



**FOODBANK OF
SANTA BARBARA COUNTY**

FINANCIAL STATEMENTS
June 30, 2014
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, 2014, 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.

P.O. Box 57, Los Olivos, CA 93441 • (805) 689-5880 • Fax (810) 882-5880 • brad@stolteycpa.com

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, 2014, 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 2013 financial statements, and our report dated October 31, 2013, 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, 2013, 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 23, 2014, 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
September 23, 2014

Foodbank of Santa Barbara County
Statement of Financial Position
June 30, 2014
(with 2013 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 460,666	\$ 32,322	\$ -	\$ 492,988	\$ 632,289
Accounts receivable, net (note 4)	60,344	-	-	60,344	78,776
Grants and contracts receivable (note 5)	152,912	-	-	152,912	89,928
Pledges receivable (note 6)	-	220,450	-	220,450	298,200
Prepaid expenses and other assets	25,808	-	-	25,808	22,749
Food inventory	295,559	194,672	-	490,231	610,290
Total Current Assets	<u>995,289</u>	<u>447,444</u>	<u>-</u>	<u>1,442,733</u>	<u>1,732,232</u>
Fixed Assets, net (note 7)	<u>1,982,956</u>	<u>-</u>	<u>-</u>	<u>1,982,956</u>	<u>2,142,622</u>
Other Assets					
Cash designated for operating reserve (note 9)	251,623	-	-	251,623	225,492
Beneficiary interest in assets held by others (notes 3 and 9)	382,009	-	-	382,009	351,547
Cash held in endowment (note 14)	-	-	5,379	5,379	5,379
Pledges receivable (note 6)	-	162,017	-	162,017	208,166
Total Other Assets	<u>633,632</u>	<u>162,017</u>	<u>5,379</u>	<u>801,028</u>	<u>790,584</u>
Total Assets	<u>\$ 3,611,877</u>	<u>\$ 609,461</u>	<u>\$ 5,379</u>	<u>\$ 4,226,717</u>	<u>\$ 4,665,438</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable and accrued expenses	\$ 239,583	\$ -	\$ -	\$ 239,583	\$ 236,085
Deferred revenue (note 8)	17,025	-	-	17,025	8,484
Total Current Liabilities	<u>256,608</u>	<u>-</u>	<u>-</u>	<u>256,608</u>	<u>244,569</u>
Net Assets					
Unrestricted:					
Undesignated	2,753,055	-	-	2,753,055	3,102,391
Designated (note 9)	602,214	-	-	602,214	577,039
Temporarily restricted (note 10)	-	609,461	-	609,461	736,060
Permanently restricted	-	-	5,379	5,379	5,379
Total Net Assets	<u>3,355,269</u>	<u>609,461</u>	<u>5,379</u>	<u>3,970,109</u>	<u>4,420,869</u>
Total Liabilities and Net Assets	<u>\$ 3,611,877</u>	<u>\$ 609,461</u>	<u>\$ 5,379</u>	<u>\$ 4,226,717</u>	<u>\$ 4,665,438</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, 2014
(with 2013 comparative totals)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Support					
Contributions from public	\$ 1,700,443	\$ 4,500	\$ -	\$ 1,704,943	\$ 1,794,401
Foundation grants	812,819	165,000	-	977,819	959,475
Government grants	418,195	-	-	418,195	347,217
In-Kind food contributions	9,384,434	680,193	-	10,064,627	9,252,958
In-kind contributions	15,051	-	-	15,051	16,394
Fundraising events - gross revenue	410,913	-	-	410,913	452,697
less costs of direct benefits to donors of \$98,384	-	-	-	-	-
Total Support	<u>12,741,855</u>	<u>849,693</u>	<u>-</u>	<u>13,591,548</u>	<u>12,823,142</u>
Revenue					
Agency fees	498,182	-	-	498,182	555,974
Interest	15,095	-	-	15,095	11,656
Loss on sale of investments	-	-	-	-	-
Unrealized loss on investments	30,462	-	-	30,462	23,816
Other revenue	5,925	-	-	5,925	6,972
Total Revenue	<u>549,664</u>	<u>-</u>	<u>-</u>	<u>549,664</u>	<u>598,418</u>
Revenues, Gains and Other Support	<u>13,291,519</u>	<u>849,693</u>	<u>-</u>	<u>14,141,212</u>	<u>13,421,560</u>
Net assets released from restrictions	<u>976,292</u>	<u>(976,292)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenses					
Program Expenses:					
Agency services	5,943,241	-	-	5,943,241	5,257,009
Free produce program	4,004,856	-	-	4,004,856	4,492,235
Program services	3,157,046	-	-	3,157,046	2,011,271
Total Program Services	<u>13,105,143</u>	<u>-</u>	<u>-</u>	<u>13,105,143</u>	<u>11,760,515</u>
Supporting Services:					
Management and general	598,737	-	-	598,737	502,122
Fundraising	888,092	-	-	888,092	799,563
Total Supporting Services	<u>1,486,829</u>	<u>-</u>	<u>-</u>	<u>1,486,829</u>	<u>1,301,685</u>
Total Expenses	<u>14,591,972</u>	<u>-</u>	<u>-</u>	<u>14,591,972</u>	<u>13,062,200</u>
Change in net assets	(324,161)	(126,599)	-	(450,760)	359,360
Net assets, beginning of year	3,679,430	736,060	5,379	4,420,869	4,061,509
Net assets, ending of year	<u>\$ 3,355,269</u>	<u>\$ 609,461</u>	<u>\$ 5,379</u>	<u>\$ 3,970,109</u>	<u>\$ 4,420,869</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, 2014
(with 2013 comparative totals)

