



**FOODBANK OF  
SANTA BARBARA COUNTY**

**FINANCIAL STATEMENTS**  
June 30, 2013  
And For The Year Then Ended



## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Foodbank of Santa Barbara County (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foodbank of Santa Barbara County as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Report on Summarized Comparative Information***

We have previously audited the Foodbank of Santa Barbara County's 2012 financial statements, and our report dated September 24, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, 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 October 31, 2013, 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.

Stoltey & Associates

Los Olivos, California  
October 31, 2013

**Foodbank of Santa Barbara County**  
**Statement of Financial Position**  
**June 30, 2013**  
**(with 2012 comparative totals)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>2013 Total</b>	<b>2012 Total</b>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 632,289	\$ -	\$ -	\$ 632,289	\$ 280,034
Accounts receivable, net (note 4)	78,776	-	-	78,776	72,351
Grants and contracts receivable (note 5)	89,928	-	-	89,928	125,565
Pledges receivable (note 6)	-	298,200	-	298,200	62,468
Prepaid expenses and other assets	22,749	-	-	22,749	13,758
Food inventory	380,596	229,694	-	610,290	477,284
<b>Total Current Assets</b>	<b>1,204,338</b>	<b>527,894</b>	<b>-</b>	<b>1,732,232</b>	<b>1,031,460</b>
Fixed Assets, net (note 7)	2,142,622	-	-	2,142,622	2,417,848
<b>Other Assets</b>					
Cash designated for operating reserve (note 9)	225,492	-	-	225,492	223,815
Beneficial interest in assets held by others (notes 3 and 9)	351,547	-	-	351,547	327,731
Cash held in endowment (note 14)	-	-	5,379	5,379	5,379
Pledges receivable (note 6)	-	208,166	-	208,166	252,972
<b>Total Other Assets</b>	<b>577,039</b>	<b>208,166</b>	<b>5,379</b>	<b>790,584</b>	<b>809,897</b>
<b>Total Assets</b>	<b>\$ 3,923,999</b>	<b>\$ 736,060</b>	<b>\$ 5,379</b>	<b>\$ 4,665,438</b>	<b>\$ 4,259,205</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued expenses	\$ 236,085	\$ -	\$ -	\$ 236,085	\$ 177,004
Deferred revenue (note 8)	8,484	-	-	8,484	20,692
<b>Total Current Liabilities</b>	<b>244,569</b>	<b>-</b>	<b>-</b>	<b>244,569</b>	<b>197,696</b>
<b>Net Assets</b>					
Unrestricted:					
Undesignated	3,102,391	-	-	3,102,391	3,004,570
Designated (note 9)	577,039	-	-	577,039	551,546
Temporarily restricted (note 10)	-	736,060	-	736,060	500,014
Permanently restricted	-	-	5,379	5,379	5,379
<b>Total Net Assets</b>	<b>3,679,430</b>	<b>736,060</b>	<b>5,379</b>	<b>4,420,869</b>	<b>4,061,509</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,923,999</b>	<b>\$ 736,060</b>	<b>\$ 5,379</b>	<b>\$ 4,665,438</b>	<b>\$ 4,259,205</b>

