

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**



JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

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To the Board of Trustees of
Foodbank of Santa Barbara County

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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, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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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.

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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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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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, 2017, 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 the Foodbank of Santa Barbara County's June 30, 2016, financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 separate report on our consideration of the 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.

MacFarlane, Faletti, & Co., LLP

**Santa Barbara, California
November 15, 2017**

FOODBANK OF SANTA BARBARA COUNTY

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals as of June 30, 2016)

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total 2017</u> | <u>Total 2016</u> |
|---|----------------------------|-----------------------------------|-----------------------------------|----------------------------|----------------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 208,068 | \$ 126,682 | \$ - | \$ 334,750 | \$ 90,033 |
| Accounts and other receivables, net | 15,508 | - | - | 15,508 | 19,208 |
| Grants and contracts receivable | 81,970 | 107,789 | - | 189,759 | 268,135 |
| Pledges receivable | - | 405,361 | - | 405,361 | 310,235 |
| Food inventory | <u>322,822</u> | <u>326,056</u> | <u>-</u> | <u>648,878</u> | <u>732,945</u> |
| Total Current Assets | <u>628,368</u> | <u>965,888</u> | <u>-</u> | <u>1,594,256</u> | <u>1,420,556</u> |
| FIXED ASSETS, NET | <u>1,554,681</u> | <u>-</u> | <u>-</u> | <u>1,554,681</u> | <u>1,746,182</u> |
| OTHER ASSETS | | | | | |
| Cash and cash equivalents designated for operating reserve | 153,928 | - | - | 153,928 | 99,466 |
| Certificate of deposit designated for operating reserve | 252,775 | - | - | 252,775 | 252,389 |
| Beneficial interest in assets held by others | 363,110 | - | - | 363,110 | 350,383 |
| Grants and contracts receivable, net of current | - | 216,000 | - | 216,000 | 324,578 |
| Pledges receivable, net of current | - | 176,239 | - | 176,239 | 226,045 |
| Cash held in endowment | - | - | 5,379 | 5,379 | 5,379 |
| Retirement plan assets | 100,911 | - | - | 100,911 | 70,489 |
| Deposits | <u>33,926</u> | <u>-</u> | <u>-</u> | <u>33,926</u> | <u>33,926</u> |
| Total Other Assets | <u>904,650</u> | <u>392,239</u> | <u>5,379</u> | <u>1,302,268</u> | <u>1,362,655</u> |
| TOTAL ASSETS | <u>\$ 3,087,699</u> | <u>\$ 1,358,127</u> | <u>\$ 5,379</u> | <u>\$ 4,451,205</u> | <u>\$ 4,529,393</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts payable | \$ 78,817 | \$ - | \$ - | \$ 78,817 | \$ 126,661 |
| Accrued salary and related expenses | 189,828 | - | - | 189,828 | 174,429 |
| Agency funds | 120,752 | - | - | 120,752 | 51,444 |
| Line of credit | - | - | - | - | 25,000 |
| Current portion of long-term debt | <u>75,148</u> | <u>-</u> | <u>-</u> | <u>75,148</u> | <u>79,864</u> |
| Total Current Liabilities | <u>464,545</u> | <u>-</u> | <u>-</u> | <u>464,545</u> | <u>457,398</u> |
| OTHER LIABILITIES | | | | | |
| Retirement plan liability | 100,911 | - | - | 100,911 | 70,489 |
| Long-term debt | <u>216,000</u> | <u>-</u> | <u>-</u> | <u>216,000</u> | <u>291,148</u> |
| Total Other Liabilities | <u>316,911</u> | <u>-</u> | <u>-</u> | <u>316,911</u> | <u>361,637</u> |
| Total Liabilities | <u>781,456</u> | <u>-</u> | <u>-</u> | <u>781,456</u> | <u>819,035</u> |
| NET ASSETS | | | | | |
| Unrestricted | | | | | |
| General operating | 270,538 | - | - | 270,538 | 385,052 |
| Property and equipment, net of related loan | 1,265,892 | - | - | 1,265,892 | 1,384,604 |
| Board designated reserve | 406,703 | - | - | 406,703 | 351,855 |
| Board designated endowment | <u>363,110</u> | <u>-</u> | <u>-</u> | <u>363,110</u> | <u>350,383</u> |
| Total Unrestricted | <u>2,306,243</u> | <u>-</u> | <u>-</u> | <u>2,306,243</u> | <u>2,471,894</u> |
| Temporarily restricted | - | 1,358,127 | - | 1,358,127 | 1,233,085 |
| Permanently restricted | - | - | 5,379 | 5,379 | 5,379 |
| Total Net Assets | <u>2,306,243</u> | <u>1,358,127</u> | <u>5,379</u> | <u>3,669,749</u> | <u>3,710,358</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,087,699</u> | <u>\$ 1,358,127</u> | <u>\$ 5,379</u> | <u>\$ 4,451,205</u> | <u>\$ 4,529,393</u> |

See accompanying notes to financial statements.

