

FOODBANK OF SANTA BARBARA COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2016

FOODBANK OF SANTA BARBARA COUNTY

TABLE OF CONTENTS

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	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 19

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Foodbank of Santa Barbara County, (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2016, the related statements of activities and functional expenses for the year then ended, statements of cash flows for the years ended June 30, 2016 and 2015, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foodbank of Santa Barbara County as of June 30, 2016, 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.

**Report on Summarized Prior Period Financial Statements**

We have previously audited Foodbank of Santa Barbara County's financial statements as of June 30, 2015, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Foodbank of Santa Barbara County's internal control over financial reporting and compliance.



Santa Barbara, California  
September 19, 2016

**FOODBANK OF SANTA BARBARA COUNTY**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2016**  
**WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
<b><u>ASSETS</u></b>					
Current Assets:					
Cash and cash equivalents	\$ 74,367	\$ 15,666	\$ -	\$ 90,033	\$ 370,420
Accounts and other receivables, net (note 3)	19,208	-	-	19,208	20,319
Grants and contracts receivable (note 4)	196,135	72,000	-	268,135	192,244
Pledges receivable (note 5)	-	310,235	-	310,235	250,474
Deposits	33,926	-	-	33,926	33,926
Food inventory	413,384	319,561	-	732,945	704,302
Total Current Assets	<u>737,020</u>	<u>717,462</u>	<u>-</u>	<u>1,454,482</u>	<u>1,571,685</u>
Fixed Assets, net (note 6)	<u>1,746,182</u>	<u>-</u>	<u>-</u>	<u>1,746,182</u>	<u>1,781,635</u>
Other Assets:					
Cash and cash equivalents designated for operating reserve (note 9)	99,466	-	-	99,466	66,811
Certificate of deposit designated for operating reserve (note 9)	252,389	-	-	252,389	251,623
Beneficiary interest in assets held by others (notes 7 and 9)	350,383	-	-	350,383	373,188
Cash held in endowment (note 15)	-	-	5,379	5,379	5,379
Retirement plan asset (note 13)	70,489	-	-	70,489	-
Grants and contracts receivable, net of current (note 4)	35,000	289,578	-	324,578	362,564
Pledges receivable, net of current (note 5)	-	226,045	-	226,045	453,463
Total Other Assets	<u>807,727</u>	<u>515,623</u>	<u>5,379</u>	<u>1,328,729</u>	<u>1,513,028</u>
Total Assets	<u>\$ 3,290,929</u>	<u>\$ 1,233,085</u>	<u>\$ 5,379</u>	<u>\$ 4,529,393</u>	<u>\$ 4,866,348</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>					
Liabilities:					
Accounts payable	\$ 127,639	\$ -	\$ -	\$ 127,639	\$ 69,366
Accrued salary and related expenses	174,429	-	-	174,429	171,738
Agency funds	50,466	-	-	50,466	-
Retirement plan liability (note 13)	70,489	-	-	70,489	-
Loans (note 8)	396,012	-	-	396,012	451,073
Total Liabilities	<u>819,035</u>	<u>-</u>	<u>-</u>	<u>819,035</u>	<u>692,177</u>
Net Assets					
Unrestricted:					
Undesignated	1,769,656	-	-	1,769,656	1,943,276
Designated (note 9)	702,238	-	-	702,238	691,622
Temporarily restricted (note 10)	-	1,233,085	-	1,233,085	1,533,894
Permanently restricted	-	-	5,379	5,379	5,379
Total Net Assets	<u>2,471,894</u>	<u>1,233,085</u>	<u>5,379</u>	<u>3,710,358</u>	<u>4,174,171</u>
Total Liabilities and Net Assets	<u>\$ 3,290,929</u>	<u>\$ 1,233,085</u>	<u>\$ 5,379</u>	<u>\$ 4,529,393</u>	<u>\$ 4,866,348</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, 2016  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
<b>Support</b>					
Contributions from public	\$ 2,002,176	\$ 96,535	\$ -	\$ 2,098,711	\$ 2,190,422
Foundation grants	526,144	162,500	-	688,644	780,622
Government grants and contracts	349,839	-	-	349,839	241,531
In-Kind food contributions	12,880,890	1,194,005	-	14,074,895	12,327,388
In-Kind contributions	37,666	-	-	37,666	191,204
Fundraising events - gross revenue less expenses of \$60,268 and \$67,716, respectively	<u>363,857</u>	<u>65,000</u>	<u>-</u>	<u>428,857</u>	<u>444,857</u>
Total Support	<u>16,160,572</u>	<u>1,518,040</u>	<u>-</u>	<u>17,678,612</u>	<u>16,176,024</u>
<b>Revenue</b>					
Agency fees	446,449	-	-	446,449	514,748
