

MATTER FKA HOPE FOR THE CITY

St. Louis Park, Minnesota

Financial Statements

Years Ended December 31, 2014 and 2013

MATTER

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B O U L A Y

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Matter, FKA Hope for the City
St. Louis Park, Minnesota

We have audited the accompanying financial statements of Matter, FKA Hope for the City, (a non-profit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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 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 Matter, FKA Hope for the City, as of December 31, 2014 and 2013, 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.

Boulay PLLP

Certified Public Accountants

Minneapolis, Minnesota
June 24, 2015

MATTER

Statements of Financial Position

December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets		
Cash	\$ 94,219	\$ 37,614
Contributions and grants receivable	43,516	23,150
Accounts receivable	20,010	60,015
Prepaid expenses and other current assets	44,975	4,850
Purchased inventory	12,500	8,000
Donated inventory	18,334,257	21,683,191
Total current assets	<u>18,549,477</u>	<u>21,816,820</u>
Cash held for long-term purposes	-	10,000
Trademark, net	59,209	50,000
Property and Equipment	316,458	302,428
Less accumulated depreciation	(240,116)	(232,317)
Net property and equipment	<u>76,342</u>	<u>70,111</u>
Total assets	<u>\$ 18,685,028</u>	<u>\$ 21,946,931</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Bank note payable, current maturities	\$ 165,000	\$ 45,000
Leasehold improvements note payable, current maturities	4,313	5,776
Accounts payable	198,127	194,917
Accrued liabilities	21,651	25,184
Deferred revenue	3,000	22,500
Demand notes payable, related parties	398,984	35,420
Total current liabilities	<u>791,075</u>	<u>328,797</u>
Bank note payable, net of current maturities	-	165,000
Leasehold improvements note payable, net of current maturities	-	4,289
Deferred rent liability	<u>6,714</u>	<u>544</u>
Total liabilities	797,789	498,630
Net Assets		
Unrestricted	17,874,739	21,427,711
Temporarily restricted	12,500	20,590
Total net assets	<u>17,887,239</u>	<u>21,448,301</u>
Total liabilities and net assets	<u>\$ 18,685,028</u>	<u>\$ 21,946,931</u>

Notes to Financial Statements are an integral part of this Statement.

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Statements of Activities

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Contributions:						
Individuals	\$ 107,026	\$ 25,000	\$ 132,026	\$ 794,424	\$ 18,975	\$ 813,399
Corporations	182,196	-	182,196	99,894	6,667	106,561
Events	-	-	-	50,304	-	50,304
Churches and organizations	41,227	0	41,227	69,948	250	70,198
Federated campaigns	42,144	-	42,144	43,585	-	43,585
Foundations	64,250	20,000	84,250	67,973	57,350	125,323
Program service revenue	488,629	20,000	508,629	434,665	-	434,665
Event revenue, net of direct benefit to donor of \$212,407 in 2014 and \$129,406 in 2013	448,655	70,000	518,655	478,843	-	478,843
Contributed interest and other	254,412	-	254,412	143,257	-	143,257
Donated services and facilities	91,732	-	91,732	191,562	-	191,562
Noncash donations, gifts-in-kind	32,509,235	-	32,509,235	39,621,559	-	39,621,559
Net assets released from restriction	143,090	(143,090)	-	72,652	(72,652)	-
Total support and revenues	<u>34,372,596</u>	<u>(8,090)</u>	<u>34,364,506</u>	<u>42,068,666</u>	<u>10,590</u>	<u>42,079,256</u>
Expenses						
Program services:						
Change the Course	277,940	-	277,940	264,945	-	264,945
Resource distribution	37,132,001	-	37,132,001	22,683,189	-	22,683,189
Supporting services:						
General and administrative	307,479	-	307,479	248,048	-	248,048
Fundraising and procurement of in-kind gifts	208,148	-	208,148	252,778	-	252,778
Total expenses	<u>37,925,568</u>	<u>-</u>	<u>37,925,568</u>	<u>23,448,960</u>	<u>-</u>	<u>23,448,960</u>
Change in Net Assets	(3,552,972)	(8,090)	(3,561,062)	18,619,706	10,590	18,630,296
Net Assets - Beginning of Year	<u>21,427,711</u>	<u>20,590</u>	<u>21,448,301</u>	<u>2,808,005</u>	<u>10,000</u>	<u>2,818,005</u>
Net Assets - End of Year	<u>\$ 17,874,739</u>	<u>\$ 12,500</u>	<u>\$ 17,887,239</u>	<u>\$ 21,427,711</u>	<u>\$ 20,590</u>	<u>\$ 21,448,301</u>

Notes to Financial Statements are an integral part of this Statement.

