

**LOAVES & FISHES CENTERS**  
*The Meals-On-Wheels People*

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2011**

**with**

**Independent Auditors' Report**

**and**

**Single Audit Reports**

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# LOAVES & FISHES CENTERS, INC.

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## Independent Auditors' Report

The Board of Directors  
Loaves & Fishes Centers, Inc.

We have audited the accompanying statement of financial position of Loaves & Fishes Centers, Inc. (the Organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated September 28, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2011, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hoffman, Stewart & Schmidt, P.C.

September 28, 2011

**LOAVES & FISHES CENTERS, INC.**

**Statement of Financial Position**

<b>June 30, 2011</b> <i>(With Comparative Amounts for 2010)</i>	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,816,558	\$ 1,146,733
Investments <i>(Notes 3 and 17)</i>	1,064,735	1,185,563
Accounts receivable - net:		
Medicaid	51,545	62,823
Older Americans Act	289,913	158,305
Nutrition Services Incentive Program	61,562	162,262
Contract meals <i>(Note 15)</i>	42,491	71,287
Other	54,201	17,620
Prepaid expenses and deposits	130,880	104,203
Inventory	119,958	107,234
Bequests and contributions receivable <i>(Note 4)</i>	945,032	1,178,486
Beneficial interest in charitable remainder trusts <i>(Notes 5 and 17)</i>	176,602	90,411
Investments held related to charitable gift annuities <i>(Notes 6 and 17)</i>	124,121	122,476
Investments held at community foundations <i>(Notes 7, 17 and 18)</i>	5,377,694	3,719,137
Property, equipment and leasehold improvements - net <i>(Note 8)</i>	<u>6,786,191</u>	<u>7,041,715</u>
	<u><b>\$ 17,041,483</b></u>	<u><b>\$ 15,168,255</b></u>

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

	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 251,273	\$ 181,190
Accrued payroll and compensated absences	335,654	317,680
Other accrued liabilities	162,032	168,286
Liability for charitable gift annuities ( <i>Note 6</i> )	103,434	102,064
<b>Total liabilities</b>	<b>852,393</b>	<b>769,220</b>
Commitments ( <i>Notes 9 and 13</i> )		
<b>Net assets:</b>		
Unrestricted:		
Available for operations	1,639,843	1,412,629
Board designated for financial reserve	5,039,376	3,400,969
Board designated for capital reserve and maintenance	959,858	779,936
Net investment in property, equipment and leasehold improvements	6,786,191	7,041,715
Total unrestricted net assets	14,425,268	12,635,249
Temporarily restricted ( <i>Note 10</i> )	1,274,775	1,380,291
Permanently restricted ( <i>Notes 11 and 18</i> )	489,047	383,495
<b>Total net assets</b>	<b>16,189,090</b>	<b>14,399,035</b>
	<b>\$ 17,041,483</b>	<b>\$ 15,168,255</b>

**LOAVES & FISHES CENTERS, INC.**

**Statement of Activities**

**Year Ended June 30, 2011** *(With Comparative Totals for 2010)*

	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>Revenue, gains (losses) and other support:</b>			
Charges for services <i>(Note 15)</i> :			
Title III	\$ 2,073,076	\$ -	\$ -
Nutrition Services Incentive Program	705,020	-	-
Medicaid and other	608,449	-	-
ARRA	-	-	-
Local government	151,441	-	-
Contributions:			
Participants for meals	813,998	-	-
Center and Board fund-raising	2,040,111	1,567,350	89,887
Special events:			
Gross revenue	822,784	-	-
Less direct cost of donor benefits	(58,579)	-	-
	764,205	-	-
Contracts and sales <i>(Note 15)</i>	417,137	-	-
Interest and dividends	81,892	-	-
In-kind space	592,284	-	-
Other in-kind contributions	31,903	-	-
Miscellaneous	42,886	-	-
Net assets released from restrictions <i>(Note 12)</i> :			
Satisfaction of program or time restrictions	1,673,655	(1,673,655)	-
<b>Total operating revenues (carried forward)</b>	<b>9,996,057</b>	<b>(106,305)</b>	<b>89,887</b>

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

<b>Total</b>	
<b>2011</b>	<b>2010</b>
\$ 2,073,076	\$ 1,802,325
705,020	648,970
608,449	699,423
-	329,402
151,441	179,191
813,998	773,427
3,697,348	3,652,794
822,784	751,306
(58,579)	(66,191)
764,205	685,115
417,137	543,919
81,892	98,264
592,284	590,768
31,903	27,130
42,886	39,477
-	-
<b>9,979,639</b>	<b>10,070,205</b>

