



# **FOODBANK OF SANTA BARBARA COUNTY**

## **FINANCIAL STATEMENTS**

**June 30, 2018**

**(with Independent Auditors' Report Thereon)**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors 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, 2018, 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.

### ***Auditors' 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, 2018, 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.

***Report on Summarized Comparative Information***

The Foodbank of Santa Barbara County's 2017 financial statements were audited by other auditors who expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

*Other Information*

Our audit was made for the purpose of forming an opinion on the financial statements referred to in the first paragraph as a whole. The accompanying management discussion and analysis on page 3 is presented for purposes of additional analysis and is not a required part of the above financial statements. Such information is the responsibility of management and has not been subjected to the auditing standards described in the second paragraph above and on which we place no opinion.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our separate report dated January 4, 2019, 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*

Orcutt, California  
January 4, 2019

**FOODBANK OF SANTA BARBARA COUNTY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

The Foodbank of Santa Barbara County's mission is to end hunger and transform the health of Santa Barbara County through good nutrition. It has served as the countywide hub for food distribution since 1982. Annually, the Foodbank provides 10 million pounds of healthy food (half is fresh produce) and offers nutrition education to Santa Barbara County residents. It procures healthy staples and fresh produce from a network of local growers, groceries, suppliers, government entities, and individual donors. From two warehouses, one in Santa Maria and one in Santa Barbara, food is distributed through a network of 300 nonprofit agencies (Catholic Charities, Boys & Girls Clubs, the Santa Barbara Rescue Mission), schools, and community centers. In 2017, the Foodbank celebrated 35 years of service to Santa Barbara County.

In FY2018, the Foodbank served 173,593 unduplicated low-income (below federal poverty level) individuals in Santa Barbara County. Of those served, 72% or 124,986 individuals were Hispanic/Latino, 39% or 67,073 were children (0-17 years), 14% or 25,023 were seniors (60 years or older) and 55% or 96,081 were female. A total of 2,107 volunteers contributed 24,754 hours of their valuable time and service. South Santa Barbara County constitutes 30% of the Foodbank's service area, with 51,049 individuals served last fiscal year with a total of 967,051 pounds of produce, or 25% of produce distributed countywide, was given out in South Santa Barbara County.

The Foodbank's bilingual (Spanish/English) nutrition education programs operate at more than 100 sites countywide (40 sites in South Santa Barbara County) on a daily and monthly basis. This year the Feed the Future Children's Health Initiative provided healthy food and 500 hours of nutrition education based on seasonal fresh produce to more than 10,000 children. Notably, all children, families, and seniors participate in Foodbank programs free of cost.

The Foodbank is a member of Feeding America, a national organization representing 200 food banks, and the California Association of Food Banks. CAFB leverages its constituency to allow the Foodbank to purchase large quantities of healthy foods at discounted prices. Food security in times of emergency has taken on urgency since the Thomas Fire and Montecito Debris Flow. As the lead organization for Voluntary Organizations Active in Disaster-Santa Barbara County (VOAD-SBC), the Foodbank is fiscally and logistically responsible for coordinating response efforts when a disaster strikes within Santa Barbara County. The Foodbank is the sole distributor of USDA foods in Santa Barbara County, and as part of a nationwide and statewide network of food banks, has access to food resupply from organizations to the north, east, and south.