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Statements of Cash Flows

Years Ended December 31,	2014	2013
Cash Flows from Operating Activities		
Change in net assets	\$ (3,561,062)	\$ 18,630,296
Adjustments to reconcile change in net assets to net cash used for operations:		
Contributed inventory and equipment received	(32,509,235)	(39,621,559)
Inventory donated to beneficiaries	35,858,169	21,565,503
Depreciation and amortization expense	26,183	19,288
Bad debt expense	30,253	3,710
Gain on involuntary disposal of equipment	(21,650)	-
Related party demand note payable balance contributed to Organization	-	(778,000)
Changes in assets and liabilities:		
Accounts receivable	40,005	(29,460)
Contributions and grants receivable	(50,619)	(23,860)
Prepaid expenses and other current assets	(40,125)	12,540
Purchased inventory	(4,500)	(8,000)
Accounts payable	3,210	36,234
Accrued liabilities	(3,533)	8,379
Deferred revenue	(19,500)	3,500
Deferred rent liability	6,170	(1,338)
Net cash used for operating activities	(246,234)	(182,767)
Cash Flows from Investing Activities		
Purchase of property and equipment	(31,916)	(11,721)
Proceeds from involuntary disposal of equipment	21,650	-
Payments for trademark of Organization name	(9,707)	(50,000)
Change in cash held for long-term purposes	10,000	-
Net cash used for investing activities	(9,973)	(61,721)
Cash Flows from Financing Activities		
Payments on bank note payable	(45,000)	(40,000)
Payments on leasehold improvements note payable	(5,752)	(4,314)
Proceeds from related parties demand notes payable	363,564	279,543
Net cash provided by financing activities	312,812	235,229
Net Increase (Decrease) in Cash	56,605	(9,259)
Cash – Beginning of Year	37,614	46,873
Cash – End of Year	\$ 94,219	\$ 37,614
Supplemental Disclosure of Noncash Investing and Financing Activities		
Leasehold improvements financed through note payable	\$ -	\$ 14,379

Notes to Financial Statements are an integral part of this Statement.

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Statements of Functional Expenses

	Year Ended December 31, 2014					Year Ended December 31, 2013				
	Program Services		Supporting Services			Program Services		Supporting Services		
	Change the Course	Resource Distribution	General and Administrative	Fundraising and Procurement of In-Kind Gifts	Total	Change the Course	Resource Distribution	General and Administrative	Fundraising and Procurement of In-Kind Gifts	Total
Donations to beneficiaries, including gifts-in-kind	\$ -	\$ 35,858,169	\$ -	\$ -	\$ 35,858,169	\$ -	\$ 21,565,503	\$ -	\$ -	\$ 21,565,503
Payroll and payroll taxes	93,697	401,255	136,383	74,430	705,765	132,576	375,438	137,882	112,513	758,409
Volunteer time, in-kind expense	1,435	57,880	19,134	359	78,808	-	164,983	-	-	164,983
Occupancy, in-kind expense	2,585	9,047	646	646	12,924	3,922	5,229	9,151	7,844	26,146
Employee benefits	7,308	14,616	7,308	7,308	36,540	8,656	17,312	8,656	8,656	43,280
Transportation	3,501	243,508	1,023	2,201	250,233	5,125	211,781	1,103	1,128	219,137
Warehouse rent and expense	75,044	264,107	18,781	18,783	376,715	81,700	199,493	11,471	10,899	303,563
Program supplies	36,546	20,761	-	-	57,307	-	-	-	-	-
Purchase of medical supplies	-	113,025	-	-	113,025	-	43,807	-	-	43,807
Office and public relations expense	35,008	72,010	36,542	46,889	190,449	11,281	28,197	32,046	28,053	99,577
Insurance	10,381	20,761	10,381	10,381	51,904	5,542	11,085	5,543	5,542	27,712
Miscellaneous	-	-	31,310	-	31,310	-	-	3,710	-	3,710
Professional services	-	900	31,141	2,000	34,041	93	6,513	19,070	23	25,699
Telephone & internet	2,265	6,633	4,144	827	13,869	490	9,193	3,684	132	13,499
Travel	358	29,706	874	6,736	37,674	185	13,906	357	24,747	39,195
Interest expense	4,575	9,151	4,575	4,575	22,876	11,517	23,034	11,518	11,517	57,586
Depreciation expense	5,137	10,274	5,137	5,137	25,685	3,858	7,715	3,857	3,858	19,288
Amortization expense	100	198	100	100	498	-	-	-	-	-
Special event fundraising expense	-	-	-	27,776	27,776	-	-	-	37,866	37,866
Special event - direct benefit to donor	-	-	212,407	-	212,407	-	-	129,406	-	129,406
Total expenses	277,940	37,132,001	519,886	208,148	38,137,975	264,945	22,683,189	377,454	252,778	23,578,366
Special event - direct benefit to donor	-	-	(212,407)	-	(212,407)	-	-	(129,406)	-	(129,406)
Total functional expenses	\$ 277,940	\$ 37,132,001	\$ 307,479	\$ 208,148	\$ 37,925,568	\$ 264,945	\$ 22,683,189	\$ 248,048	\$ 252,778	\$ 23,448,960

