



**FOODBANK OF
SANTA BARBARA COUNTY**

FINANCIAL STATEMENTS

June 30, 2010

And For The Year Then Ended

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Foodbank of Santa Barbara County:

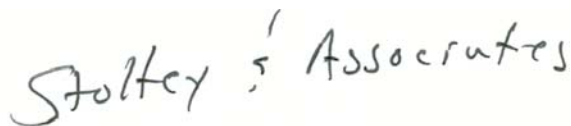
We have audited the accompanying statement of financial position of Foodbank of Santa Barbara County (Organization), a California nonprofit corporation, as of June 30, 2010, and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2009 is presented for comparative purposes only and was extracted from financial statements for that year, on which an unqualified opinion dated April 12, 2010 was expressed.

We conducted our audit in accordance with generally accepted auditing standards 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 our 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide 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, 2010, and changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010, on our consideration of Foodbank of Santa Barbara County'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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Foodbank of Santa Barbara County taken as a whole. The accompanying 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



November 12, 2010

Foodbank of Santa Barbara County
Statement of Financial Position
June 30, 2010
(with 2009 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 992,177	\$ 140,965	\$ -	\$ 1,133,142	\$ 890,269
Investments	50,003	-	-	50,003	-
Accounts receivable, net	27,722	-	-	27,722	53,005
Grants and contracts receivable (note 3)	4,465	18,241	-	22,706	126,908
Pledges receivable (note 5)	-	142,630	-	142,630	61,200
Prepaid expenses and other assets	33,074	-	-	33,074	17,655
Food inventory	372,231	186,206	-	558,437	684,270
Total Current Assets	<u>1,479,672</u>	<u>488,042</u>	<u>-</u>	<u>1,967,714</u>	<u>1,833,307</u>
Fixed Assets, net (note 4)	<u>2,735,075</u>	<u>-</u>	<u>-</u>	<u>2,735,075</u>	<u>2,786,980</u>
Other Assets					
Cash in endowment account	-	-	5,379	5,379	5,370
Pledges receivable (note 5)	-	339,109	-	339,109	379,035
Total Other Assets	<u>-</u>	<u>339,109</u>	<u>5,379</u>	<u>344,488</u>	<u>384,405</u>
Total Assets	<u>\$ 4,214,747</u>	<u>\$ 827,151</u>	<u>\$ 5,379</u>	<u>\$ 5,047,277</u>	<u>\$ 5,004,692</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	\$ 134,439	\$ -	\$ -	\$ 134,439	\$ 71,191
Deferred revenue (note 6)	15,431	-	-	15,431	14,881
Total Current Liabilities	<u>149,870</u>	<u>-</u>	<u>-</u>	<u>149,870</u>	<u>86,072</u>
Net Assets (notes 2, 7, 8 and 12)					
Unrestricted:					
Undesignated	4,014,874	-	-	4,014,874	4,287,801
Designated	50,003	-	-	50,003	122,942
Temporarily restricted	-	827,151	-	827,151	502,507
Permanently restricted	-	-	5,379	5,379	5,370
Total Net Assets	<u>4,064,877</u>	<u>827,151</u>	<u>5,379</u>	<u>4,897,407</u>	<u>4,918,620</u>
Total Liabilities and Net Assets	<u>\$ 4,214,747</u>	<u>\$ 827,151</u>	<u>\$ 5,379</u>	<u>\$ 5,047,277</u>	<u>\$ 5,004,692</u>