**FOODBANK OF SANTA BARBARA COUNTY**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2018**

(With Comparative Totals as of June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 1,861,515	\$ 208,182	\$ -	\$ 2,069,697	\$ 334,750
Accounts and other receivables, net	22,609	-	-	22,609	15,508
Grants and contracts receivable	124,746	2,275	-	127,021	189,759
Pledges and bequest receivable	-	153,561	-	153,561	405,361
Food inventory	259,385	712,816	-	972,201	648,878
<b>Total Current Assets</b>	<b>2,268,255</b>	<b>1,076,834</b>	<b>-</b>	<b>3,345,089</b>	<b>1,594,256</b>
<b>FIXED ASSETS, NET</b>	<b>1,386,796</b>	<b>-</b>	<b>-</b>	<b>1,386,796</b>	<b>1,554,681</b>
<b>OTHER ASSETS</b>					
Cash and cash equivalents designated for operating reserve	155,375	-	-	155,375	153,928
Certificate of deposit designated for operating reserve	250,000	-	-	250,000	252,775
Beneficial interest in assets held by others	363,764	-	-	363,764	363,110
Grants and contracts receivable, net of current	-	-	-	-	216,000
Pledges and bequest receivable, net of current	-	407,269	-	407,269	176,239
Cash held in endowment	-	-	5,379	5,379	5,379
Retirement plan assets	124,791	-	-	124,791	100,911
Deposits	26,030	-	-	26,030	33,926
<b>Total Other Assets</b>	<b>919,960</b>	<b>407,269</b>	<b>5,379</b>	<b>1,332,608</b>	<b>1,302,268</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,575,011</b>	<b>\$ 1,484,103</b>	<b>\$ 5,379</b>	<b>\$ 6,064,493</b>	<b>\$ 4,451,205</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 127,677	\$ -	\$ -	\$ 127,677	\$ 78,817
Accrued salary and related expenses	197,915	-	-	197,915	189,828
Grants payable	19,030	-	-	19,030	-
Agency funds	92,661	-	-	92,661	120,752
Line of credit	-	-	-	-	-
Current portion of long-term debt	72,000	-	-	72,000	75,148
<b>Total Current Liabilities</b>	<b>509,283</b>	<b>-</b>	<b>-</b>	<b>509,283</b>	<b>464,545</b>
<b>OTHER LIABILITIES</b>					
Retirement plan liability	124,791	-	-	124,791	100,911
Long-term debt	144,000	-	-	144,000	216,000
<b>Total Other Liabilities</b>	<b>268,791</b>	<b>-</b>	<b>-</b>	<b>268,791</b>	<b>316,911</b>
<b>Total Liabilities</b>	<b>778,074</b>	<b>-</b>	<b>-</b>	<b>778,074</b>	<b>781,456</b>
<b>NET ASSETS</b>					
<b>Unrestricted</b>					
General operating	1,857,002	-	-	1,857,002	270,538
Property and equipment, net of related loan	1,170,796	-	-	1,170,796	1,265,892
Board designated reserve	769,139	-	-	769,139	769,813
<b>Total Unrestricted</b>	<b>3,796,937</b>	<b>-</b>	<b>-</b>	<b>3,796,937</b>	<b>2,306,243</b>
Temporarily restricted	-	1,484,103	-	1,484,103	1,358,127
Permanently restricted	-	-	5,379	5,379	5,379
<b>Total Net Assets</b>	<b>3,796,937</b>	<b>1,484,103</b>	<b>5,379</b>	<b>5,286,419</b>	<b>3,669,749</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 4,575,011</b>	<b>\$ 1,484,103</b>	<b>\$ 5,379</b>	<b>\$ 6,064,493</b>	<b>\$ 4,451,205</b>

See Accompanying Notes

**FOODBANK OF SANTA BARBARA COUNTY**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
(With Comparative Totals for Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>					
Contributions from public	\$ 3,173,073	\$ 155,671	\$ -	\$ 3,328,744	\$ 2,375,832
Foundation grants	814,627	100,000	-	914,627	530,758
Government grants and contracts	72,341	404,996	-	477,337	255,415
In-Kind contributions of food	13,507,675	474,267	-	13,981,942	13,502,540
In-Kind contributions of interest and facilities	24,026	-	-	24,026	30,905
Fundraising events, net of direct expenses of \$86,434 and \$68,393, respectively	354,543	138,000	-	492,543	567,123
Agency fees	442,559	-	-	442,559	419,482
Interest	15,023	-	-	15,023	385
Gain on sale of fixed assets	-	-	-	-	-
Change in value of beneficiary interest in assets held by others	654	-	-	654	27,539
Other revenue	5,464	-	-	5,464	5,510
<b>Total Revenues, Gains and Other Support</b>	<b>18,409,985</b>	<b>1,272,934</b>	<b>-</b>	<b>19,682,919</b>	<b>17,715,489</b>
<b>RECLASSIFICATIONS</b>					
Net assets released from restrictions	1,146,958	(1,146,958)	-	-	-
<b>EXPENSES</b>					
<b>Program Expenses</b>					
Agency services	7,340,051	-	-	7,340,051	7,420,462
Free produce program	4,447,896	-	-	4,447,896	4,353,800
Program services	4,526,691	-	-	4,526,691	4,311,728
<b>Total Program Services</b>	<b>16,314,638</b>	<b>-</b>	<b>-</b>	<b>16,314,638</b>	<b>16,085,990</b>
<b>Supporting Services</b>					
Management and general	752,644	-	-	752,644	691,844
Fundraising	998,967	-	-	998,967	978,264
<b>Total Supporting Services</b>	<b>1,751,611</b>	<b>-</b>	<b>-</b>	<b>1,751,611</b>	<b>1,670,108</b>
<b>Total Expenses</b>	<b>18,066,249</b>	<b>-</b>	<b>-</b>	<b>18,066,249</b>	<b>17,756,098</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,490,694</b>	<b>125,976</b>	<b>-</b>	<b>1,616,670</b>	<b>(40,609)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>2,306,243</b>	<b>1,358,127</b>	<b>5,379</b>	<b>3,669,749</b>	<b>3,710,358</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 3,796,937</b>	<b>\$ 1,484,103</b>	<b>\$ 5,379</b>	<b>\$ 5,286,419</b>	<b>\$ 3,669,749</b>