**LOAVES & FISHES CENTERS, INC.**

**Statements of Activities - Continued**

**Year Ended June 30, 2011** *(With Comparative Totals for 2010)*

	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>Total operating revenues (brought forward)</b>	<b>\$ 9,996,057</b>	<b>\$ (106,305)</b>	<b>\$ 89,887</b>
<b>Operating expenses:</b>			
Program services:			
Center operations	4,318,910	-	-
Kitchen operations	3,569,001	-	-
Supporting services:			
General and administrative	622,528	-	-
Fund-raising	637,289	-	-
<b>Total operating expenses</b>	<b>9,147,728</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net assets from operations</b>	<b>848,329</b>	<b>(106,305)</b>	<b>89,887</b>
Gain on investments, including investment fees of \$28,501 in 2011 and \$23,360 in 2010	951,920	-	-
Loss on disposition of property and equipment	(10,230)	-	-
Change in value of beneficial interest in trusts	-	789	15,665
<b>Increase (decrease) in net assets</b>	<b>1,790,019</b>	<b>(105,516)</b>	<b>105,552</b>
Net assets, beginning of year	12,635,249	1,380,291	383,495
<b>Net assets, end of year</b>	<b>\$ 14,425,268</b>	<b>\$ 1,274,775</b>	<b>\$ 489,047</b>

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



Total	
2011	2010
<b>\$ 9,979,639</b>	<b>\$ 10,070,205</b>
4,318,910	4,134,412
3,569,001	3,666,705
622,528	593,318
637,289	646,888
<b>9,147,728</b>	<b>9,041,323</b>
<b>831,911</b>	<b>1,028,882</b>
951,920	322,895
(10,230)	(21,482)
16,454	21,528
<b>1,790,055</b>	<b>1,351,823</b>
14,399,035	13,047,212
<b><u>\$ 16,189,090</u></b>	<b><u>\$ 14,399,035</u></b>

**LOAVES & FISHES CENTERS, INC.**

**Statement of Functional Expenses**

**Year Ended June 30, 2011** *(With Comparative Totals for 2010)*

	<b>Program Services</b>		<b>Total</b>
	<b>Center Operations</b>	<b>Kitchen Operations</b>	
<b>Salaries and related expenses:</b>			
Salaries	\$ 2,128,134	\$ 777,950	\$ 2,906,084
Employee benefits and payroll taxes	<u>614,622</u>	<u>248,870</u>	<u>863,492</u>
<b>Total salaries and related expenses</b>	<b>2,742,756</b>	<b>1,026,820</b>	<b>3,769,576</b>
<b>Other expenses:</b>			
Food and related costs:			
Paid	169,330	2,011,049	2,180,379
In-kind	18,854	11,449	30,303
Small equipment	22,741	9,751	32,492
Mileage and travel	59,003	1,782	60,785
Insurance	34,983	9,251	44,234
Vehicle costs	354	101,044	101,398
Repairs and maintenance	50,001	32,048	82,049
Janitorial services and supplies	44,770	25,921	70,691
Professional fees	58,204	7,741	65,945
Rent and utilities:			
Paid	205,461	244,251	449,712
In-kind	592,019	65	592,084
Office supplies and postage	52,360	3,949	56,309
Subscriptions and memberships	7,487	272	7,759
Bank charges and credit card fees	-	-	-
Other miscellaneous	<u>36,711</u>	<u>621</u>	<u>37,332</u>
<b>Total other expenses</b>	<b>1,352,278</b>	<b>2,459,194</b>	<b>3,811,472</b>
Depreciation and amortization	<u>223,876</u>	<u>82,987</u>	<u>306,863</u>
<b>Total expenses</b>	<b><u>\$ 4,318,910</u></b>	<b><u>\$ 3,569,001</u></b>	<b><u>\$ 7,887,911</u></b>

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

<b>Supporting Services</b>				
<b>General and Administrative</b>	<b>Fund- Raising</b>	<b>Total</b>	<b>Total</b>	
			<b>2011</b>	<b>2010</b>
\$ 401,080	\$ 351,307	\$ 752,387	\$ 3,658,471	\$ 3,501,050
73,090	75,826	148,916	1,012,408	923,377
<b>474,170</b>	<b>427,133</b>	<b>901,303</b>	<b>4,670,879</b>	<b>4,424,427</b>
419	296	715	2,181,094	2,283,021
-	912	912	31,215	16,497
2,110	1,154	3,264	35,756	32,312
582	4,433	5,015	65,800	62,103
6,677	-	6,677	50,911	52,235
-	-	-	101,398	106,397
-	278	278	82,327	116,615
-	-	-	70,691	73,170
69,542	86,491	156,033	221,978	219,509
23,998	17,391	41,389	491,101	500,776
-	200	200	592,284	590,768
13,657	82,266	95,923	152,232	156,910
2,388	6,355	8,743	16,502	14,830
20,552	500	21,052	21,052	23,524
4,537	8,548	13,085	50,417	66,071
<b>144,462</b>	<b>208,824</b>	<b>353,286</b>	<b>4,164,758</b>	<b>4,314,738</b>
3,896	1,332	5,228	312,091	302,158
<b>\$ 622,528</b>	<b>\$ 637,289</b>	<b>\$ 1,259,817</b>	<b>\$ 9,147,728</b>	<b>\$ 9,041,323</b>

