



FOODBANK OF SANTA BARBARA COUNTY

FINANCIAL STATEMENTS

June 30, 2019

(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, 2019, 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, 2019, 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

We have previously audited the Foodbank of Santa Barbara County's 2018 financial statements and our report dated January 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 November 22, 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

Los Olivos, California
November 22, 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 (nearly 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 FY2019, the Foodbank served 191,847 unduplicated low-income (below federal poverty level) individuals in Santa Barbara County. Of those served, 71% or 136,945 individuals were Hispanic/Latino; 40% or 77,612 were children (0-17 years); 13% or 23,961 were seniors (60 years or older); and 52% or 99,285 were female. A total of 1,591 volunteers contributed 10,807 hours of their valuable time and service. South Santa Barbara County constitutes 27%, of the Foodbank's service area, with 52,625 individuals served last fiscal year with. We distributed 10 million pounds of food to those in need. Of these, 4.3 million pounds were Fresh Produce.

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 over 200 food banks, as well as 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, 2019

(With Comparative Totals as of June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,490,257	\$ 115,750	\$ 2,606,007	\$ 2,069,697
Investments	1,868,336	-	1,868,336	-
Accounts and other receivables, net	29,212	-	29,212	22,609
Grants and contracts receivable	143,203	101,490	244,693	127,021
Pledges and bequest receivable	-	903,843	903,843	153,561
Food inventory	266,821	914,865	1,181,686	972,201
Total Current Assets	4,797,829	2,035,948	6,833,777	3,345,089
OTHER ASSETS				
Pledges and bequest receivable, net of current	-	297,073	297,073	407,269
Deposits	26,030	-	26,030	26,030
Cash and cash equivalents designated for operating reserve	201,640	-	201,640	155,375
Investments designated for operating reserve	254,388	-	254,388	250,000
Beneficial interest in assets held by others designated for operating reserve	368,908	-	368,908	363,764
Cash held in endowment	-	5,584	5,584	5,379
Fixed assets, net	1,586,397	-	1,586,397	1,386,796
Retirement plan assets	148,373	-	148,373	124,791
Total Other Assets	2,585,736	302,657	2,888,393	2,719,404
TOTAL ASSETS	\$ 7,383,565	\$ 2,338,605	\$ 9,722,170	\$ 6,064,493
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 124,775	\$ -	\$ 124,775	\$ 127,677
Accrued salary and related expenses	255,958	-	255,958	197,915
Grants payable	3,529	-	3,529	19,030
Agency funds	81,944	-	81,944	92,661
Current portion of long-term debt	72,000	-	72,000	72,000
Total Current Liabilities	538,206	-	538,206	509,283
OTHER LIABILITIES				
Retirement plan liability	148,373	-	148,373	124,791
Long-term debt	71,211	-	71,211	144,000
Total Other Liabilities	219,584	-	219,584	268,791
Total Liabilities	757,790	-	757,790	778,074
NET ASSETS				
Without donor restriction				
General operating	4,357,653	-	4,357,653	1,857,002
Property and equipment, net of related loan	1,443,186	-	1,443,186	1,170,796
Board designated reserve	824,936	-	824,936	769,139
Total Unrestricted	6,625,775	-	6,625,775	3,796,937
Without donor restriction				
Temporary in nature	-	2,333,226	2,333,226	1,484,103
Perpetual in nature	-	5,379	5,379	5,379
Total Net Assets	6,625,775	2,338,605	8,964,380	5,286,419
TOTAL LIABILITIES AND NET ASSETS	\$ 7,383,565	\$ 2,338,605	\$ 9,722,170	\$ 6,064,493

See Accompanying Notes

FOODBANK OF SANTA BARBARA COUNTY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
REVENUE, GAINS, AND OTHER SUPPORT				
Contributions from public	\$ 5,175,242	\$ 799,193	\$ 5,974,435	\$ 3,328,744
Foundation grants	825,516	25,000	850,516	914,627
Government grants and contracts	521,177	101,490	622,667	477,337
In-Kind contributions of food	12,056,787	914,865	12,971,652	13,981,942
In-Kind contributions of interest and facilities	90,281	-	90,281	24,026
Fundraising events, net of direct expenses of \$76,089 and \$86,434, respectively	522,924	-	522,924	492,543
Agency fees	577,315	-	577,315	442,559
Investment income, net of investment expenses	42,699	205	42,904	15,023
Gain on sale of fixed assets	20,170	-	20,170	-
Change in value of beneficiary interest in assets held by others	5,144	-	5,144	654
Other revenue	750	-	750	5,464
Total Revenues, Gains and Other Support	19,838,005	1,840,753	21,678,758	19,682,919
RECLASSIFICATIONS				
Net assets released from restrictions	991,630	(991,630)	-	-
EXPENSES				
Program Expenses				
Agency services	6,967,499	-	6,967,499	7,340,051
Free produce program	5,249,430	-	5,249,430	4,447,896
Program services	4,023,913	-	4,023,913	4,526,691
Total Program Services	16,240,842	-	16,240,842	16,314,638
Supporting Services				
Management and general	683,629	-	683,629	752,644
Fundraising	1,076,326	-	1,076,326	998,967
Total Supporting Services	1,759,955	-	1,759,955	1,751,611
Total Expenses	18,000,797	-	18,000,797	18,066,249
CHANGE IN NET ASSETS	2,828,838	849,123	3,677,961	1,616,670
NET ASSETS, BEGINNING OF YEAR	3,796,937	1,489,482	5,286,419	3,669,749
NET ASSETS, END OF YEAR	\$ 6,625,775	\$ 2,338,605	\$ 8,964,380	\$ 5,286,419