The accompanying notes are an integral part of this financial statement

Foodbank of Santa Barbara County
Statement of Activities
For the Year Ended June 30, 2010
(with 2009 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
Revenues, Gains and Other Support					
Fundraising events - gross revenue	\$ 186,064	\$ -	\$ -	\$ 186,064	\$ 254,328
Less costs of direct benefits to donors	(13,769)	-	-	(13,769)	(12,718)
Net revenues from fundraising events	<u>172,295</u>	<u>-</u>	<u>-</u>	<u>172,295</u>	<u>241,610</u>
Government grants	269,858	-	-	269,858	215,185
Other grants	882,742	-	-	882,742	656,925
In-Kind food contributions	12,366,026	844,399	-	13,210,425	11,180,113
Donated facilities and services	-	-	-	-	20,256
Contributions from public	1,341,788	182,469	-	1,524,257	1,220,911
Capital contributions	-	-	-	-	13,150
Fees	626,095	-	-	626,095	525,558
Interest	4,983	-	9	4,992	21,425
Other	<u>7,041</u>	<u>-</u>	<u>-</u>	<u>7,041</u>	<u>8,301</u>
Revenues, Gains and Other Support	<u>15,670,828</u>	<u>1,026,868</u>	<u>9</u>	<u>16,697,705</u>	<u>14,103,434</u>
Net assets released from restrictions	<u>702,224</u>	<u>(702,224)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses					
Program Expenses:					
Foodbank general program	7,070,464	-	-	7,070,464	9,375,966
Free Produce Program	5,901,883	-	-	5,901,883	2,087,833
Brown Bag Program	1,213,282	-	-	1,213,282	652,636
Mobile Food Pantry Program	1,488,917	-	-	1,488,917	1,389,686
Total Program Services	<u>15,674,546</u>	<u>-</u>	<u>-</u>	<u>15,674,546</u>	<u>13,506,121</u>
Supporting Services:					
Management and general	384,331	-	-	384,331	284,932
Fundraising	660,041	-	-	660,041	376,054
Total Supporting Services	<u>1,044,372</u>	<u>-</u>	<u>-</u>	<u>1,044,372</u>	<u>660,986</u>
Total Expenses	<u>16,718,918</u>	<u>-</u>	<u>-</u>	<u>16,718,918</u>	<u>14,167,107</u>
Change in net assets	(345,866)	324,644	9	(21,213)	(63,673)
Net assets, beginning of year	4,410,743	502,507	5,370	4,918,620	4,982,293
Net assets, ending of year	<u>\$ 4,064,877</u>	<u>\$ 827,151</u>	<u>\$ 5,379</u>	<u>\$ 4,897,407</u>	<u>\$ 4,918,620</u>

The accompanying notes are an integral part of this financial statement

**Foodbank of Santa Barbara County
Statement of Functional Expenses
For the Year Ended June 30, 2010
(with 2009 comparative totals)**

	Program					Supporting Services		Program & Supporting Services	Program & Supporting Services
	General Program	Free Produce Program	Brown Bag Program	Mobil Food Pantry Program	Total	General and Admin.	Fund Raising	2010 Grand Total Expenses	2009 Grand Total Expenses
Salaries and Related Expenses									
Salaries	268,728	270,679	40,342	64,471	644,220	144,288	325,094	1,113,602	927,642
Payroll taxes	21,199	21,016	6,390	1,459	50,064	11,382	25,645	87,091	70,123
Employee Benefits	21,823	15,590	7,218	5,116	49,747	76,461	26,400	152,608	108,117
Total Salaries & Related Expenses	311,750	307,285	53,950	71,046	744,031	232,131	377,139	1,353,301	1,105,882
Cost of Goods Sold									
COGS - Purchased Food	628,689	151,070	33,218	81,567	894,544	-	-	894,544	674,947
COGS - Donated Food	5,223,006	5,148,213	959,836	1,134,352	12,465,407	-	-	12,465,407	10,952,233
COGS - USDA	607,418	-	111,217	136,883	855,518	-	-	855,518	371,578
Total Cost of Goods Sold	6,459,113	5,299,283	1,104,271	1,352,802	14,215,469	-	-	14,215,469	11,998,758
Other Expenses									
Freight Inbound	38,807	38,252	7,132	8,428	92,619	-	-	92,619	80,866
Professional and Contract Services	19,974	19,688	3,671	4,338	47,671	-	26,135	73,806	33,567
Warehouse Expenses	68,985	68,000	12,678	14,983	164,646	13,428	241	178,315	37,688
General Office Expenses	25,314	24,952	4,652	5,498	60,416	39,722	33,129	133,267	61,244
Utilities	16,752	16,512	3,079	3,638	39,981	31,991	757	72,729	19,206
Travel and Meeting Expenses	11,223	11,063	2,063	2,438	26,787	17,071	22,080	65,938	54,860
Fundraising Expenses	-	-	-	-	-	2,187	164,289	166,476	285,174
Insurance, Dues and Miscellaneous	11,773	11,604	2,164	2,557	28,098	20,057	9,700	57,855	46,613
Marketing Development and Materials	-	-	-	-	-	288	18,846	19,134	133,703
Business Expenses	-	-	-	-	-	23,068	3,337	26,405	78,428
Total Other Expenses	192,828	190,071	35,439	41,880	460,218	147,812	278,514	886,544	831,349
Depreciation expense	106,773	105,244	19,622	23,189	254,828	4,388	4,388	263,604	231,118
Total Functional Expenses	7,070,464	5,901,883	1,213,282	1,488,917	15,674,546	384,331	660,041	16,718,918	14,167,107