See Accompanying Notes

**FOODBANK OF SANTA BARBARA COUNTY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
(With Comparative Totals for Year Ended June 30, 2017)

	Program				Supporting Services		Program & Supporting Services	Program & Supporting Services
	Agency Services	Free Produce Program	Other Program Services	Total	General and Admin.	Fund Raising	Total 2018	Total 2017
<b>SALARIES &amp; RELATED EXPENSES</b>								
Salaries	\$ 511,126	\$ 309,730	\$ 315,217	\$ 1,136,073	\$ 251,142	\$ 630,347	\$ 2,017,562	\$ 1,857,689
Payroll taxes	43,451	26,330	26,797	96,578	21,350	53,586	171,514	158,136
Employee benefits	82,578	50,040	50,927	183,545	62,898	101,826	348,269	412,320
Total Salaries & Related Expenses	<u>637,155</u>	<u>386,100</u>	<u>392,941</u>	<u>1,416,196</u>	<u>335,390</u>	<u>785,759</u>	<u>2,537,345</u>	<u>2,428,145</u>
<b>COST OF GOODS SOLD</b>								
COGS - purchased food	166,009	100,598	102,380	368,987	-	-	368,987	341,987
COGS - donated food	5,188,876	3,144,334	3,200,036	11,533,246	-	-	11,533,246	12,480,683
COGS - USDA	<u>950,861</u>	<u>576,199</u>	<u>586,406</u>	<u>2,113,466</u>	<u>-</u>	<u>-</u>	<u>2,113,466</u>	<u>1,130,437</u>
Total Cost of Goods Sold	<u>6,305,746</u>	<u>3,821,131</u>	<u>3,888,822</u>	<u>14,015,699</u>	<u>-</u>	<u>-</u>	<u>14,015,699</u>	<u>13,953,107</u>
<b>OTHER EXPENSES</b>								
Freight inbound	30,128	18,257	18,580	66,965	-	-	66,965	57,668
Professional and contract services	32,839	19,899	20,252	72,990	79,902	24,234	177,126	158,660
Warehouse expenses	110,438	66,923	68,108	245,469	11,505	5,376	262,350	229,871
General office expenses	20,308	12,307	12,525	45,140	188,970	43,335	277,445	217,582
Utilities	42,010	25,457	25,908	93,375	985	3,709	98,069	84,014
Travel and meeting expenses	22,928	13,894	14,140	50,962	10,757	10,991	72,710	49,923
Fundraising expenses	-	-	-	-	472	81,047	81,519	98,834
Insurance, dues and miscellaneous	9,330	5,654	5,754	20,738	57,512	2,300	80,550	79,716
Marketing development and materials	-	-	-	-	-	20,182	20,182	7,362
Business Expenses	30,469	18,464	18,791	67,724	62,896	17,779	148,399	149,603
Imputed interest expense	<u>6,813</u>	<u>4,129</u>	<u>4,202</u>	<u>15,144</u>	<u>-</u>	<u>-</u>	<u>15,144</u>	<u>19,511</u>
Total Other Expenses	<u>305,263</u>	<u>184,984</u>	<u>188,260</u>	<u>678,507</u>	<u>412,999</u>	<u>208,953</u>	<u>1,300,459</u>	<u>1,152,744</u>
Depreciation Expense	<u>91,887</u>	<u>55,681</u>	<u>56,668</u>	<u>204,236</u>	<u>4,255</u>	<u>4,255</u>	<u>212,746</u>	<u>222,102</u>
<b>TOTAL EXPENSES, YEAR ENDED JUNE 30, 2018</b>	<b><u>\$ 7,340,051</u></b>	<b><u>\$ 4,447,896</u></b>	<b><u>\$ 4,526,691</u></b>	<b><u>\$ 16,314,638</u></b>	<b><u>\$ 752,644</u></b>	<b><u>\$ 998,967</u></b>	<b><u>\$ 18,066,249</u></b>	
<b>TOTAL EXPENSES, YEAR ENDED JUNE 30, 2017</b>	<b><u>\$ 7,420,462</u></b>	<b><u>\$ 4,353,800</u></b>	<b><u>\$ 4,311,728</u></b>	<b><u>\$ 16,085,990</u></b>	<b><u>\$ 691,844</u></b>	<b><u>\$ 978,264</u></b>		<b><u>\$ 17,756,098</u></b>