Notes to Financial Statements are an integral part of this Statement.

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Notes to Financial Statements

December 31, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Matter, FKA Hope for the City, (“the Organization”) is a non-profit entity organized under the laws of the State of Minnesota. Believing that the simple act of being resourceful can change the world, the Organization’s purpose is to expand access to health and food, locally in the Twin Cities metro area and around the world.

Through local resource distribution programs, including targeted nutrition and food distribution, the Organization strives to offer not just meals, but specifically healthy food to people facing food insecurity. The Organization primarily distributes fresh produce, shelf-stable goods, personal care and basic necessity items to other non-profit entities who serve people living in scarcity.

Through international resource distribution programs, the Organization provides restorative aid, particularly in the fields of health, education and farming, by supplying developing medical facilities, schools, orphanages, and agricultural operations with the equipment and supplies they need to thrive sustainably.

The Organization also works through their Change the Course program to empower community members and businesses to see the value of what is in their own two hands and create a world where we all matter more through engagement in team-building and service learning experiences such as medical supply sorting, food packing, and the participation in the Organization’s interactive educational exhibit.

Accounting Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the reported support and revenues and expenses. Significant management estimates include economic lives of property and equipment, valuation of donated inventory, the valuation of other in-kind donations, and the expense allocations to program and supporting services on the statement of functional expenses. Actual results could differ from those estimates.

Basis of Presentation

The Organization presents its financial statements on the accrual basis of accounting. The Organization reports its financial position and activities according to the three classes of net assets of unrestricted, temporarily restricted, and permanently restricted, based on the existence or absence of donor-imposed restrictions. The Organization has no permanently restricted net assets.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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. The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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Notes to Financial Statements

December 31, 2014 and 2013

In-Kind Contributions and Donations to Beneficiaries

The Organization receives contributions of clothing, food, medical supplies and other miscellaneous items. Contributions of donated non-cash assets are recorded at their estimated fair values at the date of gift in the period received, based upon the quantities donated and considering the condition and utility of the items received and primarily based on wholesale values. The Organization only records the value of in-kind gifts for which it is the recipient and for which the Organization has the unilateral power to redirect the use to beneficiaries of its choice.

Gift-in-kind donations of non-cash assets by the Organization to beneficiaries are recorded as donations at the date of distribution.

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

The estimates of the fair value of in-kind contributions and in-kind donations to beneficiaries of non-cash assets represent significant estimates which could change in the near term.

Cash

The Organization maintains its accounts primarily at one financial institution. At times throughout the year, the Organization's cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. The Organization held cash for a specific long-term purpose at December 31, 2013, which is reported separately due to the nature of the restrictions.

Contributions, Grants, and Other Receivables

Contributions, pledges, and other grant receivables that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization follows a policy of providing an allowance for doubtful accounts; however, based on historical experience, and its evaluation of the current status of receivables, the Organization is of the belief that such accounts will be collectible in all material respects and thus an allowance is not necessary. Accounts are considered past due if payment is not made on a timely basis. Accounts considered uncollectible are written off.