The accompanying notes are an integral part of this financial statement

Foodbank of Santa Barbara County
Statement of Cash Flows
For the Year Ended December 31, 2010
(with 2009 comparative totals)

	<u>2010</u> <u>Total</u>	<u>2009</u> <u>Total</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (21,213)	\$ (63,673)
Adjustments to reconcile increase in net assets to cash used for operating activities:		
Depreciation	263,604	231,118
Changes in:		
Value of inventory	125,833	128,347
Accounts receivable	25,283	(18,673)
Grants and contracts receivable	104,202	(54,836)
Pledges receivable	(41,504)	41,694
Prepaid and other assets	(15,419)	16,796
Accounts payable and accrued expenses	63,248	(30,795)
Increase in endowment cash	(9)	(10)
Deferred revenue	550	(15,790)
Net cash From operating activities	<u>504,575</u>	<u>234,178</u>
Cash Flows From Investing Activities:		
Purchase of investments	(50,003)	-
Acquisition of property and equipment	<u>(211,699)</u>	<u>(160,805)</u>
Net cash provided by From investing activities	<u>(261,702)</u>	<u>(160,805)</u>
Net change in cash and cash equivalents	242,873	73,373
Cash and cash equivalents at Beginning of Year	<u>890,269</u>	<u>816,896</u>
Cash and cash equivalents at Ending of Year	<u>\$ 1,133,142</u>	<u>\$ 890,269</u>

The accompanying notes are an integral part of this financial statement

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

(1) ORGANIZATION

Foodbank of Santa Barbara County (the Organization) is a California nonprofit corporation which obtains surplus food from the food industry and other sources, and distributes it to the low income and needy population of Santa Barbara County through a network of various supportive agencies and its own Brown Bag Program, Mobile Food Pantry and Kid's Backpack Program. Incorporated in 1987, the Organization is supported by federal, state and local grants on an annual basis, as well as support from the general public.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis. The preparation of financial statements in conformity with generally accepted accounting principles 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 statement and reported amounts of revenues and expenses for each year. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein have been classified and are reported as follows:

Unrestricted net assets - Unrestricted net assets are not subject to donor-imposed stipulations. All expenses, revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. The Board of Directors has designated \$50,003 for the endowment.

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 by the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained in perpetuity 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less.

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

Recognition of Donor and Grant Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All restricted support is recorded as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted in the statement of activities under the heading net assets released from restriction.

Donated Materials and Services

During the year ended June 30, 2010 the Organization received approximately 17,000 hours of volunteer service. The volunteers served as Board members and/or helping with the Brown Bag distribution, food-drives and fundraising. This volunteer time is critical to the success of the Organization. However, as this volunteer service does not meet the recognition requirements of Statement of Financial Accounting Standards No. 116 "Accounting for Contributions Received and Contributions Made", no amount has been recorded in these financial statements.

Donated materials consist primarily of food. The Organization records the fair market value of the donated food as a contribution at the time of receipt. The fair market value of the donated food is based on Feeding America (formerly known as Second Harvest) guidelines.

Property and Equipment

Property and equipment which is purchased or constructed is stated at cost; assets acquired by gift or bequest are stated at fair value at the date of acquisition. The Organization uses the straight-line method for the computation of depreciation of long-lived assets according to the following schedule of useful lives:

<u>Asset</u>	<u>Life</u>
Improvements	5 - 20 Years
Structures	7- 30 Years
Furniture and Equipment	5 – 10 Years
Vehicles	5 - 7 Years

Normal repair and maintenance expenses and equipment replacement costs are expensed as incurred.

Contributions Receivable (Pledges)

Unconditional promises to give (pledges) are recorded as contribution income and as receivables. Long-term pledges are discounted to present value using a discount rate commensurate with the risk involved. An allowance for uncollectible pledges is

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

estimated by management based on such factors as prior collection history, type of contribution and the nature of the fund-raising activity.

Conditional pledges are recognized when the conditions on which they depend are substantially met.

Deferred Revenue

Amounts collected but unearned are reflected in the accompanying financial statements as deferred revenue.

Investments

Investments in marketable equity and debt securities are stated at market value. All gains and losses on investments are reported as increases or decreases to unrestricted net assets unless required by donors to be reinvested in restricted net assets.