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, 2013**  
**(with 2012 comparative totals)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
<b>Support</b>					
Contributions from public	\$ 1,794,401	\$ -	\$ -	\$ 1,794,401	\$ 1,732,305
Foundation grants	959,475	-	-	959,475	916,805
Government grants	347,217	-	-	347,217	307,629
In-Kind food contributions	8,406,971	845,987	-	9,252,958	10,732,748
In-kind contributions	16,394	-	-	16,394	17,049
Fundraising events - gross revenue	452,697	-	-	452,697	294,884
less costs of direct benefits to donors of \$98,384	(452,697)	-	-	(452,697)	(294,884)
Total Support	<u>11,977,155</u>	<u>845,987</u>	<u>-</u>	<u>12,823,142</u>	<u>14,001,420</u>
<b>Revenue</b>					
Agency fees	555,974	-	-	555,974	483,139
Interest	11,656	-	-	11,656	15,188
Loss on sale of investments	-	-	-	-	(2,582)
Unrealized loss on investments	23,816	-	-	23,816	(9,094)
Other revenue	6,972	-	-	6,972	6,731
Total Revenue	<u>598,418</u>	<u>-</u>	<u>-</u>	<u>598,418</u>	<u>493,382</u>
<b>Revenues, Gains and Other Support</b>	<u>12,575,573</u>	<u>845,987</u>	<u>-</u>	<u>13,421,560</u>	<u>14,494,802</u>
Net assets released from restrictions	<u>609,941</u>	<u>(609,941)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>					
<b>Program Expenses:</b>					
Agency services	5,257,009	-	-	5,257,009	6,037,567
Free produce program	4,492,235	-	-	4,492,235	5,118,081
Program services	2,011,271	-	-	2,011,271	2,291,481
<b>Total Program Services</b>	<u>11,760,515</u>	<u>-</u>	<u>-</u>	<u>11,760,515</u>	<u>13,447,129</u>
<b>Supporting Services:</b>					
Management and general	502,122	-	-	502,122	413,083
Fundraising	799,563	-	-	799,563	928,240
<b>Total Supporting Services</b>	<u>1,301,685</u>	<u>-</u>	<u>-</u>	<u>1,301,685</u>	<u>1,341,323</u>
<b>Total Expenses</b>	<u>13,062,200</u>	<u>-</u>	<u>-</u>	<u>13,062,200</u>	<u>14,788,452</u>
Change in net assets	123,314	236,046	-	359,360	(293,650)
Net assets, beginning of year	3,556,116	500,014	5,379	4,061,509	4,355,159
Net assets, ending of year	<u>\$ 3,679,430</u>	<u>\$ 736,060</u>	<u>\$ 5,379</u>	<u>\$ 4,420,869</u>	<u>\$ 4,061,509</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, 2013**  
**(with 2012 comparative totals)**

	Program				Supporting Services		Program & Supporting Services	Program & Supporting Services
	Agency Services	Free Produce Program	Program Services	Total	General and Admin.	Fund Raising	2013	2012
							Grand Total Expenses	Grand Total Expenses
<b>Salaries and Related Expenses</b>								
Salaries	\$ 426,386	\$ 364,356	\$ 163,130	\$ 953,872	\$ 200,530	\$ 422,289	\$ 1,576,691	\$ 1,549,389
Payroll taxes	31,190	26,653	11,933	69,776	14,669	30,890	115,335	116,238
Employee Benefits	105,895	90,489	40,514	236,898	36,978	76,801	350,677	249,406
Total Salaries & Related Expenses	563,471	481,498	215,577	1,260,546	252,177	529,980	2,042,703	1,915,033
<b>Cost of Goods Sold</b>								
COGS - Purchased Food	235,490	201,232	90,096	526,818	-	-	526,818	740,503
COGS - Donated Food	3,722,654	3,181,094	1,424,245	8,327,993	-	-	8,327,993	10,128,864
COGS - USDA	357,991	305,912	136,964	800,867	-	-	800,867	634,923
Total Cost of Goods Sold	4,316,135	3,688,238	1,651,305	9,655,678	-	-	9,655,678	11,504,290
<b>Other Expenses</b>								
Freight Inbound	44,498	38,025	17,024	99,547	-	-	99,547	109,739
Professional and Contract Services	16,068	13,731	6,148	35,947	31,899	78,322	146,168	138,262
Warehouse Expenses	92,741	79,249	35,481	207,471	6,894	-	214,365	189,329
General Office Expenses	23,410	20,004	8,956	52,370	50,024	27,896	130,290	126,941
Utilities	32,711	27,952	12,515	73,178	4,341	-	77,519	73,289
Travel and Meeting Expenses	18,668	15,952	7,142	41,762	24,853	8,097	74,712	85,487
Fundraising Expenses	-	-	-	-	-	125,412	125,412	211,648
Insurance, Dues and Miscellaneous	17,003	14,529	6,505	38,037	25,438	2,448	65,923	67,363
Marketing Development and Materials	-	-	-	-	-	1,639	1,639	10,567
Business Expenses	5,324	4,550	2,037	11,911	100,578	19,851	132,340	68,722
<b>Total Other Expenses</b>	250,423	213,992	95,808	560,223	244,027	263,665	1,067,915	1,081,347
Depreciation expense	126,980	108,507	48,581	284,068	5,918	5,918	295,904	286,763
<b>Total Functional Expenses</b>	<b>\$ 5,257,009</b>	<b>\$ 4,492,235</b>	<b>\$ 2,011,271</b>	<b>\$ 11,760,515</b>	<b>\$ 502,122</b>	<b>\$ 799,563</b>	<b>\$ 13,062,200</b>	<b>\$ 14,787,433</b>