Interest	15,515	-	-	15,515	18,581
Gain on sale of fixed assets	300	-	-	300	3,818
Change in value of beneficiary interest in assets held by others	(22,805)	-	-	(22,805)	(8,821)
Other revenue	<u>7,128</u>	<u>-</u>	<u>-</u>	<u>7,128</u>	<u>6,560</u>
Total Revenue	<u>446,587</u>	<u>-</u>	<u>-</u>	<u>446,587</u>	<u>534,886</u>
Revenues, Gains and Other Support	<u>16,607,159</u>	<u>1,518,040</u>	<u>-</u>	<u>18,125,199</u>	<u>16,710,910</u>
Net assets released from restrictions	<u>1,818,849</u>	<u>(1,818,849)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>					
<b>Program Expenses:</b>					
Agency services	7,335,330	-	-	7,335,330	6,350,138
Free produce program	5,019,948	-	-	5,019,948	4,777,128
Program services	<u>4,441,920</u>	<u>-</u>	<u>-</u>	<u>4,441,920</u>	<u>3,734,296</u>
Total Program Services	<u>16,797,198</u>	<u>-</u>	<u>-</u>	<u>16,797,198</u>	<u>14,861,562</u>
<b>Supporting Services:</b>					
Management and general	830,889	-	-	830,889	768,895
Fundraising	<u>960,925</u>	<u>-</u>	<u>-</u>	<u>960,925</u>	<u>876,391</u>
Total Supporting Services	<u>1,791,814</u>	<u>-</u>	<u>-</u>	<u>1,791,814</u>	<u>1,645,286</u>
Total Expenses	<u>18,589,012</u>	<u>-</u>	<u>-</u>	<u>18,589,012</u>	<u>16,506,848</u>
Change in net assets	(163,004)	(300,809)	-	(463,813)	204,062
Net Assets, Beginning of Year, As Previously Stated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,970,109</u>
Prior Period Adjustment (note 8)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets at Beginning of Year, Restated (Restated 2015)	<u>2,634,898</u>	<u>1,533,894</u>	<u>5,379</u>	<u>4,174,171</u>	<u>3,970,109</u>
Net Assets, End of Year	<u>\$ 2,471,894</u>	<u>\$ 1,233,085</u>	<u>\$ 5,379</u>	<u>\$ 3,710,358</u>	<u>\$ 4,174,171</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, 2016  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	Program				Supporting Services		Program & Supporting Services	Program & Supporting Services
	Agency Services	Free Produce Program	Program Services	Total	General and Admin.	Fund Raising	2016 Grand Total Expenses	2015 Grand Total Expenses
Salaries & Related Expenses								
Salaries	\$ 478,762	\$ 327,642	\$ 289,915	\$ 1,096,319	\$ 385,160	\$ 570,129	\$ 2,051,608	\$ 1,983,290
Payroll taxes	38,353	26,246	23,224	87,823	30,855	45,671	164,349	154,025
Employee benefits	153,298	104,909	92,829	351,036	109,267	112,457	572,760	441,180
Total Salaries & Related Expenses	670,413	458,797	405,968	1,535,178	525,282	728,257	2,788,717	2,578,495
Cost of Goods Sold								
COGS - purchased food	185,645	127,046	112,418	425,109	-	-	425,109	432,868
COGS - donated food	5,629,754	3,852,733	3,409,106	12,891,593	-	-	12,891,593	11,260,963
COGS - USDA	481,963	329,833	291,853	1,103,649	-	-	1,103,649	867,636
Total Cost of Goods Sold	6,297,362	4,309,612	3,813,377	14,420,351	-	-	14,420,351	12,561,467
Other Expenses								
Freight inbound	36,419	24,923	22,053	83,395	-	-	83,395	86,045
Professional and contract services	36,826	25,202	22,300	84,328	58,826	51,149	194,303	132,677
Warehouse expenses	79,618	54,488	48,213	182,319	8,367	123	190,809	213,625
General office expenses	19,853	13,587	12,023	45,463	95,616	27,621	168,700	152,584
Utilities	38,270	26,191	23,175	87,636	36	23	87,695	84,413
Travel and meeting expenses	16,413	11,232	9,939	37,584	15,782	5,953	59,319	83,669
Fundraising expenses	-	-	-	-	-	111,341	111,341	111,383
Insurance, dues and miscellaneous	10,326	7,067	6,253	23,646	60,826	3,619	88,091	77,583
Marketing development and materials	569	389	344	1,302	1,494	13,705	16,501	11,044
Business Expenses	29,821	20,408	18,058	68,287	60,414	14,888	143,589	142,612
Imputed interest expense (note 8)	10,430	7,138	6,316	23,884	-	-	23,884	28,264
Total Other Expenses	278,545	190,625	168,674	637,844	301,361	228,422	1,167,627	1,123,899
Depreciation Expense	89,010	60,914	53,901	203,825	4,246	4,246	212,317	242,987
Total Expenses, Year Ended June 30, 2016	<u>\$ 7,335,330</u>	<u>\$ 5,019,948</u>	<u>\$ 4,441,920</u>	<u>\$ 16,797,198</u>	<u>\$ 830,889</u>	<u>\$ 960,925</u>	<u>\$ 18,589,012</u>	
Total Expenses, Year Ended June 30, 2015	<u>\$ 6,350,138</u>	<u>\$ 4,777,128</u>	<u>\$ 3,734,296</u>	<u>\$ 14,861,562</u>	<u>\$ 768,895</u>	<u>\$ 876,391</u>		<u>\$ 16,506,848</u>

