

OPERATION FOOD SEARCH, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Operation Food Search, Inc.

We have audited the accompanying financial statements of Operation Food Search, Inc. (a not-for-profit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 audit 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 Operation Food Search, Inc. as of September 30, 2015 and 2014, 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.

SFW Partners, LLC

January 6, 2016

SFW Partners, LLC

OPERATION FOOD SEARCH, INC.

STATEMENTS OF FINANCIAL POSITION

As of September 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 339,166	\$ 355,592
Investments	1,737,821	1,743,662
Grants receivable	141,222	23,356
Undistributed food and household items	795,000	471,000
Prepaid expenses	8,024	7,926
Other current assets	600	-
Total current assets	<u>3,021,833</u>	<u>2,601,536</u>
Property and equipment, net of accumulated depreciation	<u>917,188</u>	<u>868,027</u>
	<u>\$ 3,939,021</u>	<u>\$ 3,469,563</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accrued expenses	\$ 208,641	\$ 125,548
Net assets:		
Unrestricted:		
Operating	1,160,286	1,536,553
Property and equipment	917,188	868,027
Undistributed food and household items	795,000	471,000
Board designated	700,000	450,000
Total unrestricted net assets	<u>3,572,474</u>	<u>3,325,580</u>
Temporarily restricted:		
Cash and cash equivalents	157,906	15,013
Grants receivable	-	3,422
Total temporarily restricted net assets	<u>157,906</u>	<u>18,435</u>
Total net assets	<u>3,730,380</u>	<u>3,344,015</u>
	<u>\$ 3,939,021</u>	<u>\$ 3,469,563</u>

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

OPERATION FOOD SEARCH, INC.

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended September 30, 2015 and 2014**

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and other revenue:						
Support:						
Cash contributions	\$ 2,831,750	\$ 116,861	\$ 2,948,611	\$ 2,403,470	\$ 15,013	\$ 2,418,483
Grant revenue	72,990	41,045	114,035	63,969	3,422	67,391
Special events (net of \$29,663 and \$234,044 of expenses in 2015 and 2014, respectively)	115,427	-	115,427	658,470	-	658,470
Marketable security contributions	55,736	-	55,736	111,855	-	111,855
Subtotal	3,075,903	157,906	3,233,809	3,237,764	18,435	3,256,199
Other non-cash contributions	34,057,547	-	34,057,547	34,005,051	-	34,005,051
Total support	37,133,450	157,906	37,291,356	37,242,815	18,435	37,261,250
Other revenue (loss):						
Other income	36,682	-	36,682	73,090	-	73,090
Unrealized (loss) gain on investments	(30,372)	-	(30,372)	46,574	-	46,574
Investment income	27,095	-	27,095	19,075	-	19,075
Gain on sales of property and equipment	5,318	-	5,318	-	-	-
Gain (loss) on sales of investments	886	-	886	(11,850)	-	(11,850)
Total support and other revenue	37,173,059	157,906	37,330,965	37,369,704	18,435	37,388,139
Net assets released from restrictions	18,435	(18,435)	-	-	-	-
Functional expenses:						
Program services	36,318,043	-	36,318,043	36,029,551	-	36,029,551
Management and general	158,009	-	158,009	153,246	-	153,246
Fundraising	468,548	-	468,548	430,919	-	430,919
Total functional expenses	36,944,600	-	36,944,600	36,613,716	-	36,613,716
Change in net assets	246,894	139,471	386,365	755,988	18,435	774,423
Net assets, beginning of the year	3,325,580	18,435	3,344,015	2,569,592	-	2,569,592
Net assets, end of the year	\$ 3,572,474	\$ 157,906	\$ 3,730,380	\$ 3,325,580	\$ 18,435	\$ 3,344,015

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

OPERATION FOOD SEARCH, INC.