See Accompanying Notes

FOODBANK OF SANTA BARBARA COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for Year Ended June 30, 2018)

	Program				Supporting Services		Program & Supporting Services	Program & Supporting Services
	Agency Services	Free Produce Program	Other Program Services	Total	General and Admin.	Fund Raising	Total 2019	Total 2018
SALARIES & RELATED EXPENSES								
Salaries	\$ 575,303	\$ 433,443	\$ 332,253	\$ 1,340,999	\$ 277,962	\$ 638,273	\$ 2,257,234	\$ 2,017,562
Payroll taxes	47,677	35,920	27,535	111,132	23,035	52,895	187,062	171,514
Employee benefits	90,422	68,126	52,221	210,769	66,013	100,320	377,102	348,269
Total Salaries & Related Expenses	<u>713,402</u>	<u>537,489</u>	<u>412,009</u>	<u>1,662,900</u>	<u>367,010</u>	<u>791,488</u>	<u>2,821,398</u>	<u>2,537,345</u>
COST OF GOODS SOLD								
COGS - purchased food	208,472	157,066	120,398	485,936	-	-	485,936	368,987
COGS - donated food	4,069,693	3,066,174	2,350,354	9,486,221	-	-	9,486,221	11,533,246
COGS - USDA	<u>1,416,282</u>	<u>1,067,051</u>	<u>817,940</u>	<u>3,301,273</u>	<u>-</u>	<u>-</u>	<u>3,301,273</u>	<u>2,113,466</u>
Total Cost of Goods Sold	<u>5,694,447</u>	<u>4,290,291</u>	<u>3,288,692</u>	<u>13,273,430</u>	<u>-</u>	<u>-</u>	<u>13,273,430</u>	<u>14,015,699</u>
OTHER EXPENSES								
Freight inbound	40,436	30,465	23,353	94,254	-	-	94,254	66,965
Professional and contract services	124,262	93,621	71,765	289,648	48,296	18,034	355,978	177,126
Warehouse expenses	146,782	110,588	84,770	342,140	9,027	-	351,167	262,350
General office expenses	58,034	43,724	33,516	135,274	112,149	53,157	300,580	277,445
Utilities	41,860	31,538	24,175	97,573	760	2,874	101,207	98,069
Travel and meeting expenses	24,287	18,298	14,026	56,611	26,932	4,445	87,988	72,710
Fundraising expenses	-	-	-	-	-	96,900	96,900	81,519
Insurance, dues and miscellaneous	17,743	13,368	10,247	41,358	33,048	2,766	77,172	80,550
Marketing development and materials	11,729	8,837	6,774	27,340	-	32,089	59,429	20,182
Business expenses	2,442	1,840	1,410	5,692	82,160	70,326	158,178	148,399
Imputed interest expense	<u>4,623</u>	<u>3,483</u>	<u>2,670</u>	<u>10,776</u>	<u>-</u>	<u>-</u>	<u>10,776</u>	<u>15,144</u>
Total Other Expenses	<u>472,198</u>	<u>355,762</u>	<u>272,706</u>	<u>1,100,666</u>	<u>312,372</u>	<u>280,591</u>	<u>1,693,629</u>	<u>1,300,459</u>
Depreciation Expense	<u>87,452</u>	<u>65,888</u>	<u>50,506</u>	<u>203,846</u>	<u>4,247</u>	<u>4,247</u>	<u>212,340</u>	<u>212,746</u>
TOTAL EXPENSES, YEAR ENDED JUNE 30, 2019	<u>\$ 6,967,499</u>	<u>\$ 5,249,430</u>	<u>\$ 4,023,913</u>	<u>\$ 16,240,842</u>	<u>\$ 683,629</u>	<u>1,076,326</u>	<u>\$ 18,000,797</u>	
TOTAL EXPENSES, YEAR ENDED JUNE 30, 2018	<u>\$ 7,340,051</u>	<u>\$ 4,447,896</u>	<u>\$ 4,526,691</u>	<u>\$ 16,314,638</u>	<u>\$ 752,644</u>	<u>\$ 998,967</u>		<u>\$ 18,066,249</u>