FOODBANK OF SANTA BARBARA COUNTY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for Year Ended June 30, 2016)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2017 | Total 2016 |
|--|---------------------|---------------------------|---------------------------|---------------------|---------------------|
| REVENUE, GAINS, AND OTHER SUPPORT | | | | | |
| Contributions from public | \$ 2,301,499 | \$ 74,333 | \$ - | \$ 2,375,832 | \$ 2,098,711 |
| Foundation grants | 324,430 | 206,328 | - | 530,758 | 688,644 |
| Government grants and contracts | 220,415 | 35,000 | - | 255,415 | 349,839 |
| In-Kind contributions of food | 12,365,608 | 1,136,932 | - | 13,502,540 | 14,074,895 |
| In-Kind contributions of interest and facilities | 30,905 | - | - | 30,905 | 37,666 |
| Fundraising events, net of direct expenses of \$68,393 and \$60,268, respectively | 376,941 | 190,182 | - | 567,123 | 428,857 |
| Agency fees | 419,482 | - | - | 419,482 | 446,449 |
| Interest | 385 | - | - | 385 | 774 |
| Gain on sale of fixed assets | - | - | - | - | 300 |
| Change in value of beneficiary interest in assets held by others | 27,539 | - | - | 27,539 | (8,064) |
| Other revenue | 5,510 | - | - | 5,510 | 7,128 |
| Total Revenues, Gains and Other Support | 16,072,714 | 1,642,775 | - | 17,715,489 | 18,125,199 |
| RECLASSIFICATIONS | | | | | |
| Net assets released from restrictions | 1,517,733 | (1,517,733) | - | - | - |
| EXPENSES | | | | | |
| Program Expenses | | | | | |
| Agency services | 7,420,462 | - | - | 7,420,462 | 7,335,330 |
| Free produce program | 4,353,800 | - | - | 4,353,800 | 5,019,948 |
| Program services | 4,311,728 | - | - | 4,311,728 | 4,441,920 |
| Total Program Services | 16,085,990 | - | - | 16,085,990 | 16,797,198 |
| Supporting Services | | | | | |
| Management and general | 691,844 | - | - | 691,844 | 830,889 |
| Fundraising | 978,264 | - | - | 978,264 | 960,925 |
| Total Supporting Services | 1,670,108 | - | - | 1,670,108 | 1,791,814 |
| Total Expenses | 17,756,098 | - | - | 17,756,098 | 18,589,012 |
| CHANGE IN NET ASSETS | (165,651) | 125,042 | - | (40,609) | (463,813) |
| NET ASSETS, BEGINNING OF YEAR | 2,471,894 | 1,233,085 | 5,379 | 3,710,358 | 4,174,171 |
| NET ASSETS, END OF YEAR | \$ 2,306,243 | \$ 1,358,127 | \$ 5,379 | \$ 3,669,749 | \$ 3,710,358 |

FOODBANK OF SANTA BARBARA COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for Year Ended June 30, 2016)