**LOAVES & FISHES CENTERS, INC.**

**Statement of Cash Flows**

<b>Year Ended June 30, 2011</b> <i>(With Comparative Totals for 2010)</i>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 1,790,055	\$ 1,351,823
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	312,091	302,158
Gain on investments	(951,920)	(322,895)
Loss on disposition of property and equipment	10,230	21,482
Reinvestment of interest and dividends held at community foundations	(51,300)	(59,954)
Change in value of beneficial interest in trusts	(16,454)	(21,528)
Change in liability for charitable gift annuities	21,660	32,134
Payments for charitable gift annuities	(20,290)	(20,290)
Permanently restricted contributions	(20,150)	(10,729)
Receipt of beneficial interest in charitable remainder trust	(69,737)	-
(Increase) decrease in:		
Accounts receivable - net	(27,415)	73,306
Bequests and contributions receivable	233,454	(907,318)
Inventory	(12,724)	9,005
Prepaid expenses and deposits	(26,677)	(46,379)
Increase (decrease) in:		
Accounts payable	70,083	(42,675)
Accrued payroll and compensated absences	17,974	9,006
Other accrued liabilities	(6,254)	26,084
<b>Net cash provided by operating activities</b> <b>(carried forward)</b>	<b>1,252,626</b>	<b>393,230</b>

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

**LOAVES & FISHES CENTERS, INC.**

**Statement of Cash Flows - Continued**

<b>Year Ended June 30, 2011</b> <i>(With Comparative Totals for 2010)</i>	<b>2011</b>	<b>2010</b>
<b>Net cash provided by operating activities</b> <b>(brought forward)</b>	<b>\$ 1,252,626</b>	<b>\$ 393,230</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of investments	317,880	315,560
Purchases of investments	(42,493)	(612,053)
Distributions from amounts held at Oregon Community Foundation	208,609	192,929
Deposits to amounts held at Oregon Community Foundation	(1,020,150)	(78,628)
Deposit to Community Foundation for Southwest Washington	-	(50,000)
Purchases of property, equipment and leasehold improvements	(66,797)	(73,455)
Proceeds from sale of property, equipment and leasehold improvements	-	3,500
<b>Net cash used by investing activities</b>	<b>(602,951)</b>	<b>(302,147)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for permanent endowment	20,150	10,729
<b>Net cash provided by financing activities</b>	<b>20,150</b>	<b>10,729</b>
<b>Increase in cash and cash equivalents</b>	<b>669,825</b>	<b>101,812</b>
Cash and cash equivalents, beginning of year	1,146,733	1,044,921
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 1,816,558</u></b>	<b><u>\$ 1,146,733</u></b>

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

# LOAVES & FISHES CENTERS, INC.

## Notes to Financial Statements

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### 1. Nature of Activities and Summary of Significant Accounting Policies

**Nature of Activities** - Loaves & Fishes Centers, Inc. (the Organization) is a nonprofit organization, organized under the laws of the State of Oregon, the primary purpose of which is to provide older Americans with nutritionally balanced meals, socialization, and other needed social services. The Organization is funded by private and governmental grants, charges for services and contributions from participants and the general public. Food is prepared in a central kitchen and delivered to 34 service centers, including 12 satellite locations, in Multnomah and Washington Counties in Oregon and Clark County in Washington. Meals are also delivered to homebound seniors by volunteers.

The mission of Loaves & Fishes Centers, Inc. is to enrich the lives of seniors and assist them in maintaining independence by making nutritious food, social contacts, and other resources easily accessible. To the extent possible, the Organization will also serve disabled and institutionalized individuals. This is accomplished through an organization that is community based, emphasizes volunteer involvement and is financially sound. Included are connecting people to services such as transportation, health and welfare counseling, nutrition education, shopping assistance, information and referral services, outreach, case management, case monitoring, and leisure and recreation opportunities. Each center conducts fund-raising activities and some centers receive grants from cities to help support local operations.

The Board of Directors of the Organization is composed of 27 members, 5 of whom are nominated by the Organization's Centers Council. The Board establishes general standards and policies and provides a central office and kitchen to provide support services to the centers. The Board also raises funds on a community-wide basis for operations and administrative support to the centers.

**Summary of Significant Accounting Policies** - The significant accounting policies followed by the Organization are described below to enhance the usefulness of the financial statements to the reader.

***Basis of Presentation*** - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met 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. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

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**1. Nature of Activities and Summary of Significant Accounting Policies - Continued**  
**Summary of Significant Accounting Policies - Continued**

***Basis of Presentation - Continued*** - Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

***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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the financial statements for, among other things, depreciation and amortization expense (based on the estimated useful lives of the underlying assets), bequests receivable, the Organization's beneficial interest in charitable remainder trusts, liabilities under charitable gift annuities, and certain investments held at community foundations.