STATEMENTS OF FUNCTIONAL EXPENSES For the Years Ended September 30, 2015 and 2014

	2015				2014			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Distributed food and household items	\$ 33,726,554	\$ -	\$ -	\$ 33,726,554	\$ 33,890,646	\$ -	\$ -	\$ 33,890,646
Salaries	874,209	76,493	142,059	1,092,761	836,515	73,195	135,934	1,045,644
Food purchased for distribution	941,885	-	-	941,885	534,267	-	-	534,267
Fundraising	-	-	282,889	282,889	-	-	246,591	246,591
Transportation and distribution	187,163	-	-	187,163	207,080	-	-	207,080
Employee benefits	118,936	24,778	21,474	165,188	118,624	25,420	25,420	169,464
Office expense	94,232	10,470	-	104,702	72,547	12,802	-	85,349
Payroll taxes	58,093	12,103	10,489	80,685	55,278	11,845	11,845	78,968
Depreciation	75,447	762	-	76,209	73,686	744	-	74,430
Insurance	53,123	2,796	-	55,919	44,925	2,364	-	47,289
Repairs and maintenance	40,865	2,151	-	43,016	34,768	1,830	-	36,598
Communications	29,190	6,255	6,255	41,700	30,204	6,473	6,473	43,150
Professional services	23,067	9,995	5,382	38,444	22,946	5,654	4,656	33,256
Utilities	32,066	1,688	-	33,754	35,573	1,872	-	37,445
Miscellaneous	24,956	1,314	-	26,270	14,940	786	-	15,726
Warehouse, other	21,662	-	-	21,662	36,837	-	-	36,837
Travel	11,057	9,047	-	20,104	10,179	10,179	-	20,358
Warehouse supplies	4,651	-	-	4,651	9,794	-	-	9,794
Meetings and seminars	887	157	-	1,044	742	82	-	824
	<u>\$ 36,318,043</u>	<u>\$ 158,009</u>	<u>\$ 468,548</u>	<u>\$ 36,944,600</u>	<u>\$ 36,029,551</u>	<u>\$ 153,246</u>	<u>\$ 430,919</u>	<u>\$ 36,613,716</u>

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

OPERATION FOOD SEARCH, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 386,365	\$ 774,423
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Marketable security contributions	(55,736)	(111,855)
(Gain) loss on sales of investments	(886)	11,850
Unrealized loss (gain) on investments	30,372	(46,574)
Depreciation	76,209	74,430
Gain on sales of property and equipment	(5,318)	-
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Grants receivable	(117,866)	(7,356)
Undistributed food and household items	(324,000)	(106,000)
Prepaid expenses	(98)	317
Other current assets	(600)	-
Increase in liabilities:		
Accrued expenses	83,093	24,450
Net cash provided by operating activities	71,535	613,685
Cash flows from investing activities:		
Proceeds from sales of investments	32,091	367,282
Purchases of investments	-	(717,719)
Purchases of property and equipment	(120,052)	(64,503)
Net cash used in investing activities	(87,961)	(414,940)
Net (decrease) increase in cash and cash equivalents	(16,426)	198,745
Cash and cash equivalents, beginning of the year	355,592	156,847
Cash and cash equivalents, end of the year	\$ 339,166	\$ 355,592

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

OPERATION FOOD SEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

(1) Operations

Operation Food Search, Inc. (the “Organization”) is a not-for-profit voluntary health and welfare organization established in 1981. The Organization’s mission is: “To nourish and educate our neighbors in need to heal the hurt of hunger.” The Organization distributes food and household items free of charge to community agencies to help serve hungry individuals and families in the greater metropolitan St. Louis area. In helping to alleviate hunger, the Organization also increases awareness on issues of hunger and works to eliminate waste in the region. The Organization is supported primarily through donor contributions and grants.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Organization’s financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Pursuant to the Not-for-Profit Entities topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”), the Organization is required to report 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. As permitted by the topic, the Organization does not use fund accounting.

Restricted and Unrestricted Support and Revenue

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Gifts of cash and other assets received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Unrestricted contributions include resources available for the support of operations, which have no donor imposed restrictions. The Board of Directors approved to designate a portion of the unrestricted net assets for capital purchases and improvements.

Contributions that are temporarily restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction has been accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

OPERATION FOOD SEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

Contributions

All contributions are considered to be available for the general programs of the Organization unless specifically restricted by the donor. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets.

Non-cash contributions are recorded as unrestricted support. Food and other household items are valued at retail, and other non-cash items are valued at their fair market value. During the years ended September 30, 2015 and 2014, the Organization received non-cash contributions of \$34,057,547 and \$34,005,051, respectively.