	Program				Supporting Services		Program & Supporting Services	Program & Supporting Services
	Agency Services	Free Produce Program	Program Services	Total	General and Admin.	Fund Raising	2014	2013
							Grand Total Expenses	Grand Total Expenses
Salaries and Related Expenses								
Salaries	\$ 475,622	\$ 320,498	\$ 252,255	\$ 1,048,375	\$ 271,132	\$ 488,037	\$ 1,807,544	\$ 1,576,691
Payroll taxes	35,203	23,722	18,671	77,596	20,068	36,122	133,786	115,335
Employee Benefits	103,037	69,431	54,648	227,116	58,737	105,726	391,579	350,677
Total Salaries & Related Expenses	613,862	413,651	325,574	1,353,087	349,937	629,885	2,332,909	2,042,703
Cost of Goods Sold								
COGS - Purchased Food	226,880	152,883	120,330	500,093	-	-	500,093	526,818
COGS - Donated Food	4,302,860	2,899,483	2,282,101	9,484,444	-	-	9,484,444	8,327,993
COGS - USDA	324,475	218,648	172,091	715,214	-	-	715,214	800,867
Total Cost of Goods Sold	4,854,215	3,271,014	2,574,522	10,699,751	-	-	10,699,751	9,655,678
Other Expenses								
Freight Inbound	57,485	38,737	30,488	126,710	-	-	126,710	99,547
Professional and Contract Services	16,552	11,154	8,779	36,485	49,617	76,698	162,800	146,168
Warehouse Expenses	148,786	100,259	78,911	327,956	6,716	2,658	337,330	214,365
General Office Expenses	16,749	11,287	8,883	36,919	81,198	15,554	133,671	130,290
Utilities	33,956	22,881	18,009	74,846	1,822	4,736	81,404	77,519
Travel and Meeting Expenses	19,491	13,134	10,337	42,962	19,345	11,671	73,978	74,712
Fundraising Expenses	-	-	4,938	4,938	-	120,037	124,975	125,412
Insurance, Dues and Miscellaneous	17,818	12,007	9,450	39,275	17,051	14,520	70,846	65,923
Marketing Development and Materials	-	-	-	-	-	3,353	3,353	1,639
Business Expenses	30,446	20,516	16,148	67,110	66,903	2,832	136,845	132,340
Total Other Expenses	341,283	229,975	185,943	757,201	242,652	252,059	1,251,912	1,067,915
Depreciation expense	133,881	90,216	71,007	295,104	6,148	6,148	307,400	295,904
Total Functional Expenses	\$ 5,943,241	\$ 4,004,856	\$ 3,157,046	\$ 13,105,143	\$ 598,737	\$ 888,092	\$ 14,591,972	\$ 13,062,200

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, 2014
(with 2013 comparative totals)

