those assets that have no donor-imposed stipulations. The Organization's governing board may earmark portions of its net assets without donor restrictions as board-designated for various purposes.

Net assets with donor restrictions represent contributions or other inflows of assets whose use by the Organization is limited by donor-imposed stipulations. As donor-imposed stipulations expire, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

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.

Investments

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

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 a running average of cost basis.

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.

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, 2018 and 2017 was \$29,066 and \$19,246, 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 the years prior to 2015.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Meals

The Organization records in-kind donated meal activity on the accompanying financial statements as both revenue and an equal, and offsetting, amount for expenses. The Organization has determined a value of \$.25 per packaged meal. Donated meals revenue and expenses totaled \$1,428,108 and \$1,644,281 for the years ended December 31, 2018 and 2017, respectively.

Credit Risk

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

Change in Accounting Principle

Financial Accounting Standards Board Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities* was implemented in 2018. The revised requirements changed financial reporting requirements for nonprofits. The new standard modified net asset reporting requirements and increased reporting and disclosure of nonprofit organizations' functional expenses and liquidity. Certain amounts have been reclassified in the 2017 financial statements in order to conform with the new standard, with no change to net assets.

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, 2018 and 2017.

The following table presents information about the Organization's investments measured at fair value as of December 31, 2018 and 2017.

<u>Certificates of deposit</u>	<u>Level 1</u>	<u>Level 2 and 3</u>	<u>Total</u>
December 31, 2018	\$ <u>269,367</u>	\$ <u>—</u>	\$ <u>269,367</u>
December 31, 2017	\$ <u>457,723</u>	\$ <u>—</u>	\$ <u>457,723</u>

During the year ended December 31, 2018, the Organization deposited \$193,194 in funds previously held as certificates of deposit.

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 3 PROPERTY AND EQUIPMENT

The components of property and equipment are as follows:

	December 31	
	2018	2017
Land	\$ 284,540	\$ 284,540
Buildings	1,283,814	1,283,814
Furniture and equipment	183,972	176,033
Vehicles	<u>82,685</u>	<u>82,685</u>
	1,835,011	1,827,072
Less accumulated depreciation	<u>442,732</u>	<u>387,482</u>
Property and equipment, net	<u>\$1,392,279</u>	<u>\$1,439,590</u>

Depreciation expense for December 31, 2018 and 2017 was \$55,250 and \$59,531, 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 2017 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 Shallom is reported at cost which totaled \$356,371 and \$281,063 as of December 31, 2018 and 2017, respectively.

The receivable from Shallom Farming Consists primarily of African mission costs billed by the Organization to Shallom.

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

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 was 6.0%. The note was modified during February 2018 which extended the maturity date to February 26, 2022 and changed the interest rate terms to adjustable. The interest rate was at 5% during February 2018, and then be adjusted quarterly on the first day of July, to the Wall Street Journal Prime Rate plus 2%. The balance of the note at December 31, 2018 and 2017 was \$500,000, and no principal payments are expected to be made during 2019.

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 are 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:

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Cash	\$ 1,354	\$ 3,620
Property and equipment, net	263,029	272,070
Investment in Shallom Farming	356,371	281,063
Receivable from Shallom Farming	<u>70,882</u>	<u>70,882</u>
Totals	<u>\$ 691,636</u>	<u>\$ 627,635</u>

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, 2018.

NOTE 7 RELATED PARTY TRANSACTIONS

Amounts included in accrued expenses due to related party for the years ended December 31, 2018 and 2017 were \$72,191 and \$64,945, respectively, and consisted of operating expenses paid on behalf of the Organization.

The Organization has executed a real estate mortgage agreement with a related party, which is addressed in Note 6. Interest expense on this mortgage totaled \$30,000 for each of the years ended December 31, 2018 and 2017 and \$30,000 was owed at December 31, 2018.

See Note 4 for discussion of Shallom Farming assets.

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 \$18,881 during the year ended December 31, 2017. 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 with donor restrictions were for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Dairy goat project	\$ 18,000	\$ 18,000
Hurricane relief	<u>716</u>	<u>716</u>
Totals	<u>\$ 18,716</u>	<u>\$ 18,716</u>

Outreach, Inc.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 SERVICE AGREEMENT AND RETIREMENT PLAN

A professional employer organization (PEO) provides human resource administration, payroll processing and tax administration, and employee benefits to employees of the Organization. The PEO offers employee health and dental insurance, voluntary long and short-term disability coverage, basic life insurance and voluntary supplemental life insurance, flexible spending accounts and retirement plan benefits. The Organization reimburses the PEO for all salary and benefit expenses, along with a fee for its services. Worker compensation insurance is required to be maintained by the Organization, and both the Organization and the PEO are required to be insured against employment discrimination actions. The agreement continues for an initial term of one year and automatically renews for successive one year terms unless either party terminates the agreement thirty days prior to renewal. In the event of termination, the services provided by the PEO will be transferred back to the Organization.

The PEO sponsors a defined contribution multiple-employer retirement plan covering substantially all full-time employees. The Organization does not offer an employer match.

NOTE 11 LIQUIDITY

The Organization's financial assets available within one year of the statement of financial position date for expenditures and cash reserves are as follows:

Cash	\$ 164,670
Investments	269,367
Accounts receivable	<u>362,982</u>
	<u>\$ 797,019</u>

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization does not have any cash reserve requirements and has net assets with donor restrictions of \$18,716 as of December 31, 2018.

NOTE 12 WAREHOUSE LEASE

The Organization leases warehouse space in Massachusetts to store meal packaging ingredients. The lease calls for monthly base rent payments of \$1,625, plus monthly common area maintenance charges of approximately \$600, and adjust annually, up to \$1,760 per month through June 30, 2022, the end of the lease. The Organization is responsible for the operating costs outlined in the lease. Annual lease costs are approximated following, 2019 \$27,600; 2020 \$28,000; 2021 \$28,400; and 2022 \$14,300.

NOTE 13 SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 4, 2019, the date which financial statements were available to be issued. There were no subsequent events that were required to be accrued or disclosed.