| | Program | | | | Supporting Services | | Program & Supporting Services | Program & Supporting Services |
|---|---------------------|-------------------------|---------------------------|----------------------|--------------------------|-------------------|-------------------------------------|-------------------------------------|
| | Agency Services | Free Produce Program | Other Program Services | Total | General and Admin. | Fund Raising | Total 2017 | Total 2016 |
| SALARIES & RELATED EXPENSES | | | | | | | | |
| Salaries | \$ 457,651 | \$ 268,517 | \$ 265,922 | \$ 992,090 | \$ 261,595 | \$ 604,004 | \$ 1,857,689 | \$ 2,051,608 |
| Payroll taxes | 38,958 | 22,858 | 22,637 | 84,452 | 22,268 | 51,416 | 158,136 | 164,349 |
| Employee benefits | 119,207 | 69,942 | 69,267 | 258,416 | 65,377 | 88,527 | 412,320 | 572,760 |
| Total Salaries & Related Expenses | 615,816 | 361,317 | 357,825 | 1,334,958 | 349,240 | 743,948 | 2,428,145 | 2,788,717 |
| COST OF GOODS SOLD | | | | | | | | |
| COGS - purchased food | 157,825 | 92,600 | 91,562 | 341,987 | - | - | 341,987 | 425,109 |
| COGS - donated food | 5,757,335 | 3,377,994 | 3,345,354 | 12,480,683 | - | - | 12,480,683 | 12,891,593 |
| COGS - USDA | 521,470 | 305,962 | 303,005 | 1,130,437 | - | - | 1,130,437 | 1,103,649 |
| Total Cost of Goods Sold | 6,436,630 | 3,776,556 | 3,739,921 | 13,953,107 | - | - | 13,953,107 | 14,420,351 |
| OTHER EXPENSES | | | | | | | | |
| Freight inbound | 26,602 | 15,608 | 15,457 | 57,668 | - | - | 57,668 | 83,395 |
| Professional and contract services | 21,659 | 12,708 | 12,585 | 46,953 | 48,930 | 62,777 | 158,660 | 194,303 |
| Warehouse expenses | 99,973 | 58,657 | 58,234 | 216,864 | 7,358 | 5,649 | 229,871 | 190,809 |
| General office expenses | 16,815 | 9,866 | 9,770 | 36,450 | 152,599 | 28,532 | 217,582 | 168,700 |
| Utilities | 37,002 | 21,710 | 21,500 | 80,212 | 763 | 3,039 | 84,014 | 87,695 |
| Travel and meeting expenses | 16,720 | 9,810 | 9,715 | 36,244 | 10,686 | 2,992 | 49,923 | 59,319 |
| Fundraising expenses | - | - | - | - | - | 98,834 | 98,834 | 111,341 |
| Insurance, dues and miscellaneous | 8,869 | 5,204 | 5,153 | 19,226 | 57,346 | 3,145 | 79,716 | 88,091 |
| Marketing development and materials | 198 | 116 | 115 | 430 | - | 6,932 | 7,362 | 16,501 |
| Business Expenses | 32,821 | 19,257 | 19,071 | 71,148 | 60,480 | 17,975 | 149,603 | 143,589 |
| Imputed interest expense | 8,999 | 5,281 | 5,230 | 19,510 | - | - | 19,511 | 23,884 |
| Total Other Expenses | 269,658 | 158,217 | 156,831 | 584,706 | 338,162 | 229,875 | 1,152,744 | 1,167,627 |
| Depreciation Expense | 98,358 | 57,709 | 57,151 | 213,218 | 4,442 | 4,442 | 222,102 | 212,317 |
| TOTAL EXPENSES, YEAR ENDED JUNE 30, 2017 | \$ 7,420,462 | \$ 4,353,800 | \$ 4,311,728 | \$ 16,085,989 | \$ 691,844 | \$ 978,264 | \$ 17,756,098 | |
| TOTAL EXPENSES, YEAR ENDED JUNE 30, 2016 | \$ 7,335,330 | \$ 5,019,948 | \$ 4,441,920 | \$ 16,797,198 | \$ 830,889 | \$ 960,925 | | \$ 18,589,012 |

FOODBANK OF SANTA BARBARA COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for Year Ended June 30, 2016)

| | <u>Total 2017</u> | <u>Total 2016</u> |
|---|--------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (40,609) | \$ (463,813) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 222,102 | 212,317 |
| In-kind loan forgiveness | (72,789) | (72,986) |
| Gain on sale of fixed assets | - | (300) |
| Unrealized loss (gain) on beneficiary interest in assets held by others | (27,539) | 8,700 |
| Changes in: | | |
| Value of food inventory | 84,067 | (28,643) |
| Accounts and other receivables | 3,700 | 1,111 |
| Grants and contracts receivable | 186,954 | (37,905) |
| Pledges receivable | (45,320) | 167,657 |
| Deposits | - | - |
| Accounts payable | (47,844) | 58,273 |
| Accrued salary and related expenses | 15,399 | 2,691 |
| Agency funds | 69,308 | 50,466 |
| NET CASH PROVIDED (USED) FROM OPERATING ACTIVITIES | <u>347,429</u> | <u>(102,432)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Distribution from beneficial interest in assets held by others | 14,812 | 14,105 |
| Proceeds from sale of fixed assets | - | 300 |
| Reinvestment of interest in certificate of deposit | (386) | (766) |
| Acquisition of fixed assets | <u>(30,601)</u> | <u>(176,864)</u> |
| NET CASH USED BY INVESTING ACTIVITIES | <u>(16,175)</u> | <u>(163,225)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from line of credit | 120,000 | 50,000 |
| Principal payments on loan | (7,075) | (7,075) |
| Principal payments on line of credit | (145,000) | (25,000) |
| Increase in board designated operating reserve | <u>(54,462)</u> | <u>(32,655)</u> |
| NET CASH USED BY FINANCING ACTIVITIES | <u>(86,537)</u> | <u>(14,730)</u> |
| NET INCREASE (DECREASE) IN CASH | 244,717 | (280,387) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>90,033</u> | <u>370,420</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 334,750</u> | <u>\$ 90,033</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| In-kind donation of goods and services | \$ 13,502,540 | \$ 14,074,895 |
| In-kind donation of interest | \$ 30,905 | \$ 37,666 |