Inventory, In-Kind Donated Assets

Contributions of in-kind assets that have not been distributed as of December 31, 2014 and 2013 are recorded as inventory at the lower of their approximate current fair value or their approximate fair value at the date of the contribution. Contributions of donated food are recorded as unrestricted support when received and expensed when distributed and are recorded as inventory at the approximate wholesale value of the item. They are expected to be distributed in the following year. The donated inventory that remained on hand at December 31, 2014 and 2013 consisted primarily of food, medical supplies, and domestic goods. The value of the donated inventory represents a significant estimate which could change in the near term.

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Notes to Financial Statements

December 31, 2014 and 2013

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided over estimated useful lives by use of the straight line method. Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized. The estimated useful lives of leasehold improvement assets is the shorter of the estimated useful life or related lease term.

Carrying Value of Long-Lived Assets

Long-lived assets, such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals.

Trademark

The Organization's trademark asset represents the expenses incurred to establish the trademark for the Organization's new name, Matter. The trademark is being amortized over its estimated useful life of ten years.

Deferred Revenue

Deferred revenue represents advances received from partner organizations to cover shipping and transportation services. Revenue is recognized in the period in which it is earned.

Income Taxes

Matter is a non-profit organization and, therefore, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes.

The Organization has evaluated whether they have any significant tax uncertainties that would require recognition or disclosure. Primarily due to the exempt status, the Organization does not have any significant tax uncertainties that would require recognition or disclosure.

The Organization is no longer subject to income tax examinations for years before fiscal year 2011.

Basis of Allocating Functional Expenses

The costs of providing various program services and supporting activities of the Organization have been summarized on the functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities. Fundraising expense includes costs of special events other than direct donor benefits as well as the efforts to secure both cash and in-kind contributions.

Allocations are generally made as follows:

- Salaries by estimated time spent on principal activities of each employee
- Payroll taxes according to the percentage used to allocate salaries
- All other expenses are directly allocable or allocated in a manner as considered practicable

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Notes to Financial Statements

December 31, 2014 and 2013

Subsequent Events

The Organization has evaluated subsequent events through June 24, 2015, the date which the financial statements were available to be issued.

2. ACCOUNTS, CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable (all currently due) consist of the following at December 31:

	<u>2014</u>	<u>2013</u>
Service Revenue - General operations	\$ 20,010	\$ 60,015
Contributions - General operations	<u>43,516</u>	<u>23,150</u>
Total receivables	<u>\$ 63,526</u>	<u>\$ 83,165</u>

3. DONATED INVENTORY

Donated inventory consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Food	\$ 160,853	\$ 157,545
Other domestic goods (primarily clothing and household items)	875,006	706,522
Medical supplies	16,552,526	20,819,124
Artwork	<u>745,872</u>	<u>-</u>
Total donated inventory	<u>\$ 18,334,257</u>	<u>\$ 21,683,191</u>

4. TRADEMARK

Trademark consists of the following at December 31:

	<u>2014</u>	<u>2013</u>
Trademark	\$ 59,707	\$ 50,000
Less accumulated amortization	<u>498</u>	<u>-</u>
Trademark, net	<u>\$ 59,209</u>	<u>\$ 50,000</u>

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Notes to Financial Statements

December 31, 2014 and 2013

The estimated amortization expense for the next five years and thereafter is as follows at December 31, 2014:

2015	\$	5,971
2016		5,971
2017		5,971
2018		5,971
2019		5,971
Thereafter		<u>29,354</u>
Total	\$	<u>59,209</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>Useful Life in Years</u>	<u>2014</u>	<u>2013</u>
Equipment and furniture	5 – 10	\$ 119,589	\$ 116,085
Leasehold improvements	5	46,499	46,499
Vehicles	5	143,144	139,844
Assets not yet placed in service		<u>7,226</u>	<u>-</u>
		<u>316,458</u>	<u>302,428</u>
Less accumulated depreciation		<u>240,116</u>	<u>232,317</u>
Property and equipment, net		<u>\$ 76,342</u>	<u>\$ 70,111</u>

Assets not yet placed in service consists of warehouse pallet racking which will be placed in service during 2015.