***Cash and Cash Equivalents*** - The Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. On occasion throughout the year, cash and cash equivalent balances exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC).

***Investments*** - Investments are reported at fair value based on quoted market prices and consist of bond and fixed income funds and equity mutual funds. In 2010, investments also include certificates of deposit with original maturities greater than three months.

***Accounts Receivable*** - Accounts receivable are recognized as meals and services are provided. Interest is not charged on past due accounts.

The Organization uses the allowance method to account for uncollectible accounts. The allowance for doubtful accounts is estimated by management based on various factors, including past history and current economic conditions. The allowance for doubtful accounts was \$52,609 and \$47,849, for the years ended June 30, 2011 and 2010, respectively.

Total accounts receivable includes balances outstanding for greater than 90 days of \$56,513 and \$48,275 at June 30, 2011 and 2010, respectively.

***Inventory*** - Inventory consists of food and related supplies and is valued at the lower of cost (average cost basis) or market.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

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**1. Nature of Activities and Summary of Significant Accounting Policies - Continued**  
**Summary of Significant Accounting Policies - Continued**

***Property, Equipment and Leasehold Improvements, and Depreciation and Amortization*** - The Organization follows the policy of capitalizing, at cost, all expenditures for equipment and leasehold improvements in excess of \$1,500.

Equipment and leasehold improvements received through donation are recorded at estimated fair value at date of donation. Depreciation and amortization have been computed using the straight-line method over the following estimated useful lives:

Equipment	2 - 20 years
Leasehold improvements	10 - 20 years
Building	50 years

***Income Taxes*** - The Organization is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization believes that its contract meals program is substantially related to its exempt mission, and thus not subject to the unrelated business income tax. The Organization is not classified as a private foundation.

Accounting principles generally accepted in the United States of America prescribe a recognition threshold and measurement process for accounting for uncertain tax positions and provide guidance on various related matters such as interest, penalties, and required disclosures. Management does not believe that the Organization has any uncertain tax positions. The Organization files informational returns. Generally, these returns are subject to examination by income tax authorities for three years from the filing of a return. As such, the returns for the years ended June 30, 2008, 2009, and 2010 are currently subject to examination. The Organization has not paid any interest or penalties related to its income tax positions. Interest or penalties assessed by taxing authorities, if any, would be included with general and administrative expenses.

***Contribution Recognition*** - Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

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 or the expenditure for those assets has occurred.



## LOAVES & FISHES CENTERS, INC.

### Notes to Financial Statements - Continued

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#### 1. Nature of Activities and Summary of Significant Accounting Policies - Continued Summary of Significant Accounting Policies - Continued

*Donated Space* - Donated space is recorded as a contribution at estimated fair rental value with an equivalent amount charged to expense. The amount included in the accompanying financial statements was \$592,284 and \$590,768, for the years ended June 30, 2011 and 2010, respectively.

*Donated Services and Inventory* - Numerous volunteers have donated significant amounts of time to the Organization's program services. Although no amounts have been reflected in the accompanying financial statements, management estimates the fair value of those services (based on \$8.40 per hour) to be \$2,750,000 and \$2,700,000 for the years ended June 30, 2011 and 2010, respectively. Donated food and supplies in the amount of \$31,903 and \$27,130 have been reflected in the accompanying financial statements for the years ended June 30, 2011 and 2010, respectively (including \$688 and \$10,633 as a component of direct cost of donor benefits for the years ended June 30, 2011 and 2010, respectively).

*Advertising* - Advertising, which is primarily for employment and center promotion, is expensed when incurred. Advertising costs totaled \$3,416 and \$20,697 for the years ended June 30, 2011 and 2010, respectively.

*Functional Allocation of Expenses* - Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

*Summarized Financial Information for 2010* - The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

#### 2. Program and Supporting Services

*Center Operations* - Loaves & Fishes meal sites have the responsibility of providing a hot noon meal and programming for socialization for seniors living within their geographic area. Nutrition services include group dining on site and coordination of transportation if appropriate, and meals delivered to homebound clients (Meals-on-Wheels). Congregate meals provided totaled approximately 365,500 and 370,500 for the years ended June 30, 2011 and 2010, respectively.

Centers are located in a variety of settings, including senior centers, multicultural centers, housing authority buildings, parks and recreation buildings, and churches.

In addition to providing meals, centers cooperate with other community agencies to provide opportunities for enrichment to the lives of seniors through activities, speakers, field trips, and health-related issues including clinics for foot care and blood pressure monitoring.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

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**2. Program and Supporting Services - Continued**

**Center Operations - Continued** - All new Meals-on-Wheels clients are visited by an outreach worker who works with the client to determine how the Organization can meet their nutritional needs and make referrals to other community resources as needed. Clients are revisited every six months. Home-delivered meals totaled approximately 712,500 and 787,500 for the years ended June 30, 2011 and 2010, respectively.