The accompanying notes are an integral part of this financial statement

FOODBANK OF SANTA BARBARA COUNTY  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
	<u>Total</u>	<u>Total</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (463,813)	\$ 204,062
Adjustments to reconcile change in net assets to cash used for operating activities:		
Depreciation	212,317	242,987
In-kind loan forgiveness	(72,986)	(73,000)
Gain on sale of fixed assets	(300)	(3,818)
Unrealized loss on beneficiary interest in assets held by others	22,805	8,821
Changes in:		
Value of food inventory	(28,643)	(214,071)
Accounts and other receivables	1,111	19,612
Grants and contracts receivable	(37,905)	109,056
Pledges receivable	167,657	(321,470)
Deposits	-	(8,118)
Accounts payable	58,273	(22,917)
Accrued salary and related expenses	2,691	24,438
Agency funds	50,466	-
Net cash used from operating activities	<u>(88,327)</u>	<u>(34,418)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of fixed assets	300	3,818
Purchase of certificate of deposit	(766)	-
Acquisition of fixed assets	(176,864)	(41,666)
Net cash used by investing activities	<u>(177,330)</u>	<u>(37,848)</u>
Cash Flows from Financing Activities:		
Proceeds from issuance of loan	-	21,226
Proceeds from line of credit	50,000	-
Principal payments on loan	(7,075)	(4,717)
Principal payments on line of credit	(25,000)	-
Increase in board designated operating reserve	(32,655)	(66,811)
Net cash used by financing activities	<u>(14,730)</u>	<u>(50,302)</u>
Net change in cash and cash equivalents	(280,387)	(122,568)
Cash and cash equivalents, beginning of year	<u>370,420</u>	<u>492,988</u>
Cash and cash equivalents, end of year	<u>\$ 90,033</u>	<u>\$ 370,420</u>