6. LEASE OBLIGATION

The Organization leases two warehouse spaces from one of the related party companies discussed in Note 9. The main warehouse space lease was set to expire in August 2013, however, the Organization signed an extension on its lease agreement for this warehouse space during fiscal 2013. The most recent lease agreement began in December 2013 and will expire in November 2017, with varying monthly rent payments each year ranging from \$14,264 to \$15,361 per month. Through June 2014, the Organization also rented a second warehouse space on a month-to-month basis at a monthly rate of \$4,691. The Organization records rental expense on a straight line basis over the life of the lease. The Organization is obligated to pay costs of insurance, taxes, repairs, and utilities pursuant to the terms of the leases. Future minimum commitments for payment of rent under the main warehouse space lease, which at inception, had a noncancellable term of more than one year are as follows at December 31, 2014:

2015	\$	179,996
2016		180,211
2017		<u>168,971</u>
Total minimum lease commitments	\$	<u>529,178</u>

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Notes to Financial Statements

December 31, 2014 and 2013

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2014</u>	<u>2013</u>
Transportation operations, including truck purchase	\$ -	\$ 10,000
Fire truck purchase, including shipping charges	12,500	-
Soccer ball purchase	-	10,590
	<u> </u>	<u> </u>
Total temporarily restricted net assets	<u>\$ 12,500</u>	<u>\$ 20,590</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors for resource distribution for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Soccer Ball purchase	\$ 10,590	\$ 46,760
Food Box	20,000	25,892
Transportation operations, including truck purchase	10,000	-
Gala event specific restrictions	20,000	-
Program specific restrictions	70,000	-
Fire truck purchase, including shipping charges	12,500	-
	<u> </u>	<u> </u>
Total net assets released from restrictions	<u>\$ 143,090</u>	<u>\$ 72,652</u>

8. GIFTS-IN-KIND

The Organization received gifts-in-kind (primarily medical supplies) for the years ended December 31, 2014 and 2013 of approximately \$25,042,000 and \$31,273,000, respectively, which the Organization donated or plans to donate to beneficiaries in foreign countries. Also included in gifts-in-kind revenue for the years ended December 31, 2014 and 2013 is approximately \$7,468,000 and \$8,349,000, respectively, of clothing, food, household, art and various other items distributed primarily to other non-profit beneficiaries in Minnesota. The estimated fair value of these items was based upon approximated wholesale values after considering their marketability and usability.

Included in donations to beneficiaries' expense are donations to beneficiaries in foreign countries totaling approximately \$29,339,000 in 2014 and \$13,495,000 in 2013. Also included in donations to beneficiaries' expense are donations of clothing, food, household and various other items, distributed primarily to other non-profit beneficiaries in Minnesota, totaling approximately \$6,519,000 in 2014 and \$8,071,000 in 2013.

The Organization receives a significant amount of donated services from unpaid volunteers who assist in various activities. In 2014 and 2013, \$81,000 and \$169,000 of services qualifying under generally accepted accounting principles were recorded in the statement of activities, respectively. The Organization estimates that it received 7,831 and 10,529 hours of additional volunteer services in 2014 and 2013, respectively, primarily related to local programs and community outreach, but these services did not qualify for recognition in the financial statements.

MATTER

Notes to Financial Statements

December 31, 2014 and 2013

The Organization occupied office space until September 2013 under a month-to-month agreement with one of the related companies as discussed in Note 9. In addition, the Organization occupied certain warehouse space during 2014 under a month-to-month agreement with the same related company. No rent was paid by the Organization under either of these rental agreements. The Organization has estimated the approximate fair value of the annual rental to be approximately \$13,000 and \$22,000 for 2014 and 2013, respectively, and the amount is included in contribution revenue and occupancy expense in the statements of activities and functional expenses.

9. TRANSACTIONS WITH RELATED PARTIES

The Organization is related to two companies which lease space to the Organization as described in Notes 6 and 8. A board member and officer of the Organization is a shareholder in both of the related companies, and the individual's spouse is also a board member and officer of the Organization. The existence of these relationships could result in changes in net assets or financial position of the Organization that are significantly different from those that would have been obtained if the entities were autonomous.

Total rent expense, including the leases discussed in Note 6 and the in-kind rent discussed in Note 8, for the years ended December 31, 2014 and 2013, was approximately \$331,000 and \$168,000, respectively, all of which is with the related companies, and which includes operating lease costs of approximately \$114,000 and \$59,000, respectively.

The Organization had accounts payable of approximately \$1,600 and \$4,700 at December 31, 2014 and 2013 to the related companies, respectively.