**Kitchen Operations** - The central kitchen provides meals for 22 active centers and 12 satellite locations. The meals are prepared in bulk, divided, and shipped to each center. Menus for these meals are prepared on a six-week cycle. Approximately 3,800 meals are prepared daily.

Meals are also provided to non-Loaves & Fishes Centers at three contract sites. Contract meals prepared for other organizations totaled approximately 98,600 and 131,500 for the years ended June 30, 2011 and 2010, respectively.

**Support Services** - General and administrative activities include business management, recordkeeping, budgeting, financing, and related administrative activities. These services provide the necessary developmental, organizational, and management support for the effective operation of programs.

Fund-raising activities include conducting fund-raising campaigns, preparing and distributing fund-raising materials, and conducting other activities involving soliciting contributions from individuals, foundations, and others.

**3. Investments**

Investments consist of the following at June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Certificates of deposit	\$ -	\$ 312,659
Domestic equity mutual funds	555,763	419,184
International equity mutual funds	139,863	105,843
Bond funds	369,109	345,108
Series EE bonds	-	2,769
	<u>\$ 1,064,735</u>	<u>\$ 1,185,563</u>

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

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**4. Bequests and Contributions Receivable**

The Organization had unconditional promises to give representing the following at June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Bequests receivable	\$ 749,286	\$ 1,020,391
Other contributions receivable	195,746	158,095
	<u>\$ 945,032</u>	<u>\$ 1,178,486</u>
Unconditional promises expected to be collected within:		
Less than one year	\$ 924,032	\$ 1,168,986
One to five years	21,000	9,500
	<u>\$ 945,032</u>	<u>\$ 1,178,486</u>

Management has elected not to calculate any discount to present value on pledges due beyond one year, as such amount would not be significant.

During the years ended June 30, 2011 and 2010, the Organization recognized \$22,505 and \$28,587, respectively, in contribution support from members of the Board of Directors. At June 30, 2011 and 2010, the Organization had contributions receivable of \$2,815 and \$5,030, respectively, due from members of the Board of Directors.

During the year ended June 30, 2011, the Organization received a \$150,000 conditional promise to give over a three-year period to fund new staff at the Rockwood Center. As of June 30, 2011, the Organization has recognized \$107,000 of this contribution, leaving a \$43,000 conditional promise to give to be recognized once certain additional matching funds are raised pursuant to the terms of the grant agreement.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

**5. Beneficial Interest in Trusts**

The Organization is the beneficiary of six charitable remainder trusts. All or a portion of the remaining principal and income of the trusts is to be distributed to the Organization upon termination. The fair estimated value of the charitable remainder trusts at June 30, 2011 and 2010, using a discount rate of 5 percent, is as follows:

	<b>2011</b>	<b>2010</b>
Temporarily restricted	\$ 25,873	\$ 25,084
Permanently restricted	<u>150,729</u>	<u>65,327</u>
	<u>\$ 176,602</u>	<u>\$ 90,411</u>

**6. Charitable Gift Annuities**

It is the Organization's policy to separately maintain amounts received upon the issuance of charitable gift annuities until the annuity obligations have been fully satisfied.

Investments held related to charitable gift annuities are carried at fair value and are summarized as follows as of June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Cash equivalents	\$ 736	\$ 208
Bond funds	<u>123,385</u>	<u>122,268</u>
	<u>\$ 124,121</u>	<u>\$ 122,476</u>

The liability for charitable gift annuities represents the present value of total expected payments that will be made to the donors. The Organization estimated the liability based on actuarial assumptions at the time the annuities were issued. The present value of each annuity is calculated based on applicable mortality tables using a discount rate of 3 percent.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

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**7. Investments Held at Community Foundations**

**Oregon Community Foundation:** The Organization has an agreement with Oregon Community Foundation (OCF) in order to achieve improved performance results with respect to investments and enhance long-term planned giving goals. Under the terms of the agreement, OCF will distribute annually 4.5 percent of the fair market value of the fund based on the preceding 12-quarter average balance to the Organization. Income distributions of \$208,609 and \$192,929 were received from OCF during the years ended June 30, 2011 and 2010, respectively. Additional distributions up to the entire balance of the fund may be made on a resolution of both of the Organizations' Boards of Directors. Investments held at OCF totaled \$5,324,804 and \$3,669,137 at June 30, 2011 and 2010, respectively. Investments held at OCF are valued at estimated fair value (*Note 17*).

A portion of the investments held at OCF consists of investments in limited partnerships and real estate whose fair values have been estimated by OCF management in the absence of readily determinable market values. These estimates are based on information provided by the fund managers or the general partners, and real estate appraisals; therefore, the reported values may differ from the values that would have been used had a quoted market price existed.