The accompanying notes are an integral part of this financial statement

**Foodbank of Santa Barbara County**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**  
**(with 2012 comparative totals)**

	<u>2013</u> <u>Total</u>	<u>2012</u> <u>Total</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 359,360	\$ (293,650)
Adjustments to reconcile increase in net assets to cash used for operating activities:		
Depreciation	295,904	287,782
Realized loss on sale of investments	-	2,582
Unrealized gain on beneficiary interest in assets held by others	(23,816)	9,094
Changes in:		
Value of inventory	(133,006)	61,616
Accounts receivable	(6,425)	(8,570)
Grants and contracts receivable	35,637	(72,692)
Pledges receivable	(190,926)	63,194
Prepaid and other assets	(8,991)	25,967
Accounts payable and accrued expenses	59,081	20,123
Deferred revenue	(12,208)	(649)
Net cash from operating activities	<u>374,610</u>	<u>94,797</u>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sale of investments	-	288,000
Purchase of investments	-	(228,252)
Acquisition of property and equipment	(20,678)	(116,001)
Net cash from investing activities	<u>(20,678)</u>	<u>(56,253)</u>
<b>Cash Flows From Financing Activities:</b>		
Increase in board designated operating reserve	(1,677)	113,010
Net cash from investing activities	<u>(1,677)</u>	<u>113,010</u>
Net change in cash and cash equivalents	352,255	151,554
Cash and cash equivalents at Beginning of Year	<u>280,034</u>	<u>128,480</u>
Cash and cash equivalents at Ending of Year	<u>\$ 632,289</u>	<u>\$ 280,034</u>

The accompanying notes are an integral part of this financial statement

**FOODBANK OF SANTA BARBARA COUNTY**  
**Notes to Financial Statements**  
**June 30, 2013**

**(1) ORGANIZATION**

Foodbank of Santa Barbara County (the Organization) is a California nonprofit corporation formed in 1987, which 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.

**(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 \$577,039 as a long-term strategic reserve, which approximates 3 months of operating expenses.

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

#### Donated Materials and Services

During the year ended June 30, 2013 the Organization received approximately 18,000 hours of volunteer service. 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 (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 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.

## 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.

## 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.

In June 2006, the Financial Accounting Standards Board issued ASC 740-10 (formerly known as FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes), which prescribed a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. The Organization has adopted ASC 740-10. There was no impact to the Organization's financial statements as a result of the implementation of ASC 740-10.

## 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 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, 2013.

### Reclassifications

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

## **(3) 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). At June 30, 2013 the Organization has reported \$351,547 as a beneficiary interest the assets held by the Santa Barbara Foundation Endowment Fund. As of June 30, 2013 the Organization has transferred \$336,821 to the Fund and has recognized \$14,726 as unrealized gains in the Fund's assets.

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.

## **(4) 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 believes all amount are fully collectible and thus has not established a reserve for uncollectible accounts receivable.

(5) **GRANTS/CONTRACTS RECEIVABLE**

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

(6) **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, 2013 and 2012 are expected to be collected as follows:

	<u>2013</u>	<u>2012</u>
Within one year	\$ 61,200	\$ 61,200
Within two to five years	139,400	213,800
Thereafter	<u>132,000</u>	<u>180,000</u>
Total	332,600	455,000
Discount to reduce to present value	<u>(63,234)</u>	<u>(96,677)</u>
Present Value of Pledges Receivable	<u>\$ 269,366</u>	<u>\$ 358,323</u>

Other Pledges Receivable

The Organization has recorded unconditional pledges receivable totaling \$237,000 at June 30, 2013. 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.