The Organization had a note payable of \$41,755 and \$35,420 at December 31, 2014 and 2013, respectively, to a board member and officer of the Organization for amounts advanced for operating expenses. The note is unsecured, non-interest bearing, and due on demand, although it is subordinated to the bank note payable, and repayment is not anticipated within the next year. The Organization recorded approximately \$4,000 and \$38,000 in in-kind contributions and related interest expense, based on the Organization's incremental borrowing rate of 6%, for the years ended December 31, 2014 and 2013, respectively. The board member and officer of the Organization deemed \$778,000, included within the note payable balance during fiscal 2013, as a contribution to the Organization. The Organization has included this \$778,000 within individual contributions in the statement of activities for 2013.

The Organization had a note payable of \$332,229 at December 31, 2014, to an Organization under control by a board member and officer of the Organization for rental and lease operating costs incurred by the Organization during 2014. The note is unsecured, non-interest bearing, and due on demand, although it is subordinated to the bank note payable, and repayment is not anticipated within the next year.

The Organization had a note payable of \$25,000 at December 31, 2014, to an Organization under control by a board member and officer of the Organization for amounts advanced for operating expenses. The note is unsecured and borrowings incur interest of 8%. Borrowings under the note payable are due on demand, although the note is subordinated to the bank note payable, and repayment is not anticipated within the next year.

The Organization incurred interest expense under the above related party notes payable agreements of approximately \$4,000 and \$38,000 during the years ended December 31, 2014 and 2013, respectively.

MATTER

Notes to Financial Statements

December 31, 2014 and 2013

10. CONCENTRATIONS

In 2013, as discussed further in Note 9, the Organization received approximately \$778,000 of individual contributions from a board member and officer of the Organization which represented 65% of total contributions. There were no individual contribution concentrations during 2014. There were no in-kind gift contribution concentrations in 2014 or 2013.

In 2014, the Organization received approximately \$506,000 of revenue from its annual banquet, which represented 69% of total special events revenue. In 2013, the Organization received approximately \$401,000 of revenue from its annual banquet, which represented 66% of total special events revenue.

The Organization had contributions, grants and pledge receivables of approximately \$44,000 and \$23,000 at December 31, 2014 and 2013, respectively. Five and two donors comprised 86% and 93% of the Organization's contributions, grants, and pledges at December 31, 2014 and 2013, respectively.

The Organization had accounts receivable of approximately \$20,000 and \$60,000 at December 31, 2014 and 2013, respectively. Two and three organizations comprised 62% and 83% of the Organization's accounts receivable balance at December 31, 2014 and 2013, respectively.

11. EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution, discretionary, 403(b) plan for substantially all employees who meet certain eligibility requirements. The Organization did not make contributions to the Plan during 2014 or 2013.

12. BANK NOTE PAYABLE - LINE OF CREDIT

In December 2011, the Organization entered into a variable rate line of credit agreement with a bank with an availability of \$250,000, with a maturity of February 2013. During February 2013, the agreement was amended from a variable rate line of credit to a term note with a maturity of February 2014. During February 2014 and before maturity, the agreement was amended to a term note with a maturity of February 2015. During February 2015 and before maturity, the agreement was again amended to a term note with a maturity of July 2015. The amended note requires one principal payment of \$165,000 in July 2015, including a payment for all accrued interest not yet paid. The note contains certain restrictive covenants and is secured by substantially all of the Organization's assets. The note is personally guaranteed by a board member and officer of the Organization. The related parties notes payable, as discussed in Note 9, are subordinate to this bank term note. The total balance outstanding on the bank note payable at December 31, 2014 and 2013 was \$165,000 and \$210,000, respectively. The classification at December 31, 2014 is in accordance with the payment terms as amended in February 2015.

13. LEASEHOLD IMPROVEMENTS NOTE PAYABLE

In February 2013, the Organization entered into a loan agreement in the amount of \$14,379 to finance certain leasehold improvements made to the Organization's warehouse space. The note is secured by the leasehold improvements, non-interest bearing, and due in August 2015. The agreement requires monthly payments of approximately \$480 per month. The Organization recorded approximately \$400 and \$600 of in-kind contributions and related interest expense, based on the Organization's incremental borrowing rate of 6% for the years ended December 31, 2014 and 2013, respectively. The classification at December 31, 2014 is in accordance with the payment terms of the agreement.