

FRIENDSHIP TRAYS, INC.

FINANCIAL STATEMENTS
DECEMBER 31, 2013

FRIENDSHIP TRAYS, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Friendship Trays, Inc.
Charlotte, North Carolina

We have audited the accompanying financial statements of Friendship Trays, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 of material misstatement.

An audit includes 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.

Friendship Trays, Inc.
Independent Auditors' Report

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friendship Trays, Inc., as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the 2012 financial statements of Friendship Trays, Inc., and our report dated June 21, 2013, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

C. DeWitt Ford & Company, P.A.

May 13, 2014
Charlotte, North Carolina

FRIENDSHIP TRAYS, INC.**STATEMENT OF FINANCIAL POSITION****December 31, 2013, With Prior Year Comparative Totals**

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 682,240	\$ 658,667
Receivables:		
Contributions	100,000	-
Accounts receivable, net	29,354	33,492
Sales tax	5,712	6,109
Inventory - at cost	-	3,583
Prepaid expenses	16,139	9,988
Investments:		
Beneficial interest in assets held in trust by third party	2,578	2,333
Other	2,000,625	1,715,364
Property and equipment, net	154,131	178,245
<u>TOTAL ASSETS</u>	<u>\$ 2,990,779</u>	<u>\$ 2,607,781</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 32,077	\$ 29,282
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Net Assets:

Unrestricted	1,759,481	1,458,091
Temporarily restricted	262,601	183,788
Permanently restricted	936,620	936,620

Total Net Assets	2,958,702	2,578,499
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<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 2,990,779</u>	<u>\$ 2,607,781</u>
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FRIENDSHIP TRAYS, INC.**STATEMENT OF ACTIVITIES****Year Ended December 31, 2013, With Prior Year Comparative Totals**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2013	2012
<u>SUPPORT AND REVENUE</u>					
Support:					
Contributions and grants	\$ 974,773	\$ 113,715	\$ -	\$ 1,088,488	\$ 960,124
Revenue:					
Sale of meals, net of \$418,120 subsidies	299,108	-	-	299,108	298,992
Special events, net of \$15,674 direct benefit to donors	35,179	-	-	35,179	24,569
Investment earnings	175,208	57,700	-	232,908	152,835
Other income	16,913	-	-	16,913	59,376
Total Revenue	526,408	57,700	-	584,108	535,772
Net assets released from restrictions:					
Restrictions satisfied by payment	92,602	(92,602)	-	-	-
TOTAL SUPPORT, REVENUE, AND RECLASSIFICATIONS	1,593,783	78,813	-	1,672,596	1,495,896
<u>EXPENSES</u>					
Program services	1,150,468	-	-	1,150,468	1,169,881
Management and general	77,198	-	-	77,198	80,021
Fund raising	64,727	-	-	64,727	70,905
TOTAL EXPENSES	1,292,393	-	-	1,292,393	1,320,807
CHANGE IN NET ASSETS	301,390	78,813	-	380,203	175,089
NET ASSETS, BEGINNING	1,458,091	183,788	936,620	2,578,499	2,403,410
NET ASSETS, ENDING	\$ 1,759,481	\$ 262,601	\$ 936,620	\$ 2,958,702	\$ 2,578,499

FRIENDSHIP TRAYS, INC.**STATEMENT OF FUNCTIONAL EXPENSES****Year Ended December 31, 2013, With Prior Year Comparative Totals**