Contributed Services

Services provided which create or enhance nonfinancial assets or require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. These services are recognized in the financial statements at the fair value of services provided. For the years ended September 30, 2015 and 2014, the Organization received immaterial donated services.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization in its mission. These services are not recognized in the financial statements.

Investments

Investments are adjusted to market value at year end. Unrealized gains and losses on investments are recorded as changes in net assets in the periods in which they occur. Interest and dividend income from investments is recognized when earned. Gains or losses on the sale of investments are recognized on a specific identification basis. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Contributed and Undistributed Food and Household Items

Contributed and undistributed food and household items are valued at retail value at the date of donation, which approximates fair market value.

OPERATION FOOD SEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are stated at cost if purchased or fair value if contributed, less an allowance for depreciation. Major expenditures for property acquisitions and those expenditures which substantially increase useful lives are capitalized. Expenditures for maintenance, repairs, and minor replacements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Depreciation

The Organization provides for depreciation using both straight-line and accelerated methods based upon the estimated useful lives of the assets as follows: building, 39 years; transportation equipment, 5 years; warehouse equipment, 5 to 10 years; office equipment, 3 to 10 years; furniture and fixtures, 3 to 10 years.

Program Services

Program services include those expenses necessary for programs and other items that enable the Organization to collect, coordinate, and distribute food and household items for the benefit of the hungry, such as salaries, facilities, transportation, food purchases, and administrative expenses.

Management and General

Management and general includes the functions necessary to maintain an adequate working environment, provide coordination of program strategy, secure proper administrative functioning of the Board of Directors, and manage the financial and budgetary responsibilities.

Fundraising

Fundraising provides the structure necessary to encourage and secure public and private financial support from individuals, foundations, and corporations.

Functional Allocation of Expenses

The costs associated with providing the Organization's activities have been summarized on the functional basis. Certain expenses represent costs associated with multiple activities and require allocation among the program and supporting services benefited. Such allocations are based on relevant factors that represent management's best estimate of the costs of providing such activities.

OPERATION FOOD SEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

(2) Summary of Significant Accounting Policies (Continued)

Income Taxes

The Internal Revenue Service has advised the Organization that it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization's management does not believe that its exempt status has been significantly affected by any changes in its activities since the date of the most recent determination letter received. Accordingly, no provision for income taxes has been included in these financial statements.

The Organization accounts for certain tax positions in accordance with the Income Taxes topic of the FASB ASC. The topic prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. In evaluating the Organization's exempt status, interpretations and tax planning strategies are considered. The Organization believes it is not exposed to any current or future tax liability based on its current operations.

The Organization's income tax filings are subject to audit by various taxing authorities. The Organization's open audit periods are primarily the years ended September 30, 2012 through September 30, 2015.

Concentration of Credit Risk

The Organization, on occasion, maintains cash deposits with financial institutions that include funds greater than the insured limit by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts. Management and the Board believe the Organization is not exposed to any significant credit risk related to cash. The amounts on deposit at September 30, 2015 and 2014 exceeded the insured limits by \$0 and \$81,242, respectively. The Organization also holds cash equivalent assets in uninsured accounts totaling \$31,852 and \$30,503 as of September 30, 2015 and 2014, respectively.

The Organization maintains cash equivalents and investments with a brokerage firm that includes funds greater than the insured limit by the Securities Investor Protection Corporation. The Organization has not experienced any losses beyond normal market fluctuations. Management and the Board believe the Organization is not exposed to any significant credit risk beyond normal market fluctuations related to cash equivalents and investments. The brokerage account at September 30, 2015 and 2014 exceeded the insured limit by \$1,354,937 and \$1,366,357, respectively.