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

Basis of Presentation

The financial statements of the Foodbank have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

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 \$769,813 as a long-term strategic reserve, which approximates 3 months of operating expenses.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (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, 2017, the Organization received approximately 25,000 hours of volunteer service from 2,300 volunteers. 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.

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 |

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 a California nonprofit public benefit corporation, which is exempt from taxes on income under Internal Revenue Code section 501(c)(3) and State of California Revenue and Taxation Code Section 23701(d); therefore, no provisions for income taxes are reflected in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

The Organization evaluates uncertain tax positions, whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2017, the Organization had no uncertain tax positions requiring accrual. The Organization files tax returns in U.S. federal and California jurisdictions and is no longer subject to U.S. federal and state tax examinations by tax authorities for fiscal years ending before June 30, 2014 and June 30, 2013, respectively.

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, 2017.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2016, from which the information was derived.

Reclassifications

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

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 determined the receivables are fully collectible; therefore, no provision has been made for uncollectible amounts.

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, 2017, the grants are expected to be received in the following amounts:

| | Grants and Contracts Receivable | Forgiveness of Debt | Total |
|--------|---------------------------------------|------------------------|-----------------|
| 2018 | \$ 116,970 | \$ 72,789 | \$ 189,759 |
| 2019 | - | 72,789 | 72,789 |
| 2020 | - | 72,985 | 72,985 |
| 2021 | - | 70,226 | 70,226 |
| 2022 | - | - | - |
| Totals | \$ 116,970 | \$ 288,789 | \$ 409,759 |

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. Pledges receivable for in-kind leases at June 30, 2017 and 2016, are expected to be amortized as follows:

| | 2017 | 2016 |
|-------------------------------------|-----------------|-----------------|
| Within one year | \$ 61,200 | \$ 61,200 |
| Within two to five years | 164,200 | 201,400 |
| Thereafter | 36,000 | 60,000 |
| Total | 261,400 | 322,600 |
| Discount to reduce to present value | (23,962) | (35,355) |
| Present Value of Pledges Receivable | \$ 237,438 | \$ 287,245 |

NOTE 5 PLEDGES RECEIVABLE (Continued)

Other Pledges Receivable

The Organization has recorded unconditional pledges receivable totaling \$344,161 and \$249,035 at June 30, 2017 and 2016. 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 one year.

NOTE 6 FIXED ASSETS

Fixed assets at June 30, 2017 and 2016, were as follows:

| | 2017 | 2016 |
|------------------------------|--------------|--------------|
| Leasehold improvements | \$ 988,719 | \$ 988,719 |
| Structures | 1,937,999 | 1,937,999 |
| Furniture and equipment | 1,360,018 | 1,329,417 |
| Vehicles | 594,771 | 594,771 |
| Total Property and Equipment | 4,881,507 | 4,850,906 |
| Accumulated depreciation | (3,326,826) | (3,104,724) |
| | \$ 1,554,681 | \$ 1,746,182 |

Depreciation expense for the years ended June 30, 2017 and 2016, was \$222,102 and \$212,317, respectively.

NOTE 7 BENEFICIAL 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, 2017 and 2016, the estimated fair market value of the Organization's interest in the Fund was \$363,110 and \$350,383, 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, 2017, the interest rate was 4.25% and no balance outstanding. At June 30, 2016, the interest rate was 3.50% and there was a \$25,000 balance outstanding. The line of credit expires May 1, 2018.