	Program Services	Management and General	Fund Raising	Totals	
				2013	2012
<u>SALARIES AND RELATED EXPENSES</u>					
Salaries	\$ 453,593	\$ 34,809	\$ 25,929	\$ 514,331	\$ 511,246
Payroll taxes and benefits	97,830	8,204	6,111	112,145	123,198
<i>Total</i>	551,423	43,013	32,040	626,476	634,444
<u>OTHER EXPENSES</u>					
Food	293,524	-	-	293,524	325,860
Supplies	102,600	1,267	1,267	105,134	84,637
Occupancy	79,876	16,025	4,006	99,907	86,629
Communications	9,078	422	36,106	45,606	41,765
Delivery and travel	40,368	737	-	41,105	48,920
Professional fees	-	6,070	4,000	10,070	9,522
Repairs and maintenance	22,655	267	67	22,989	22,717
Insurance	8,272	1,419	789	10,480	20,369
Telephone	4,430	623	464	5,517	2,523
Bank and credit card	-	3,553	-	3,553	3,342
Miscellaneous	409	666	408	1,483	11,721
Dues and subscriptions	628	627	627	1,882	775
<i>Total</i>	561,840	31,676	47,734	641,250	658,780
TOTAL EXPENSES					
<i>BEFORE DEPRECIATION</i>	1,113,263	74,689	79,774	1,267,726	1,293,224
Depreciation	37,205	2,509	627	40,341	41,010
TOTAL EXPENSES	1,150,468	77,198	80,401	1,308,067	1,334,234
Less - Amounts deducted directly against support	-	-	15,674	15,674	13,427
NET EXPENSES	\$ 1,150,468	\$ 77,198	\$ 64,727	\$ 1,292,393	\$ 1,320,807

FRIENDSHIP TRAYS, INC.**STATEMENT OF CASH FLOWS****Year Ended December 31, 2013, With Prior Year Comparative Totals**

	<u>2013</u>	<u>2012</u>
<u>OPERATING ACTIVITIES</u>		
Change in net assets	\$ 380,203	\$ 175,089
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	40,341	41,010
Realized and unrealized gain on investments	(214,324)	(129,782)
(Increase) decrease in operating assets:		
Contributions receivable	(100,000)	8,681
Accounts receivable	4,138	17,147
Sales tax receivable	397	394
Inventory	3,583	(19)
Prepaid expenses	(6,151)	(342)
Increase in operating liabilities:		
Accounts payable and accrued expenses	2,795	(30,367)
<i>Cash Flows from Operating Activities</i>	<i>110,982</i>	<i>81,811</i>
<u>INVESTING ACTIVITIES</u>		
Proceeds from sale of investments	1,057,993	1,234,416
Purchase of investments	(1,129,175)	(1,129,363)
Purchase of equipment	(16,227)	(3,580)
<i>Cash Flows from Investing Activities</i>	<i>(87,409)</i>	<i>101,473</i>
CHANGE IN CASH AND CASH EQUIVALENTS	23,573	183,284
CASH AND CASH EQUIVALENTS, BEGINNING	658,667	475,383
CASH AND CASH EQUIVALENTS, ENDING	\$ 682,240	\$ 658,667

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Friendship Trays, Inc. (the Organization), located in Charlotte, North Carolina, was established in 1976 to deliver balanced meals daily to individuals in the community who are unable, because of age or infirmity, to obtain or prepare their own meals. The Organization's support is received from contributions from individuals, companies, foundations, and other nonprofit organizations. The majority of the Organization's revenue is received from fees charged for meals.

Basis of Presentation

The Organization is required under U.S. generally accepted accounting principles (GAAP) to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets – Unrestricted net assets are those currently available for use in the day-to-day operation of the Organization and those resources invested in property and equipment.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization

Contributions

In accordance with GAAP, 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. When a donor 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. Restricted grants and contributions whose restrictions are met in the same reporting period as received are reported as unrestricted support.

Donated Goods and Services

Donated services are reported as contributions when the services (a) create or enhance non-financial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills, and are provided by individuals possessing those skills. Donated goods, if significant, are included in support at fair value. During the year, the Organization recorded no donated goods and donated services of \$1,892.

In addition, the Organization receives a substantial amount of donated services from unpaid volunteers in carrying out its program activities. No amounts have been reflected in the financial statements for these services since they do not meet the criteria for recognition under GAAP. The Organization receives more than 60,000 volunteer hours per year relating to the preparation of meals and deliveries to recipients.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments, which are readily convertible into cash within three months of purchase.

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property and Equipment

Property and equipment donated to the Organization is carried at its estimated fair market value as of the date of the donation. All other property and equipment is carried at historical cost. Property and equipment with a cost of \$250 or greater is capitalized. Depreciation expense is computed on all property and equipment by use of the straight-line method over the following useful lives:

Leasehold improvements	5-7 years
Kitchen equipment	10 years
Vehicle	5 years
Office equipment and furnishings	5-7 years

Accounts Receivable

Purchased meals are recognized as a receivable and revenue when the meals have been served and are expected to be collected shortly after year-end. The balance at year-end is shown net of an allowance for uncollectible accounts of \$1,391. Management's assessment of the collectability of receivables is based on a review of individual accounts, historical experience, and current economic conditions.