Income Taxes

The Organization is exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 27301d of the California Revenue and Taxation Code. The Organization is not considered a private foundation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Significant estimated used in preparing these financial statements include:

- Allocation of certain expenses by function
- Value of donated rental space and food
- Depreciable lives and estimated residual value of property and equipment
- Allowance for uncollectible accounts, grants, contracts and pledges receivable
- Present value of pledges receivable

It is at least reasonably possible that the significant estimates will change within the next year.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized by function in the Statement of Functional Expenses. Direct costs are charged directly to the appropriate program. Joint costs such as insurance, rent and

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

facility maintenance are allocated by using the direct costs of each program and supporting services. The allocations are based on current data.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash includes cash on hand and cash in savings bank accounts, checking bank accounts and highly liquid certificates of deposit.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment losses, if any, are recognized when estimated future cash flows (undiscounted and without interest charges) derived from such assets are less than their carrying values. Management believes no such impairment occurred during the year ended June 30, 2010.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to current year presentation.

(3) GRANTS/CONTRACTS RECEIVABLE

Grants and contracts receivable are primarily from government sources and are considered to be fully collectible by management.

(4) FIXED ASSETS

Fixed assets at June 30, 2010 and 2009 were as follows:

	2010	2009
Leasehold improvements	\$ 885,243	\$ 790,538
Structures	1,937,999	1,947,886
Furniture and Equipment	1,024,781	897,901
Vehicles	465,570	501,045
Total Property and Equipment	4,313,593	4,137,370
Accumulated Depreciation	(1,578,518)	(1,350,390)
	\$ 2,735,075	\$ 2,786,980

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

(5) PLEDGES RECEIVABLE

In-Kind Leases

The Organization has a continuing long-term lease which expires in 2015 with the County of Santa Barbara at no cost for its Santa Barbara warehouse and office. During the year ended June 30, 2004 the Organization entered into a continuing long-term non-cancelable lease which expires in 2023 with the County of Santa Barbara at no cost for its Santa Maria warehouse and office. The fair value of the leaseholds to the Organization represents an in-kind donation of rental space. The present value of donated space to be used in future periods is recorded as a pledge receivable. As the lease arrangements are non-cancelable and there are no lease charges, the Organization deems the pledges to be fully collectible.

Pledges receivable for the in-kind leases at June 30, 2010 and 2009 are expected to be collected as follows:

	<u>2010</u>	<u>2009</u>
Within one year	\$ 61,200	\$ 61,200
Within two to five years	244,800	244,800
Thereafter	<u>210,200</u>	<u>271,400</u>
Total	516,200	577,400
Discount to reduce to present value	<u>(115,891)</u>	<u>(137,165)</u>
Present Value of Pledges Receivable	<u>\$ 400,309</u>	<u>\$ 440,235</u>

Other Pledges Receivable

The Organization has recorded various unconditional pledges receivable. The unconditional pledges primarily relate to the operation of the Foodbank programs. The Organization considers the pledges fully collectible; therefore, no provision has been made for uncollectible pledges receivable. The pledges receivable are scheduled to be received within 1 year.

(6) DEFERRED REVENUE

Deferred revenue consists of monies received in advance on grant awards that are considered to be exchange transactions, the expenditures for which will be incurred after June 30, 2010.

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

(7) TEMPORARILY RESTRICTED NET ASSETS

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

Food Assistance Program	\$ 186,206
Capital improvements	95,965
Equipment	25,000
Grant writer	20,000
Pledges and grants receivable	<u>499,980</u>
Total	<u>\$ 827,151</u>

(8) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of cash contributed to create an endowment fund, the investment income from which is unrestricted.

(9) CONTINGENT LIABILITIES

Government Grants and Contracts

The Organization receives a number of grants from various governmental agencies. These grants are subject to audit by the granting agencies as to allowable costs paid with government funds. The Organization would be liable for any government funds expended during year ended June 30, 2010 should those costs charged to the grants be disallowed.

(10) RETIREMENT PLANS

Beginning June 1, 2009, the Organization initiated a new 403(b) annuity plan with T. Rowe Price. All full time employees and part time employees working a minimum of 20 hours per week are eligible for the plan. The Organization matches up to 3% of salary for employees who are employed at December 31, of each year. The Organization accrued \$6,068 and \$ 5,416 for the employer match contribution to the plan at June 30, 2010 and 2009. The employer contribution amount was paid every January.

(11) CONCENTRATIONS OF CREDIT RISK

A significant portion of the Organization's revenues is derived from government grants and contracts.

Individual donors are primarily from Santa Barbara County, as are the clients of the Organization.