Investments held at OCF also include permanently restricted donor contributions of \$338,318 and \$318,168 at June 30, 2011 and 2010, respectively. Earnings on these funds must be used in support of center operations. The remainder of the funds has been classified as Board designated for financial reserve in the accompanying statement of financial position.

**Community Foundation for Southwest Washington:** The Organization has an agreement with the Community Foundation for Southwest Washington (CFSWW) in order to establish a fund whereby donors can contribute monies to be used to serve the elderly in the State of Washington.

During 2010, the Organization contributed \$50,000 to CFSWW to establish the fund. Under the terms of the agreement, CFSWW shall make charitable distributions from the fund for the benefit of the Organization. Investments held at CFSWW totaled \$52,890 and \$50,000 at June 30, 2011 and 2010, respectively. Investments held at CFSWW are valued at estimated fair value (*Note 17*). These funds have been classified as Board designated for financial reserve in the accompanying statement of financial position.

A portion of the investments held at CFSWW consists of investments in limited partnerships and real estate whose fair values have been estimated by CFSWW management in the absence of readily determinable market values. These estimates are based on information provided by the fund managers or the general partners, and real estate appraisals; therefore, the reported values may differ from the values that would have been used had a quoted market price existed.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

**8. Property, Equipment and Leasehold Improvements - Net**

Property, equipment and leasehold improvements consist of the following at June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Land	\$ 929,566	\$ 929,566
Building	5,728,271	5,728,271
Kitchen equipment	1,088,940	1,069,122
Service center equipment	418,826	413,766
Office equipment	514,335	537,686
Automobiles	9,755	6,755
Leasehold improvements	780,687	780,913
	9,470,380	9,466,079
Less accumulated depreciation and amortization	(2,684,189)	(2,424,364)
Property, equipment and leasehold improvements - net	\$ 6,786,191	\$ 7,041,715

**9. Commitments**

The Organization leases certain space, vehicles, and equipment under various noncancelable operating lease agreements expiring through April, 2017. Minimum payments remaining under the noncancelable operating leases are as follows:

<b>Years Ending June 30,</b>	<b>Amount</b>
2012	\$ 253,395
2013	224,904
2014	161,434
2015	150,744
2016	127,551
Thereafter	88,642
	\$ 1,006,670

The Organization also leases other facilities and equipment under various month-to-month operating lease agreements. Total expense under all operating lease agreements (including donated space) was \$955,159 and \$946,812 for the years ended June 30, 2011 and 2010, respectively.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

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**10. Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes as of June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Center programs	\$ 303,870	\$ 176,721
Bequests receivable	749,286	1,020,391
Beneficial interest in trusts held by others	25,873	25,084
Other contributions receivable	195,746	158,095
	<u>\$ 1,274,775</u>	<u>\$ 1,380,291</u>

**11. Permanently Restricted Net Assets**

Permanently restricted net assets consist of the following at June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>
Center programs	\$ 338,318	\$ 318,168
Beneficial interest in trust held by others	150,729	65,327
	<u>\$ 489,047</u>	<u>\$ 383,495</u>

**12. Net Assets Released from Restrictions**

During the year ended June 30, 2011, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Satisfaction of program or time restrictions:	
Center projects	\$ 43,851
Bequests receivable	1,015,240
Other contributions receivable	614,564
	<u>\$ 1,673,655</u>

## LOAVES & FISHES CENTERS, INC.

### Notes to Financial Statements - Continued

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#### 13. Retirement Plan

The Organization maintains a defined contribution retirement plan (the Plan) that covers all employees after they have completed one year of service and have attained age 21. The Organization makes a matching contribution of employee salary deferrals equal to 100 percent of the deferrals, not to exceed 2 percent of eligible compensation. Employer matching contributions become fully vested after an employee completes five years of service. In addition, the Organization makes an additional contribution equal to 3 percent of an employee's eligible compensation that vests immediately. Employer contributions to the Plan during the years ended June 30, 2011 and 2010, totaled \$114,101 and \$115,795, respectively.

#### 14. Joint Costs

The Organization conducts certain activities that include requests for contributions, as well as program and management and general components. These activities include the distribution of the Organization's annual report and publication of newsletters. Management feels that the costs of conducting these activities are immaterial, and has accounted for these costs as fund-raising expenditures in the statement of functional expenses.

#### 15. Concentrations

The Organization received approximately 35 and 36 percent of its funding from governmental agencies during the years ended June 30, 2011 and 2010, respectively. If a significant reduction in the level of this funding were to occur, it would affect the Organization's ability to provide programs and services.