Contributions Receivable

In accordance with GAAP, the Organization records support at the time a promise is made rather than when received. The entire balance of contributions receivable as of December 31, 2013, relates to a single donor and was collected shortly after year-end; therefore, no allowance for doubtful accounts has been provided.

Conditional promises of support are recognized when the conditions on which they depend are substantially met.

Inventory

Inventory primarily consists of food and related supplies. Effective January 1, 2013, inventory is expensed when purchased.

Revenue and Subsidy

Program service revenue has been reflected in the financial statements as sales based on the charge for meals delivered net of the full or partial amount subsidized by the Organization. The amount of subsidy is based on the recipient's monthly income and medical expenses.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of support, revenues, and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

Expenses are allocated to program, management and general, and fund raising based on management's estimates of time spent and various allocation methods appropriate to the type of expense.

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation.

GAAP requires an organization to recognize a tax benefit or expense from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Organization has no uncertain tax positions as of December 31, 2013.

Prior-Year Comparative Totals

The financial statements include certain prior-year summarized information, which is presented for comparative purposes only. Accordingly, such information should be read in conjunction with the Organization's 2013 financial statements, from which the summarized information was derived.

NOTE B - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2013, consists of the following:

Leasehold improvements	\$ 525,353
Kitchen equipment	212,379
Office furniture and equipment	49,972
Vehicles	31,530
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	819,234
Less – Accumulated depreciation	665,103
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	\$ 154,131
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NOTE C - DONATED FACILITIES

Effective April 1, 2010, the Organization entered into a five-year agreement for the use of a facility located at 2401 Distribution Street. Under the terms of the lease the monthly rent is \$5,000. The landlord has pledged a contribution to the Organization in an amount equal to the lease payments. During the year ended December 31, 2013, the Organization has recorded an in-kind contribution of \$60,000 for the donated facility with a like amount recorded as an occupancy expense. The Organization considers the pledge of future contributions of rent to be a conditional promise.

The Organization also uses space at Friendship Missionary Baptist Church for which it is not charged. The fair market value of this space is \$500 per month. During the year ended December 31, 2013, the Organization has recorded an in-kind contribution of \$6,000 for the donated space with a like amount recorded in occupancy expense.

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE D - PENSION PLAN

The Organization maintains a tax-deferred annuity plan for its employees qualifying under Section 403(b) of the Internal Revenue Code. The Organization matches fifty percent of the first four percent of eligible employee elective deferrals. Matching contributions are 100 percent vested after five years of service. The Organization's contributions to the plan were \$2,932 for the year ended December 31, 2013.

NOTE E - RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2013, are as follows:

Tom Bradbury Memorial	\$ 3,261
Small Kitchen Wares	1,269
Friendship Gardens and Mobile Market	81,988
Endowment earnings	<u>176,083</u>
	<u>\$ 262,601</u>

Permanently restricted net assets relate to the corpus of the Endowment described in Note G below.

NOTE F - INVESTMENTS

In accordance with GAAP, the Organization's investments are presented in the financial statements at fair value.

Beneficial Interest in Assets Held in Trust by Third Party

In accordance with GAAP, the Organization has included in these financial statements the fair value of investments and related income earned on certain funds held in trust solely for the benefit of Friendship Trays.

The Foundation for the Carolinas (the Foundation) holds in trust an account for the benefit of Friendship Trays. Friendship Trays may request annual distributions of accumulated income from this account. The Foundation has complete discretion as to the timing and amounts of distributions from this fund; however, the Foundation has no variance power to distribute any portion of this fund to another not-for-profit entity. This account as of December 31, 2013, is of various equity and fixed income funds.