(12) ENDOWMENT

The Organization's endowment has been established for a variety of programs. Its endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, 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 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 fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (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
- (7) The investment policies of the organization.

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

Endowment net asset composition by type of fund as of June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor- restricted endowment funds	<u>\$ 50,003</u>	<u>\$ -</u>	<u>\$ 5,379</u>	<u>\$55,382</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 5,370	\$ 5,370
Contributions	50,000	-	-	50,000
Investment income	<u>3</u>	<u>-</u>	<u>9</u>	<u>12</u>
Endowment net assets, ending of year	<u>\$ 50,003</u>	<u>\$ -</u>	<u>\$ 5,379</u>	<u>\$ 55,382</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Organization to retain as a fund of perpetual duration. There were no endowment funds with deficiencies at June 30, 2010.

Return Objectives and Risk Parameters

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 while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, The Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2010

(realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on long term certificates of deposit to achieve its long-term return objectives within prudent risk constraints.

NOTE 13 SUBSEQUENT EVENTS

Since the end of the June 30, 2010 fiscal year, the Board of Directors established a policy requiring the Organization to maintain cash reserves equal to approximately 3 months of operating expenses. This level of cash reserves is based on Feeding America guidelines and was deemed prudent by the Board of Directors. Usage of the cash reserve requires the approval of the Board of Directors.

SUPPLEMENTAL SCHEDULES

Foodbank of Santa Barbara County
Schedule of Expenditures of Federal Awards under Circular A-133
Year Ended June 30, 2010

Federal Grantor/Pass Through Grantor	Federal CFDA Number	Disbursements Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
California Health & Welfare Agency		
Passed Through Department of Social Services		
Emergency Food Assistance Program (Food Commodities) *	10.569	\$ 837,749
Emergency Food Assistance Program (Administrative Costs) *	10.568	<u>106,773</u>
Subtotal U.S. Department of Agriculture		<u>944,522</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Passed through United Way of America		
Emergency Food and Shelter National Board Program	97.024	<u>53,727</u>
U.S. DEPT. OF HOUSING AND URBAN DEVELOPMENT		
Community Development Block Grants		
Passed through the City of Santa Maria:		
Community Development Block Grant/Entitlement Grants	14.218	9,127
Passed through the City of Lompoc:		
Community Development Block Grant/Entitlement Grants	14.218	7,750
Passed through the County of Santa Barbara		
Community Development Block Grant/Entitlement Grants	14.218	12,000
Passed through City of Goleta:		
Community Development Block Grant/Entitlement Grants	14.218	<u>5,100</u>
Subtotal Community Development Block Grants		<u>33,977</u>
Total Federal Grants		<u>\$ 1,032,226</u>

* - tested as a major program

See independent auditors' report



**Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Directors
Foodbank of Santa Barbara County

We have audited the financial statements of Foodbank of Santa Barbara County, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 12, 2010. We conducted our audit in accordance with generally accepted auditing standards 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 Foodbank of Santa Barbara County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Foodbank of Santa Barbara County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Foodbank of Santa Barbara County in a separate letter dated November 12, 2010.

Foodbank of Santa Barbara County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Foodbank of Santa Barbara County's response and, accordingly, we do express no opinion on it.

This report is intended for the information of the finance committee, management and 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.

Stoltey & Associates

November 12, 2010



**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control Over Compliance
in Accordance with OMB Circular A-133**

To the Board of Directors
Foodbank of Santa Barbara County:

Compliance

We have audited the compliance of Foodbank of Santa Barbara County, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Foodbank of Santa Barbara County'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 Foodbank of Santa Barbara County's management. Our responsibility is to express an opinion on Foodbank of Santa Barbara County's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards 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 Foodbank of Santa Barbara County'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 on Foodbank of Santa Barbara County's compliance with those requirements.

In our opinion Foodbank of Santa Barbara County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control over Compliance

The management of Foodbank of Santa Barbara County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Foodbank of Santa Barbara County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Foodbank of Santa Barbara County's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance

described in the accompanying schedule of findings and questioned costs as items 10-01 and 10-02 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of control deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance of federal program will not be prevented or detected by the entity's internal control. We do not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Foodbank of Santa Barbara County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Foodbank of Santa Barbara County's response and, accordingly, we do express no opinion on it.

This report is intended for the information of the finance committee, management and 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.

Stoltey & Associates

November 12, 2010

FOODBANK OF SANTA BARBARA COUNTY

**Schedule of Findings and Questioned Costs
June 30, 2010**

1. Summary of Auditors' Results

The results of our tests disclosed no instances of noncompliance, which were material to the financial statements.