Substantially all of the Organization's contract and sales revenue reported in the accompanying statement of activities was derived from two customers in 2011 and 2010. Sales to these customers accounted for 87 and 81 percent of total contract and sales revenue for the years ended June 30, 2011 and 2010, respectively. Included in contract meals receivable in the accompanying statement of financial position were amounts due from these customers totaling \$37,664 and \$64,491 at June 30, 2011 and 2010, respectively.

#### 16. Financial Instruments with Concentrations of Risk

Financial instruments which potentially subject the Organization to concentrations of risk consist principally of: accounts receivable; investments (*Note 3*); contributions receivable (*Note 4*); investments held related to charitable gift annuities (*Note 6*); and investments held at community foundations (*Note 7*).



## LOAVES & FISHES CENTERS, INC.

### Notes to Financial Statements - Continued

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#### 16. Financial Instruments with Concentrations of Risk - Continued

The Organization's investments, including those held related to charitable gift annuities and those held by community foundations, are exposed to various risks, such as interest rate, market, and credit risk. The value, liquidity, and related income of these investments are sensitive to changes in economic conditions, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

#### 17. Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 and the valuation methodologies used for assets are described below:

*Level 1* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

*Level 2* Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

*Level 3* Fair value is based on significant unobservable inputs.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

**17. Fair Value Measurements - Continued**

The following table sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of June 30, 2011:

	Total	Level 1	Level 2	Level 3
Investments:				
Domestic equity mutual funds	\$ 555,763	\$ 555,763	\$ -	\$ -
International equity mutual funds	139,863	139,863	-	-
Bond funds	369,109	369,109	-	-
Total investments	1,064,735	1,064,735	-	-
Beneficial interest in charitable remainder trusts	176,602	-	-	176,602
Investments held related to charitable gift annuities	123,385	123,385	-	-
Investments held at community foundations	5,377,694	-	-	5,377,694
Total assets at fair value	<u>\$ 6,742,416</u>	<u>\$ 1,188,120</u>	<u>\$ -</u>	<u>\$ 5,554,296</u>

Following is a description of the valuation methodologies used for assets measured at fair value.

*Mutual funds and bond funds:* Valued at the net asset value of shares held by the Organization at year end, and are classified as Level 1.

*Beneficial interest in charitable remainder trusts:* The expected future inflows from the trusts are based on the fair value of the underlying investments and the life expectancy of the donor, and have been discounted using a discount rate of 5 percent. Since there are inputs that are unobservable that are significant in determining the fair value, this asset is classified as Level 3.

*Investments held at community foundations:* Assets held at community foundations (the foundations) represent the Organization's share of a pooled investment portfolio managed by the foundations. The Organization's share of the pooled investment portfolio is not actively traded and significant other observable inputs are not available. However, as described in *Note 7*, the underlying investments of the foundations are measured by management of the foundations using a variety of valuation methods including Level 1, Level 2, and Level 3 inputs. As such, this asset is classified as Level 3.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

**17. Fair Value Measurements - Continued**

A summary of the fair value measurements using unobservable inputs (Level 3) for the year ended June 30, 2011, is as follows:

	<b>Beneficial Interest in Charitable Trusts</b>	<b>Investments Held at Community Foundations</b>
<b>Balance, June 30, 2010</b>	<b>\$ 90,411</b>	<b>\$ 3,719,137</b>
Change in value of beneficial interests in trusts	16,454	-
Contributions	69,737	1,020,150
Interest and dividends	-	51,300
Realized and unrealized gains	-	823,602
Fees paid	-	(27,886)
Distributions	-	(208,609)
<b>Balance, June 30, 2011</b>	<b><u>\$ 176,602</u></b>	<b><u>\$ 5,377,694</u></b>

**18. Endowment Funds**

The Organization's endowment consists of funds held at OCF (*Note 7*) and a beneficial interest in a charitable remainder trust (*Note 5*). As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law*

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, if any, 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 UPMIFA.

**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

**18. Endowment Funds - Continued**

*Investment Strategy and Endowment Spending Policies*

The Organization has an agreement with OCF to distribute annually 4.5 percent of the fair market value of the fund based on the preceding 12-quarter average balance to the Organization.

OCF follows a total-return strategy in which investment decisions are made with the intent of maximizing the long-term total return of the investment portfolio, combining market-value changes (realized and unrealized) and current yield (interest and dividends). Funds held with OCF are invested in a mixture of equities, fixed-income instruments, alternative investment classes, such as hedge funds, distressed debt, private investments, and cash. The Organization believes the investment and spending policy is consistent with the Organization's objective to maintain purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

*Endowment net asset composition at June 30, 2011:*

	<b>Permanently Restricted</b>
Donor restricted endowment funds	\$ 338,318
Interest in charitable remainder trust	150,729
	<u>\$ 489,047</u>

*Changes in endowment net assets for the year ended June 30, 2011:*

	<b>Permanently Restricted</b>
Endowment net assets, beginning of year	\$ 383,495
Contributions	89,887
Change in value of beneficial interest in charitable remainder trust	15,665
	<u>\$ 489,047</u>

Management believes that the amount of unspent accumulated earnings in excess of this historic dollar value, if any, is immaterial, and has, therefore, classified all endowment related activity (other than new principal contributions and change in value of the beneficial interest in the charitable remainder trust) as a component of unrestricted net assets in the accompanying statement of activities.