The accompanying notes are an integral part of this financial statement



FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 1: ORGANIZATION

Foodbank of Santa Barbara County (the Organization) was formed as a nonprofit organization in 1982 and incorporated in the State of California in 1987. The Organization provides nourishment to those in need by acquiring and distributing safe nutritious food via local agencies and its own direct programs. The Foodbank is transforming the health of Santa Barbara County by building a long-term solution to hunger related issues through food literacy and self-reliance. All Foodbank uniquely designed programs include components of nutrition education.

Direct programs include:

- Mobile Food Pantry Program – Provides reliable countywide assistance to families by distributing perishable and nonperishable food to underserved communities.
- Mobile Farmer's Market Program – Rapidly distributes fresh produce to low –income families through a farmer's market-like setting.
- Kids Farmer Market Program – teaches children through food literacy with a variety of fresh fruit and vegetables through hands on nutrition education.
- Brown Bag Program – Provides low-income seniors with two bags of groceries and fresh produce twice a month, supplementing their food costs. Volunteers deliver the bags to homebound seniors.
- CalFresh Outreach – A bilingual community outreach coordinator conducts food stamp recruitment and assists with the application process, while offering nutrition education.

The Organization is supported by federal, state and local grants, as well as support from the general public.

NOTE 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 Trustees has designated \$702,238 as a long-term strategic reserve, which approximates 3 months of operating expenses.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 net assets in the statement of activities under the heading net assets released from restriction.

Donated Materials and Services

During the year ended June 30, 2016, the Organization received approximately 25,000 hours of volunteer service with a total estimated value of \$540,562. The volunteers served as Board members and/or helping with the Organization carry out its direct programs. This volunteer time is critical to the success of the Organization. However, as this volunteer service does not meet the recognition requirements of generally accepted accounting principles, 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 guidelines.

Investments

Investments consist of cash held in certificates of deposit with initial maturity of greater than three months.

Inventory

Inventory is stated at the lower of market or cost, if purchased, or market value if donated. In addition, the Organization uses the first-in, first-out method.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment, with an estimated life of a year or longer, 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 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.

Fair Value of Financial Instruments

The estimated fair values of the Organization's short-term financial instruments, including cash, cash equivalents, and accounts payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization. The fair value of the beneficiary interest in assets held by others is based on the net asset value. The amount shown for the loans approximate fair value since the interest rate is at current market rates. The fair value of the retirement plan asset and related liability is based upon the underlying asset.

Income Taxes

The Organization is incorporated and exempt from federal and California income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 27301d of the California Revenue and Taxation Code, though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The Organization is not classified as a private foundation. Contributions to the Organization are tax deductible to donors under Section 170 of the IRC. The Organization is unaware of any uncertain tax positions at June 30, 2016, or for any period for which the statute of limitations remain open.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2016.

Reclassifications

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

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts owed to the Organization by local agencies that have purchased food for distribution. Based on historical collection trends, management has established a \$1,560 reserve for uncollectible accounts receivable.

NOTE 4: GRANTS AND CONTRACTS RECEIVABLE

Grants and contracts receivable are primarily from government sources and are considered to be fully collectible by management. A portion of the government grants receivable is forgiveness of debt (See Note 8). As of June 30, 2016, the grants are expected to be received in the following amounts:

	<u>Grants and Contracts Receivable</u>	<u>Forgiveness of Debt</u>	<u>Total</u>
2017	\$ 196,135	\$ 72,000	\$ 268,135
2018	35,000	72,000	107,000
2019	-	72,000	72,000
2020	-	72,000	72,000
2021	-	73,578	73,578
Totals	<u>\$ 231,135</u>	<u>\$ 361,578</u>	<u>\$ 592,713</u>