(7) **FIXED ASSETS**

Fixed assets at June 30, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 892,743	\$ 892,743
Structures	1,937,999	1,937,999
Furniture and Equipment	1,244,228	1,235,680
Vehicles	485,257	485,257
Construction in progress	12,131	-
Total Property and Equipment	<u>4,572,358</u>	<u>4,551,679</u>
Accumulated Depreciation	<u>(2,429,736)</u>	<u>(2,133,831)</u>
	<u><u>\$ 2,142,622</u></u>	<u><u>\$ 2,417,848</u></u>

(8) **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, 2013.

(9) **BOARD DESIGNATED NET ASSETS**

As part of the Organization's strategic plan, the Board of Directors 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 both cash and a beneficiary interest in assets held by others. As of June 30, 2013 the reserve consisted of the following amounts:

Cash	\$ 225,492
Beneficiary interest in assets held by others	<u>351,547</u>
Total Board Designated Operating Reserves	<u><u>\$ 577,039</u></u>

(10) **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2013 were available for the following purposes:

Government Food Program – USDA Food Inventory	\$ 229,694
Unrestricted Pledges and grants receivable	<u>506,366</u>
Total	<u><u>\$ 736,060</u></u>

**(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, 2013 should those costs charged to the grants be disallowed.

**(12) 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 \$47,565 and \$ 38,891 for the employer match contribution to the plan at June 30, 2013 and 2012, respectively. The employer contribution amount is paid every January.

**(13) 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.

At June 30, 2013 the Organization cash balances exceeded FDIC insured amounts by approximately \$359,000.

**(14) ENDOWMENT**

The Organization's endowment has been established for a variety of programs and operating reserves. Its endowment consists of board designated and 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.

Endowment net asset composition by type of fund as of June 30, 2013

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,379</u>	<u>\$ 5,379</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 327,731	\$ -	\$ 5,379	\$333,110
Contributions	-	-	-	-
Investment income	<u>23,816</u>	<u>-</u>	<u>-</u>	<u>23,816</u>
Endowment net assets, ending of year	<u>\$ 351,547</u>	<u>\$ -</u>	<u>\$ 5,379</u>	<u>\$356,926</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, 2013.

## 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.

## NOTE 14 ASSETS VALUED AT FAIR VALUE

Fair Value Measurements at June 30, 2013 are summarized as follows:

Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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### *Recurring fair value measurements:*

Beneficiary interest in assets  
held by others:

SBF Endowment Fund	\$ <u>          -</u>	\$ <u>          -</u>	\$ <u>  351,547</u>
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### Level 3 Measurements

The fair value for the beneficiary interest in assets held in the Santa Barbara Foundation Endowment Fund is measured using the market prices of the assets held in the Fund as reported by the Santa Barbara Foundation as of June 30, 2013. The Organization transferred the beneficiary interest in the Fund from a level 1 measurement to level 3 during the year ended June 30, 2013 after the Organization evaluated the terms of the agreement and considered the current practice among similar nonprofit entities for classifying beneficiary interest in assets held by others

under endowment agreements. The Organization considers the measurement of its beneficiary interest in the trust to be a level 3 measurement within the fair value hierarchy because even though measurement is based on the values of the assets reported by the Fund, the Organization will never receive those assets or have the ability to direct the Fund to redeem them.

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

The table below presents information about the fair value measurements that uses significant unobservable inputs (Level 3):

Beneficiary interest in assets held in Santa Barbara Endowment Fund

Balance at July 1, 2012	\$ -
Transfers into Level 3	327,731
Total gains recognized in the change in unrestricted board designated net assets:	
Change in value of beneficiary Interest in assets held by others	<u>23,816</u>
Balance June 30, 2013	<u>\$ 351,547</u>

**NOTE 14 SUBSEQUENT EVENTS**

Management has evaluated events through October 31, 2013 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.