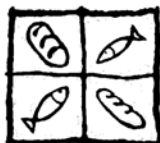
**LOAVES & FISHES CENTERS, INC.**

**Notes to Financial Statements - Continued**

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**19. Subsequent Events**

Management has evaluated subsequent events through September 28, 2011, the date the financial statements were available to be issued.



**LOAVES & FISHES CENTERS**

*The Meals-On-Wheels People*

**Reports Required by  
GAO Government Auditing Standards and  
OMB Circular A-133**

**and**

**Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2011**

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**LOAVES & FISHES CENTERS, INC.**

**Schedule of Expenditures of Federal Awards**

**Year Ended June 30, 2011**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services - (All from pass-through grantors):</b>			
<b>Aging Cluster:</b>			
Multnomah County Aging and Disability Services Department: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	4600007780	\$ 1,024,560
Washington County Department of Aging Services: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	BCC-06-1074	585,612
Southwest Washington Agency on Aging: Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	08-SWAA-07	<u>312,082</u>
			1,922,254
Multnomah County Aging and Disability Services Department: Nutrition Services Incentive Program	93.053	4600007780	505,936
Washington County Department of Aging Services: Nutrition Services Incentive Program	93.053	BCC-06-1074	258,088
Southwest Washington Agency on Aging: Nutrition Services Incentive Program	93.053	08-SWAA-07	<u>86,770</u>
			<u>850,794</u>
Carried forward			2,773,048

*The accompanying notes are an integral part of the schedule of expenditures of Federal awards.*

**LOAVES & FISHES CENTERS, INC.**

**Schedule of Expenditures of Federal Awards - Continued**

**Year Ended June 30, 2011**

	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>			
Brought forward			\$ 2,773,048
Multnomah County Aging and Disability Services Department:			
Special Programs for the Aging - Title III, Part B Grants for Supportive Services and Senior Centers	93.044	4600007780	5,048
<b>Total Aging Cluster</b>			<b>2,778,096</b>
<b>Total U.S. Department of Health and Human Services</b>			<b>2,778,096</b>
<b>U.S. Department of Agriculture</b>			
Southwest Washington Agency on Aging: Senior Farmers Market Nutrition Program	10.576	N/A	3,600
<b>Total U.S. Department of Agriculture</b>			<b>3,600</b>
<b>Total expenditures of Federal awards</b>			<b>\$ 2,781,696</b>

*The accompanying notes are an integral part of the schedule of expenditures of Federal awards.*



## LOAVES & FISHES CENTERS, INC.

### Notes to Schedule of Expenditures of Federal Awards

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#### 1. Significant Accounting Policies

**Basis of Presentation** - The schedule of expenditures of Federal awards of Loaves & Fishes Centers, Inc. has been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Loaves & Fishes Centers, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Loaves & Fishes Centers, Inc.

**Summary of Significant Accounting Policies** - Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles of Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented when available.

**Independent Auditors' Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

The Board of Directors  
Loaves & Fishes Centers, Inc.

We have audited the financial statements of Loaves & Fishes Centers, Inc. (the Organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Loaves & Fishes Centers, Inc. in a separate letter dated September 28, 2011.

\* \* \* \* \*

This report is intended solely for the information and use of the Board of Directors, management, Federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Hoffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon  
September 28, 2011

**Independent Auditors' Report on Compliance with Requirements  
that Could Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

The Board of Directors  
Loaves & Fishes Centers, Inc.

**Compliance**

We have audited Loaves & Fishes Centers, Inc.'s (the Organization) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major Federal programs for the year ended June 30, 2011. The Organization's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, Loaves & Fishes Centers, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

Management of Loaves & Fishes Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

\* \* \* \*

This report is intended solely for the information and use of the Board of Directors, management, Federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Hoffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon  
September 28, 2011

**LOAVES & FISHES CENTERS, INC.**

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2011**

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**Section 1 - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes  X  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes  X  No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes  X  None

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? \_\_\_\_\_ Yes  X  No

*Identification of Major Programs*

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.044, 93.045, 93.053	Aging Cluster
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

**LOAVES & FISHES CENTERS, INC.**

**Schedule of Findings and Questioned Costs - Continued**

**Year Ended June 30, 2011**

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**Section 2 - Financial Statement Findings**

There were no current year financial statement findings.

**Section 3 - Federal Award Findings and Questioned Costs**

There were no current year Federal award findings or questioned costs.

**LOAVES & FISHES CENTERS, INC.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2011**

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There were no findings outstanding at the end of the prior year.