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 (See Note 4).

The loan balances, and related grant receivable, as of June 30, 2017 and 2016 were \$288,789 and \$361,578, respectively. The total imputed interest rate of 6% for the bargain rate loan for the years ended June 30, 2017 and 2016, was \$19,511 and \$23,884, 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:

| | 2017 | 2016 |
|---|----------------|----------------|
| Cash | \$ 153,928 | \$ 99,466 |
| Certificate of deposit | 252,775 | 252,389 |
| Beneficiary interest in assets held by others | 363,110 | 350,383 |
| Total | \$ 769,813 | \$ 702,238 |

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

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

| | 2017 | 2016 |
|---|------------------|------------------|
| Government food program – USDA food inventory | \$ 326,056 | \$ 319,561 |
| Unrestricted pledges and grants receivable | 905,389 | 897,858 |
| Special events | 126,682 | - |
| Feasibility study | - | 15,667 |
| Total | \$ 1,358,127 | \$ 1,233,086 |

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, 2017, should those costs charged to the grants be disallowed.

Solar Panel Agreement

During the year ended June 30, 2017, the Organization signed a twenty-five year agreement with Wiser Capital for purchase of solar power. Although the monthly expense related to the agreement is projected to result in lower utility costs, the Organization is responsible for the maintenance and repair of the electrical system at the Santa Maria facility and may be liable for the costs to relocate the system should they cease to conduct business operations at that location.

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) and four vehicle leases. Total cash rent expense for years ended June 30, 2017 and 2016 was \$97,671 and \$95,626, respectively.

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

| Year ended June 30, | Cash | In-kind | Total |
|---------------------|------------|------------|------------|
| 2018 | \$ 97,052 | \$ 61,200 | \$ 158,252 |
| 2019 | 81,375 | 61,200 | 142,575 |
| 2020 | 34,128 | 55,000 | 89,128 |
| 2021 | 33,600 | 24,000 | 57,600 |
| 2022 | 21,000 | 24,000 | 45,000 |
| Thereafter | 4,200 | 36,000 | 40,200 |
| Totals | \$ 271,355 | \$ 261,400 | \$ 532,755 |

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, 2017 and 2016, the Organization contributed \$31,627 and \$36,325, 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 restated the 457(f) plan, effective July 1, 2016.

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, 2020, with the chief executive officer becoming fully vested in his 457(f) deferred compensation plan in the same year.

As of June 30, 2017, the asset and related liability of the 457(b) plan in the amount of \$100,911 are recorded in other assets and liabilities on the statement of financial position.

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, 2017, the Organization had \$191,600 of 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 have interpreted the California adopted Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring a long-term investment strategy designed to preserve the fair value of the original gift, as of the gift date.

NOTE 15 **ENDOWMENT (Continued)**

As a result of this interpretation, the Organization has classified with the explicit prohibition by the donor 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 funds that is not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, the organization considers the following factors in making a determination to appropriate or invest donor-restricted endowment funds:

- (1) The duration and preservation of the funds
- (2) The purposes of the Organization and the donor-restricted endowment funds
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

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, 2017, 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, 2017 and 2016.

NOTE 16 **FAIR VALUE MEASUREMENT**

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).

NOTE 16 FAIR VALUE MEASUREMENT (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:

| | Level 1 | Level 2 | Level 3 |
|--|---------|------------|---------|
| <u>2017</u> | | | |
| Certificate of deposit | \$ - | \$ 252,775 | \$ - |
| Retirement plan assets | - | 100,911 | - |
| Beneficial interest in assets held by others | - | 363,110 | - |
| | - | 363,110 | - |
| Totals | \$ - | \$ 716,796 | \$ - |
| | | | |
| | Level 1 | Level 2 | Level 3 |
| <u>2016</u> | | | |
| Certificate of deposit | \$ - | \$ 252,389 | \$ - |
| Retirement plan assets | - | 70,489 | - |
| Beneficial interest in assets held by others | - | 350,383 | - |
| | - | 350,383 | - |
| Totals | \$ - | \$ 673,261 | \$ - |

NOTE 16 FAIR VALUE MEASUREMENT (Continued)

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between Level 1, 2, and 3 of the fair value hierarchy for the year ended June 30, 2017.

NOTE 17 RELATED PARTIES

Through September, 2016, the Chief Executive Officer of the Organization served as 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 November 15, 2017, which is the date the financial statements were available to be issued.