See Accompanying Notes

**FOODBANK OF SANTA BARBARA COUNTY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
(With Comparative Totals for Year Ended June 30, 2017)

	Total 2018	Total 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,616,670	\$ (40,609)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	212,746	222,102
In-kind loan forgiveness	(72,000)	(72,789)
Gain on sale of fixed assets	-	-
Unrealized loss (gain) on beneficiary interest in assets held by others	(654)	(27,539)
Changes in:		
Value of food inventory	(323,323)	84,067
Accounts and other receivables	(7,101)	3,700
Grants and contracts receivable	278,738	186,954
Pledges receivable	20,770	(45,320)
Deposits	7,896	-
Accounts payable	48,860	(47,844)
Accrued salary and related expenses	8,087	15,399
Grants payable	19,030	-
Agency funds	(28,091)	69,308
<b>NET CASH PROVIDED FROM OPERATING ACTIVITIES</b>	<b>1,781,628</b>	<b>347,429</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Distribution from beneficial interest in assets held by others	-	14,812
Proceeds from sale of fixed assets	-	-
Reinvestment of interest in certificate of deposit	-	(386)
Acquisition of fixed assets	(44,861)	(30,601)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(44,861)</b>	<b>(16,175)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from line of credit	-	120,000
Principal payments on loan	(3,148)	(7,075)
Principal payments on line of credit	-	(145,000)
Increase in board designated operating reserve	1,328	(54,462)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(1,820)</b>	<b>(86,537)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>1,734,947</b>	<b>244,717</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>334,750</b>	<b>90,033</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 2,069,697</b>	<b>\$ 334,750</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
In-kind donation of goods and services	\$ 13,981,942	\$ 13,502,540
In-kind donation of interest and facilities	\$ 24,026	\$ 30,905

See Accompanying Notes



**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 \$769,139 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 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, 2018, 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. During the year ended June 30, 2018 the Organization changed its basis for estimating donated food received from the United States Department of Agriculture (USDA). Previously, the Organization used the value estimated by USDA. The change in accounting estimate resulted in an increase of in-kind contributions of food of approximately \$505,500 and increase of value of cost of goods sold of approximately \$267,000.

**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.

### **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, 2018, 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, 2015 and June 30, 2014, respectively.

### **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 and bequests receivable
- Value of donated food received

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, 2018.

### **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, 2017, 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. All grant and contract receivables are anticipated to be collected in the fiscal year ended June 30, 2019.

**NOTE 5 PLEDGES AND BEQUEST RECEIVABLE**

**Bequest Receivable**

The Organization has been named as a 7% beneficiary of a bequest trust that is scheduled to be distributed over a nine-year period. The bequest allows for an annual \$3,000 distribution to the Organization. In the final year of the trust the remaining balance held in the trust will be distributed to the named beneficiaries. At June 30, 2018 management has estimated the present value of the Trust to be \$150,958. Management has used a discount rate of 2.5%.

**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.

**Loan Forgiveness**

The City of Santa Maria has pledged to forgive the first trust deed on the Santa Maria warehouse and office (see note 8 for discussion of note payable). The loan is being forgiven over a period of 10 years at a rate of \$72,000 per year. As the pledge to forgive the note is unconditional management has reported the amount as a pledge receivable in the accompanying statement of financial position at the estimated present value of the pledge of \$207,390. Management believes the pledge to forgive the note is fully collectible. Management has used a discount rate of 2.5%.

**Other Pledges Receivable**

The Organization has recorded unconditional pledges receivable totaling \$17,361 and \$344,161 at June 30, 2018 and 2017, respectively. 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.