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE F - INVESTMENTS, continued

Other investments as of December 31, 2013, are composed of the following:

Mutual Funds:

Fixed Income	\$ 584,152
Equities	960,170
Real Estate	63,221
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	1,607,543

Certificates of Deposit:

Publically traded with various maturities and interest rates	393,082
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	\$ 2,000,625

Investment earnings for the year ended December 31, 2013, were comprised of the following:

Interest and dividends	\$ 30,689
Realized and unrealized gains	214,324
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	245,013
Less – fees	12,105
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	\$ 232,908

NOTE G - ENDOWMENT

The Organization's endowment consists of one fund established to preserve the real value of invested capital and to provide immediate income to operations. Its endowment includes donor-restricted funds to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE G - ENDOWMENT, continued

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Under this policy, as approved by the Board of Directors, endowment assets are invested in a well diversified asset mix, which includes equity and debt securities that is intended to produce results that attempt to match the price and yield results of the S&P 500 index. Actual returns in any given year may vary.

Spending Policy. Contributions to the endowment are permanently restricted and not available for use. A total return spending policy has been adopted by which up to 75 percent of the endowment's total annual return will be available to help support the operation of Friendship Trays, Inc.

As of December 31, 2013, the fair value of the endowment is \$1,640,951, which exceeds the corpus of \$936,620 by a total of \$704,331; therefore, \$528,249 is available to support operations and is included in unrestricted net assets. The remaining earnings of \$176,083 is included in temporarily restricted net assets.

NOTE H - FAIR VALUE MEASUREMENTS

Current accounting standards require fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. It establishes a three-level valuation hierarchy based upon observable and unobservable inputs, as follows:

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE H - FAIR VALUE MEASUREMENTS, continued

- Level 1 - Fair value is based on quoted prices in active markets for identical assets or liabilities.
- Level 2 - Fair value is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are - or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization has segregated its financial instruments into the most appropriate level within the fair value hierarchy at December 31, 2013, as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual Funds	\$ 1,607,543	\$ 1,607,543	\$ -	\$ -
Certificates of Deposit:				
Publicly Traded	393,082	393,082	-	-
Foundation For The Carolinas	<u>2,578</u>	<u>-</u>	<u>-</u>	<u>2,578</u>
TOTAL	<u>\$ 2,003,203</u>	<u>\$ 2,000,625</u>	<u>\$ -</u>	<u>\$ 2,578</u>

The Organization's investments at the Foundation are classified as Level 3 assets. Values of these investments are determined by the Foundation based on the market value of the underlying assets, which generally consist of publicly-traded securities.

The following table sets forth a summary of changes in the fair value of the Organization's level 3 assets for the year ended December 31, 2013.

Balance, beginning of year	\$ 2,333
Net increase in value	261
Sales	(131)
Purchases	<u>115</u>
Balance, end of year	<u>\$ 2,578</u>

NOTE I - CONCENTRATIONS OF CREDIT RISK

Cash in bank accounts and certificates of deposit are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The total cash held by the Organization at December 31, 2013, includes \$162,918 in excess of insured limits covered by the FDIC.

FRIENDSHIP TRAYS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE I - CONCENTRATIONS OF CREDIT RISK, continued

Investments

Investments held in financial institutions are insured up to \$500,000 by the Securities Investor Protection Corporation (SPIC); however, this insurance does not cover the loss of value of the underlying assets. As disclosed in Note F above, the Organization maintains a variety of investments which are subject to fluctuations in market values and expose the Organization to a certain degree of investment risk.

Support and Revenue

The Organization operates and receives funding within a limited geographical area, primarily Charlotte, North Carolina.

NOTE J - UNRELATED BUSINESS INCOME TAX

During the year ended December 31, 2013, the Organization received rental income from various unrelated for-profit companies for the use of kitchen facilities at contracted rates. The Organization has determined that this income less expenses is subject to unrelated business income tax. The Organization will report this activity as required on an annual "Exempt Organization Business Income Tax Return" Form 990-T. However, no unrelated business income tax is due in that allocated expenses exceed the amount of income received. The year's open to examination by the Internal Revenue Service are the year ended December 31, 2013, and the three prior years.

NOTE K - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events from the date of the statement of financial position through the date of the independent auditors' report, which is the date the financial statements were available to be issued. During this period, no material recognizable subsequent events were identified except that on February 24, 2014, the Organization entered into an agreement to purchase an adjacent property for \$920,000 with the intent to sell this property in the future to provide funds for a new facility for operations. The adjacent property purchase will be funded by restricted contributions to be received and existing investments.