NOTE 5: PLEDGES RECEIVABLE

In-Kind Leases

The Organization had a continuing long-term lease which expired in 2015 with the County of Santa Barbara at no cost for its Santa Barbara warehouse and office. During the year ended June 30, 2015, the Organization entered into a second amendment of the lease, extending the term to 2020 and granting three five year options. 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, utilizing a discount rate of 5%, 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.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 5: PLEDGES RECEIVABLE (continued)

In-Kind Leases (continued)

Pledges receivable for the in-kind leases at June 30, 2016 and , are expected to be amortized as follows:

	<u>2016</u>	<u></u>
Within one year	\$ 61,200	\$ 61,200
Within two to five years	201,400	238,600
Thereafter	<u>60,000</u>	<u>84,000</u>
Total	322,600	383,800
Discount to reduce to present value	<u>(35,355)</u>	<u>(49,137)</u>
Present Value of Pledges Receivable	<u>\$ 287,245</u>	<u>\$ 334,663</u>

Other Pledges Receivable

The Organization has recorded unconditional pledges receivable totaling \$249,035 and \$369,274 at June 30, 2016 and . 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.

NOTE 6: FIXED ASSETS

Fixed assets at June 30, 2016 and , were as follows:

	<u>2016</u>	<u></u>
Leasehold improvements	\$ 988,719	\$ 913,032
Structures	1,937,999	1,937,999
Furniture and equipment	1,329,417	1,275,309
Vehicles	<u>594,771</u>	<u>617,417</u>
Total Property and Equipment	4,850,906	4,743,757
Accumulated depreciation	<u>(3,104,724)</u>	<u>(2,962,122)</u>
	<u>\$ 1,746,182</u>	<u>\$ 1,781,635</u>

Depreciation expense for the years ended June 30, 2016 and , was \$212,317 and \$242,987, respectively.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 7: BENEFICIARY INTEREST IN ASSETS HELD BY OTHERS

The Organization has a beneficiary interest in the Santa Barbara Foundation Endowment Fund (Fund) under an Agency Fund Agreement (Fund Agreement). The Fund attempts to provide stable capital appreciation on a total return basis. Assets of the Fund are fully exposed to market risks and may experience market volatility and principal loss. The beneficial interest in the Fund is reported by the Organization at the estimated fair market value which is based on the reported net asset value of the fund as reported by the Santa Barbara Foundation. At June 30, 2016 and 2015, the estimated fair market value of the Organization's interest in the Fund was \$350,383 and \$373,188, respectively.

The Fund Agreement provides for the distribution of funds to be in accordance with the Santa Barbara Foundation's spending policy for its endowed funds and consistent with the applicable provisions of the California Uniform Prudent Management of Institutional Funds Act (UPMIFA). In accordance with California State law Santa Barbara Foundation (SBF) retains sole and absolute discretion over distributions from the Fund. However, the Fund Agreement allows SBF to seek the Organization's advice concerning the timing and amounts of distributions from the Fund to the Organization. The Organization also may request an extraordinary distribution from the Fund. The funding of any extraordinary distribution is at the SBF's sole discretion. Currently, the Organization requests a distribution of 5% of the prior year fair market value of funds.

NOTE 8: DEBT

The Organization has a line of credit with Union Bank for \$250,000 secured by the certificate of deposit held at Union Bank. At June 30, 2016, the interest rate was 3.50% and a balance outstanding of \$25,000 (See Note 18). At June 30, 2015, the interest rate was 3.25% and there was no balance outstanding. The line of credit expires May 1, 2017.