**Anticipated Pledge and Bequest Receivable Collection Schedule**

Management anticipates collecting the above noted pledges and bequest receivables as follows:

	<u>Bequest</u> <u>Receivable</u>	<u>In-Kind</u> <u>Leases</u>	<u>Loan</u> <u>Forgiveness</u>	<u>Other</u> <u>Pledges</u>	<u>Total</u>
Within one year	\$ 3,000	\$ 61,200	\$ 72,000	\$ 17,361	\$ 153,561
Within two to five years	12,000	127,000	72,000	-	211,000
Thereafter	<u>170,663</u>	<u>12,000</u>	<u>72,000</u>	<u>-</u>	<u>254,663</u>
	185,663	200,200	216,000	17,361	619,224
Less Discount	<u>(34,705)</u>	<u>(15,079)</u>	<u>(8,610)</u>	<u>-</u>	<u>(58,394)</u>
	<u>\$ 150,958</u>	<u>\$ 185,121</u>	<u>\$ 207,390</u>	<u>\$ 17,361</u>	<u>\$ 560,830</u>

**NOTE 6 FIXED ASSETS**

Fixed assets at June 30, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 998,492	\$ 988,719
Structures	1,937,999	1,937,999
Furniture and equipment	1,395,105	1,360,018
Vehicles	<u>594,771</u>	<u>594,771</u>
Total Property and Equipment	4,926,367	4,881,507
Accumulated depreciation	<u>(3,539,571)</u>	<u>(3,326,826)</u>
	<u>\$ 1,386,796</u>	<u>\$ 1,554,681</u>

Depreciation expense for the years ended June 30, 2018 and 2017, was \$212,746 and \$222,102, 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, 2018 and 2017, the estimated fair market value of the Organization's interest in the Fund was \$363,764 and \$363,110, 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 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 is being 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 5).

The loan balances, and related grant receivable, as of June 30, 2018 and 2017 were \$216,000 and \$288,789, respectively. The total imputed interest rate of 6% for the bargain rate loan for the years ended June 30, 2018 and 2017, was \$15,144 and \$19,511, respectively.

The note is being forgiven as follows:

Fiscal year ending June 30,	
2019	\$ 72,000
2020	72,000
2021	<u>72,000</u>
	<u>\$ 216,000</u>

**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:

	2018	2017
Cash	\$ 155,375	\$ 153,928
Certificate of deposit	250,000	252,775
Beneficiary interest in assets held by others	<u>363,764</u>	<u>363,110</u>
<b>Total</b>	<u><u>\$ 769,139</u></u>	<u><u>\$ 769,813</u></u>

**NOTE 10      TEMPORARILY RESTRICTED NET ASSETS**

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

	2018	2017
Government food program – USDA food inventory	\$ 712,816	\$ 326,056
Truck purchase	100,000	-
Unrestricted pledges and bequest receivable	563,105	905,389
Special events	108,182	126,682
 Total	 \$ 1,484,103	 \$ 1,358,127

**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, 2018, 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 two vehicle leases. Total cash rent expense for years ended June 30, 2018 and 2017 was \$118,372 and \$97,671, respectively.

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

Year ended June 30,	Cash	In-kind	Total
2019	\$ 44,244	\$ 61,200	\$ 105,444
2020	81,375	55,000	136,375
2021	34,128	24,000	58,128
2022	33,600	24,000	57,600
2023	21,000	24,000	45,000
Thereafter	4,200	12,000	16,200
Totals	\$ 218,547	\$ 200,200	\$ 418,747



**NOTE 13      RETIREMENT PLANS**

Beginning June 1, 2009, the Organization initiated a new 403(b) annuity plan. 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, 2018 and 2017, the Organization contributed \$77,668 and \$31,627, respectively. The employer contribution amount is paid every pay period.

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, 2018, the asset and related liability of the 457(b) plan in the amount of \$124,791 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.

**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.

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: The duration and preservation of the funds

- (1) The purposes of the Organization and the donor-restricted endowment funds
- (2) General economic conditions
- (3) The possible effect of inflation and deflation
- (4) The expected total return and the appreciation of investments
- (5) Other resources of the Organization
- (6) 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, 2018, 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).

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>2018</u>			
Certificate of deposit	\$ -	\$ 250,000	\$ -
Retirement plan assets	-	124,791	-
Beneficial interest in assets held by others	-	363,764	-
	-	363,764	-
Totals	\$ -	\$ 738,555	\$ -
	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	\$ -

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, 2018.

**NOTE 18      SUBSEQUENT EVENTS**

Management has evaluated events through January 4, 2019, which is the date the financial statements were available to be issued. With exception of the line of credit described below, there were no subsequent events requiring disclosure.

In August 2018 the Organization entered into a \$250,000 line of credit agreement with Montecito Bank & Trust. The line of credit matures June 2019 and is subject to an annual interest rate of 4.240%.