Statements of Cash Flows

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Subsequent Events

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

OPERATION FOOD SEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

(3) Investments

Cost and market value of investments consist of the following at:

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Market Value
September 30, 2015				
Brokered certificates of deposit	\$ 99,800	\$ 695	\$ -	\$ 100,495
Mutual funds	1,551,057	58,165	(25,499)	1,583,723
Common stocks	53,786	2,480	(2,663)	53,603
	<u>\$ 1,704,643</u>	<u>\$ 61,340</u>	<u>\$ (28,162)</u>	<u>\$ 1,737,821</u>
September 30, 2014				
Brokered certificates of deposit	\$ 99,800	\$ 1,894	\$ -	\$ 101,694
Mutual funds	1,551,057	73,351	(14,951)	1,609,457
Common stocks	29,027	4,020	(536)	32,511
	<u>\$ 1,679,884</u>	<u>\$ 79,265</u>	<u>\$ (15,487)</u>	<u>\$ 1,743,662</u>

Based on management's evaluation and the Organization's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the Organization considers these investments temporarily impaired at September 30, 2015 and 2014. The investments currently in an unrealized holding loss position have a market value of \$1,358,709 and \$952,719 at September 30, 2015 and 2014, respectively, with a majority in an unrealized loss position for more than 12 months.

(4) Fair Value Measurements

Under the Fair Value Measurements and Disclosures topic of the FASB ASC, a guideline is provided for measuring fair value under generally accepted accounting principles. The topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets or liabilities and have the highest priority; Level 2 inputs include quoted prices in active markets for similar assets or liabilities, quoted prices in inactive markets for identical or similar assets or liabilities, or inputs that are observable or can be corroborated by observable market data or other means for substantially the full term of the asset or liability; and Level 3 inputs have the lowest priority and are based on prices or valuation techniques that are unobservable and not corroborated by market data. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its assets and liabilities. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Organization uses Level 2 inputs when an active market comparable is not available and Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. There were no Level 2 or Level 3 inputs for the Organization.

OPERATION FOOD SEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

(4) Fair Value Measurements (Continued)

Level 1 Fair Value Measurements

The fair value of the investments is based on quoted market prices. The Organization's investments of \$1,737,821 and \$1,743,662 as of September 30, 2015 and 2014, respectively, use Level 1 inputs for valuation purposes.

(5) Property and Equipment

Property and equipment consists of the following at September 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 94,787	\$ 94,787
Building	1,039,278	1,039,278
Transportation equipment	413,896	370,962
Warehouse equipment	200,382	203,117
Office equipment	82,884	79,106
Furniture and fixtures	17,497	19,229
	<u>1,848,724</u>	<u>1,806,479</u>
Accumulated depreciation	<u>(931,536)</u>	<u>(938,452)</u>
	<u>\$ 917,188</u>	<u>\$ 868,027</u>

Depreciation expense for the years ended September 30, 2015 and 2014 was \$76,209 and \$74,430, respectively.

(6) Non-Cash Investing Activities

During the year ended September 30, 2015, the Organization acquired equipment by trading in equipment valued at \$18,000.

OPERATION FOOD SEARCH, INC.

NOTES TO THE FINANCIAL STATEMENTS

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	2015	2014
Backpack Program	\$ 81,326	\$ -
Nutrition Education	61,228	18,435
No Kid Hungry Program	10,575	-
Pantry Sustainability	4,777	-
	<u>\$ 157,906</u>	<u>\$ 18,435</u>

Net assets released from restrictions of \$18,435 and \$0 as of September 30, 2015 and 2014, respectively, consist of funds used for nutrition education.

(8) Employee Benefit Plan

The Organization maintains a 401(k) safe harbor plan for all eligible employees. Under the terms of the plan, employees may contribute up to the maximum amount allowed by law. The Organization is required to make matching safe harbor contributions, defined as 100% of the first 4% of eligible compensation to the plan. Additional Organization contributions may be made at the Organization's discretion. Employees are 100% vested in their deferred compensation contributions and the Organization's matching safe harbor contributions. In the event of additional Organization contributions, employees will vest 0% in year 1, 20% after year 2, 40% after year 3, 60% after year 4, 80% after year 5, with 100% vesting after the sixth year of continuous service. Contributions charged to expense for the years ended September 30, 2015 and 2014 were \$37,282 and \$34,598, respectively.

(9) Donor Concentration

The Organization received 41% and 39% of its non-cash contributions from one donor for the years ended September 30, 2015 and 2014, respectively.

(10) Reclassifications

Certain accounts relating to the prior year have been restated to conform to current year's presentation. These reclassifications have no effect on previously reported income.

(11) Subsequent Event

The Organization has made an offer to purchase a building for \$2,275,000 with the intent of obtaining financing for a portion of the purchase price.