- Type of report issued on basic financial statements: Unqualified

- Type of report on compliance with requirements applicable to major programs: Unqualified

- Major programs: CFDA # 10.568
CFDA # 10.569

- Type A programs dollar threshold: Expenditures of federal Awards in excess of \$300,000

- The Organization did not qualify as a low risk auditee

2. Findings Related to the Financial Statements

None

3. Findings and Questioned Costs for Federal Awards

10-01

Program: U.S. Department of Agriculture

CFDA No.: 10.568 and 10.569

Federal Agencies: U.S. Department of Agriculture

Passed-through: California Department of Health and Welfare

Award Year: Fiscal year 2009-2010

Compliance Requirement: Allowable Costs

Questioned Costs: None

Criteria:

The State of California requires Foodbank of Santa Barbara County to design and implement internal controls to ensure all costs charged to contract are allowable and properly accounted for.

Condition Found:

The results of our audit procedures disclosed Foodbank of Santa Barbara County did not obtain a supervisor approval on 22 of the invoices selected for testwork. The invoices without approval were for reoccurring expenses such as gasoline, utilities and telephone charges.

Effect:

Unallowable costs may be improperly coded to the federal program.

Recommendation:

We recommend that management establish controls to requiring all invoices be approved by a supervisor prior to payment. In addition, the coding of the invoice should be reviewed prior to entering into the accounting system. The review should be documented at the time of the review. For reoccurring expenses, the Foodbank may consider using a blanket approval for each of the month's charges in that budget year. The blanket approval should be renewed annually.

Management's Response:

Although there appears to be a compliance condition found for two (2) years in a row, the current condition is new to FY10 and specifically relates to recurring invoices. In addition, it should be formally noted that the prior year audit was not completed until April 2010, providing only two (2) months for opportunity to correct the FY09 condition.

Recurring utility invoices are approved and processed by the bookkeeper. Recurring check requests are initially generated as a result of a directive from the Finance

Director and processed monthly. All allowable expenses are subject to final approval when the Finance Director submits for reimbursement to EFAP. A review of all policies and procedures were conducted by Scott Nielsen, Program Consultant with the Department of Social Services, EFAP Department, and determined the current methods followed were satisfactory.

Effective November 2, 2010, all allowable utility invoices and check requests will be initialed by the Finance Director. The secondary approval process will remain unchanged.

10-02

Program: U.S. Department of Agriculture

CFDA No.: 10.568 and 10.569

Federal Agencies: U.S. Department of Agriculture

Passed-through: California Department of Health and Welfare

Award Year: Fiscal year 2009-2010

Compliance Requirement: Allowable Costs

Questioned Costs: \$489.16

Criteria:

The State of California requires Foodbank of Santa Barbara County to design and implement internal controls to ensure all costs charged to contract are allowable and properly accounted for.

Condition Found:

The Foodbank charged gasoline charges incurred for the company car provided to the Executive Director for both personal and business use. Mileage logs depicting the car's use between personal and business were not maintained.

Effect:

Unallowable costs may be improperly coded to the federal program.

Recommendation:

We recommend that management establish controls to requiring a mileage log be maintained to determine the proper accounting of business related expenses and personal use.

Management's Response:

Gas charges will be excluded from allowable expenses for purposes of EFAP reimbursement. The Finance Committee will discuss and create policy with respects to determining personal use of vehicle by Executive Director.

FOODBANK OF SANTA BARBARA COUNTY

Summary Schedule of Prior Year Findings and Recommendations

09-01

Program: U.S. Department of Agriculture
CFDA No.: 10.568 and 10.569
Federal Agencies: U.S. Department of Agriculture
Passed-through: California Department of Health and Welfare
Award Year: Fiscal year 2008-2009
Compliance Requirement: Allowable Costs
Questioned Costs: None

Criteria:

The State of California requires Foodbank of Santa Barbara County to design and implement internal controls to ensure all costs charged to contract are allowable and properly accounted for.

Condition Found:

The results of our audit procedures disclosed Foodbank of Santa Barbara County did not obtain a supervisor approval on 17 of the invoices selected for testwork. In addition, supporting documentation for 1 selected item could not be located.

Effect:

Unallowable costs may be improperly coded to the federal program.

Recommendation:

We recommend that management establish controls to requiring all invoices be approved by a supervisor prior to payment. In addition, the coding of the invoice should be reviewed prior to entering into the accounting system. The review should be documented at the time of the review.

Status:

Conditions still exist. See finding 10-01.