The Organization has a loan secured by a first trust deed on the Santa Maria warehouse and office, payable to the Special Projects Division, City of Santa Maria. The loan originated in 2004; the Organization drew on the loan over a three year period for a total of \$720,000 for the construction of the Santa Maria warehouse and office. The non-interest bearing note will be forgiven over a period of ten years, commencing after five years of occupation of the constructed building, beginning in 2011. The forgiveness of the loan is contingent upon the Organization continuing operations related to the distribution of food to low income people. As the Organization expects to continue operations, the Organization recorded a grant receivable representing the forgiveness of the loan.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 8: DEBT (continued)

During the year ended June 30, 2015, the loan and related receivable was recorded since it had not been previously (See Note 4). The Organization realized funds received from the City of Santa Maria were in fact a loan. Initially, the Organization recorded the funds as grant revenue over a three year period. As a result of the prior period adjustment for the year ended June 30, 2015, of recording the loan, unrestricted net assets decreased by \$507,564 and temporarily restricted net assets increased by \$507,564 to reflect the revenue previously recorded to be forgiven in the future.

The loan balances, and related grant receivable, as of June 30, 2016 and 2015 were \$361,578 and \$434,564, respectively. The total imputed interest rate of 6% for the bargain rate loan for the years ended June 30, 2016 and 2015, was \$23,884 and \$28,264, respectively.

NOTE 9: BOARD DESIGNATED NET ASSETS

As part of the Organization's strategic plan, the Board of Trustees has established an operating reserve equal to approximately three months of operating expenses, based on the amount of expenses incurred in the prior year. The operating reserve consists of cash, certificate of deposit and a beneficiary interest in assets held by others. The reserve consisted of the following amounts at June 30:

	<u>2016</u>	
Cash	\$ 99,466	\$ 66,811
Certificate of deposit	252,389	251,623
Beneficiary interest in assets held by others	<u>350,383</u>	<u>373,188</u>
Total	<u>\$ 702,238</u>	<u>\$ 691,622</u>

NOTE 10: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following amounts at June 30:

	<u>2016</u>	
Government food program – USDA food inventory	\$ 319,561	\$ 229,204
Feasibility study	15,667	-
Truck purchase	-	25,000
Food action plan	-	39,339
Feed the future pledges receivable	-	2,250
Special events	-	170,100
Unrestricted pledges and grants receivable	<u>897,858</u>	<u>1,068,001</u>
Total	<u>\$1,233,086</u>	<u>\$1,533,894</u>



FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 11: 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, 2016, should those costs charged to the grants be disallowed.

NOTE 12: LEASES

The Organization entered into a three year lease agreement to rent office space effective April 1, 2010. During fiscal year end June 30, 2016, the Organization extended the lease for an additional three years expiring March 31, 2019. The monthly rent and maintenance expense is \$4,916. The Organization also has two in-kind leases for the Santa Barbara and Santa Maria warehouses (See Note 5). Total rent expense for years ended June 30, 2016 and 2015 was \$95,626 and \$94,731, respectively.

Minimum annual lease commitments under the current lease agreements are as follows:

<u>Year ended August 31,</u>	<u>Cash</u>	<u>In-kind</u>	<u>Total</u>
2017	\$ 58,992	\$ 61,200	\$ 120,192
2018	58,992	61,200	120,192
2019	44,244	61,200	105,444
2020	-	55,000	55,000
2021	-	24,000	24,000
Thereafter	<u>-</u>	<u>60,000</u>	<u>60,000</u>
Totals	<u>\$ 162,228</u>	<u>\$ 322,600</u>	<u>\$ 484,828</u>

NOTE 13: 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. At June 30, 2016 and 2015, the Organization contributed \$36,325 and \$37,698, respectively. The employer contribution amount is paid every January.

Effective July 1, 2011, the Organization adopted 457(b) and 457(f) deferred compensation plans for the benefit of the Organization's chief executive officer. During the year ended June 30, 2016, the Organization restated the 457(b) plan, effective July 1, 2016, extending the yearly employer contributions until June 30, 2019, and increasing the yearly contribution amounts. The Organization is currently restating the 457(f) plan.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 13: RETIREMENT PLANS (continued)

For the 457(b) plan, the Organization will make non-elective annual contributions to the plan on behalf of the chief executive officer. The plan balance will be maintained on the Organization's books in a designated account and will remain the sole property of the Organization and be available to satisfy the claims of all general creditors of the Organization.