	<u>2014</u> <u>Total</u>	<u>2013</u> <u>Total</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (450,760)	\$ 359,360
Adjustments to reconcile increase in net assets to cash used for operating activities:		
Depreciation	307,400	295,904
Unrealized gain on beneficiary interest in assets held by others	(30,462)	(23,816)
Changes in:		
Value of inventory	120,059	(133,006)
Accounts receivable	18,432	(6,425)
Grants and contracts receivable	(62,984)	35,637
Pledges receivable	123,899	(190,926)
Prepaid and other assets	(3,059)	(8,991)
Accounts payable and accrued expenses	3,498	59,081
Deferred revenue	8,541	(12,208)
Net cash from operating activities	<u>34,564</u>	<u>374,610</u>
Cash Flows From Investing Activities:		
Proceeds from sale of investments	-	-
Acquisition of property and equipment	<u>(147,734)</u>	<u>(20,678)</u>
Net cash from investing activities	<u>(147,734)</u>	<u>(20,678)</u>
Cash Flows From Financing Activities:		
Increase in board designated operating reserve	<u>(26,131)</u>	<u>(1,677)</u>
Net cash from investing activities	<u>(26,131)</u>	<u>(1,677)</u>
Net change in cash and cash equivalents	(139,301)	352,255
Cash and cash equivalents at Beginning of Year	<u>632,289</u>	<u>280,034</u>
Cash and cash equivalents at Ending of Year	<u>\$ 492,988</u>	<u>\$ 632,289</u>

The accompanying notes are an integral part of this financial statement

FOODBANK OF SANTA BARBARA COUNTY
Notes to Financial Statements
June 30, 2014

(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 \$602,214 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, 2014 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 incorporated 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, though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The tax years ending 2010, 2011, and 2012 are still open to audit for both federal and state purposes. Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The organization is not classified as 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 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, 2014.

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, 2014 the Organization has reported \$382,009 as a beneficiary interest the assets held by the Santa Barbara Foundation Endowment Fund. As of June 30, 2014 the Organization has transferred \$336,821 to the Fund and has recognized \$45,188 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 has established a \$3,388 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, 2014 and 2013 are expected to be collected as follows:

	<u>2014</u>	<u>2013</u>
Within one year	\$ 61,200	\$ 61,200
Within two to five years	102,200	139,400
Thereafter	<u>108,000</u>	<u>132,000</u>
Total	271,400	332,600
Discount to reduce to present value	<u>(49,806)</u>	<u>(63,234)</u>
 Present Value of Pledges Receivable	 <u>\$ 221,594</u>	 <u>\$ 269,366</u>

Other Pledges Receivable

The Organization has recorded unconditional pledges receivable totaling \$159,250 at June 30, 2014. 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, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 898,622	\$ 892,743
Structures	1,937,999	1,937,999
Furniture and Equipment	1,269,280	1,244,228
Vehicles	614,190	485,257
Construction in progress	-	12,131
Total Property and Equipment	<u>4,720,091</u>	<u>4,572,358</u>
Accumulated Depreciation	<u>(2,737,135)</u>	<u>(2,429,736)</u>
	<u><u>\$ 1,982,956</u></u>	<u><u>\$ 2,142,622</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, 2014.

(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, 2014 the reserve consisted of the following amounts:

Cash	\$ 220,205
Beneficiary interest in assets held by others	<u>382,009</u>
Total Board Designated Operating Reserves	<u><u>\$ 602,214</u></u>

(10) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 were available for the following purposes:

Government Food Program – USDA Food	
Inventory	\$ 194,672
Vehicle replacement	22,822
Food Action Plan	9,500
Feed the Future pledges receivable	4,500
Unrestricted Pledges and grants receivable	<u>377,967</u>
Total	<u>\$ 609,461</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, 2014 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 \$42,363 and \$ 47,565 for the employer match contribution to the plan at June 30, 2014 and 2013, 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, 2014 the Organization cash balances exceeded FDIC insured amounts by approximately \$245,000.

(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, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 5,379	\$ 5,379
Contributions	-	-	-	-
Investment income	-	-	-	-
Endowment net assets, ending of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,379</u>	<u>\$ 5,379</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, 2014.

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, 2014 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)
<i>Recurring fair value measurements:</i>			
Beneficiary interest in assets held by others:			
SBF Endowment Fund	\$ <u> -</u>	\$ <u> -</u>	\$ <u>382,009</u>

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, 2014. The Organization transferred the beneficiary interest in the Fund from a level 1 measurement to level 3 during the year ended June 30, 2014 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, 2013	\$ 351,547
Transfers into Level 3	
Total gains recognized in the change in unrestricted board designated net assets:	
Change in value of beneficiary Interest in assets held by others	<u>30,462</u>
Balance June 30, 2014	<u>\$ 382,009</u>

NOTE 14 SUBSEQUENT EVENTS

Management has evaluated events through September 23, 2014 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.