For the 457(f) plan, a one-time contribution is made on the chief executive officer's behalf under Code Section 457(f) during the year ended June 30, 2016. As of June 30, 2016, the chief executive officer became fully vested in his 457(f) deferred compensation plan.

As of June 30, 2016, the asset and related liability of the 457(b) plan in the amount of \$70,489 are recorded in other assets and liabilities on the statement of financial position. Contribution under the 457(f) plan for the year ended June 30, 2016, is \$32,500.

NOTE 14: CONCENTRATIONS OF CREDIT RISK

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

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

The Organization occasionally has more than \$250,000 on deposit with financial institutions. The Federal Deposit Insurance Corporation (FDIC) only insures the first \$250,000 of funds on deposit with any one bank. At June 30, 2016, the Organization had no uninsured funds.

NOTE 15: ENDOWMENT

The Organization's endowment has been established for a variety of programs and operating reserves. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees 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.

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 15: ENDOWMENT (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

*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, 2016.

*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 (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.

At June 30, 2016, the endowment comprised of \$5,379 of permanently restricted net assets. There were no changes in endowment net assets for the fiscal years ended June 30, 2016 and 2015.

NOTE 16: ASSETS VALUED AT FAIR VALUE

The Organization has adopted a framework for measuring and disclosing the fair value of assets and liabilities. Accounting principles define fair value as the price that would be received by the Organization to sell an asset or be paid by the Organization to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. A fair value hierarchy has been established that prioritizes valuation inputs into three broad levels to ensure consistency and comparability. The valuation hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 16: ASSETS VALUED AT FAIR VALUE (continued)

The standard describes three levels of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; discounted cash flows; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; including general partner estimates and recent third-party appraisals.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statements of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then Level 2 fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Fair market valuation of Level 3 assets is based on other market factors to determine if the carrying value of these investments should be adjusted.

The table below presents the balances of assets measured at fair value on a recurring basis at June 30:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2016</u>			
Certificate of deposit	\$ -	\$ 252,389	\$ -
Retirement asset	-	70,489	
Beneficiary interest in assets held by others	-	315,345	35,038
Totals	\$ -	\$ 638,223	\$ 35,038
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificate of deposit	\$ -	\$ 251,623	\$ -
Beneficiary interest in assets held by others	-	-	373,188
Totals	\$ -	\$ 251,623	\$ 373,188

FOODBANK OF SANTA BARBARA COUNTY

NOTES TO FINANCIAL STATEMENTS

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NOTE 16: ASSETS VALUED AT FAIR VALUE (continued)

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

A portion of the beneficiary interest of assets held by others was transferred from Level 3 to Level 2 as of June 30, 2016, as the Organization has information regarding the underlying investments in the Fund (See Note 7).

There were no transfers between Level 1, 2, and 3 of the fair value hierarchy for the year ended June 30, 2015.

The following is a reconciliation of the Organization's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30:

	<u>2016</u>	<u></u>
SBF Endowment Fund at beginning of year	\$ 373,188	\$ 382,009
Transferred to Level 2	(315,345)	-
Change in value of SBF Endowment Fund	<u>(22,805)</u>	<u>(8,821)</u>
SBF Endowment Fund at end of year	<u>\$ 35,038</u>	<u>\$ 373,188</u>

NOTE 17: RELATED PARTIES

During the year ended June 30, 2015, the chief executive officer purchased a vehicle from the Organization and at year end the Organization had a receivable from this sale of \$8,821. During the year ended June 30, 2016, the receivable was fully collected.

The chief executive officer is a voting board member of the California Association of Food Banks, a statewide association of food banks.

NOTE 18: SUBSEQUENT EVENTS

Management has evaluated events through September 19, 2016, which is the date the financial statements were available to be issued. Management has determined that no subsequent event requiring disclosure or significantly impacting disclosure has occurred except:

- Subsequent to year end, the Organization drew an additional \$120,000 from the line of credit (See Note 8).
- In September 2016, the Organization signed a lease for a truck for 60 monthly payments of \$1,150.