See Accompanying Notes

FOODBANK OF SANTA BARBARA COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for Year Ended June 30, 2018)

	Total 2019	Total 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,677,961	\$ 1,616,670
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	212,340	212,746
In-kind loan forgiveness	(72,789)	(72,000)
Gain on sale of fixed assets	(20,170)	-
Unrealized gain on investments	(16,785)	-
Unrealized loss (gain) on beneficiary interest in assets held by others	(5,144)	(654)
Changes in:		
Value of food inventory	(209,485)	(323,323)
Accounts and other receivables	(6,603)	(7,101)
Grants and contracts receivable	(117,672)	278,738
Pledges receivable	(640,086)	20,770
Deposits	-	7,896
Accounts payable	(2,902)	48,860
Accrued salary and related expenses	58,043	8,087
Grants payable	(15,501)	19,030
Agency funds	(10,717)	(28,091)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>2,830,490</u>	<u>1,781,628</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of fixed assets	24,172	-
Purchase of investments	(1,855,939)	-
Acquisition of fixed assets	(415,943)	(44,861)
NET CASH USED BY INVESTING ACTIVITIES	<u>(2,247,710)</u>	<u>(44,861)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on loan	-	(3,148)
Increase in board designated operating reserve	(46,470)	1,328
NET CASH USED BY FINANCING ACTIVITIES	<u>(46,470)</u>	<u>(1,820)</u>
NET INCREASE IN CASH	536,310	1,734,947
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,069,697</u>	<u>334,750</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,606,007</u>	<u>\$ 2,069,697</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

In-kind donation of goods and services	\$ 12,971,652	\$ 13,981,942
In-kind donation of interest and facilities	\$ 90,281	\$ 24,026

See Accompanying Notes

NOTE 1 ORGANIZATION AND NATURE OF ACTIVITIES

Foodbank of Santa Barbara County (the Foodbank) was formed as a nonprofit organization in 1982 and incorporated in the State of California in 1987. The Foodbank 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 Foodbank is supported by federal, state and local grants, as well as support from the general public.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Foodbank is presented to assist in understanding the Foodbank’s financial statements. The financial statements and notes are representations of the Foodbank’s management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

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

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions

Net assets available for use in general operations and not subject to donor restrictions. The governing Board has designated, from net assets without donor restrictions, net assets for an operating reserve.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Foodbank reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less.

Accounts Receivable

Accounts receivable consist primarily of non-interest-bearing amounts due for food distribution activities as well government contracts considered by management to be exchange transactions. The Foodbank determines an allowance for uncollectible accounts receivable based on management's analysis of the potential credit risk of clients owing the receivable, historical trends, and subsequent collections. Accounts receivable are written off when deemed uncollectible. At June 30, 2019 management believed all accounts receivable were fully collectible and thus no allowance for uncollectible accounts receivable is reported.

Pledges and Bequests Receivable

The Foodbank initially records unconditional pledges receivable and subsequently carried at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset.

Investments

The Foodbank records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Inventory

Inventory is stated at the lower of market or cost, if purchased. If donated, the inventory is reported at the lower of market value or fair value on date of donation. In addition, the Foodbank uses the first-in, first-out method.

Property and Equipment

The Foodbank records fixed asset additions over \$2,500 at cost, or if donated, at fair value on the date of donation. The lesser of the estimated useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation is computed using straight-line method over the estimated useful lives of the assets, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. Management has estimated the useful lives of depreciable assets as follows:

<u>Asset</u>	<u>Life</u>
Improvements	5 – 20 Years
Structures	7 – 30 Years
Furniture and Equipment	5 – 10 Years
Vehicles	5 – 7 Years

The Foodbank reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. Management has determined there were no indicators of asset impairment during the years ended June 30, 2019.

Fair Value of Financial Instruments

The estimated fair values of the Foodbank'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. The fair value of the retirement plan asset and related liability is based upon the underlying asset.

Revenue and Revenue Recognition

Exchange Transactions

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Contributions

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Materials, Facilities and Services

During the year ended June 30, 2019, the Foodbank received 10,807 hours of volunteer service from 1,591 volunteers. The volunteers served as Board members and/or helping with the Foodbank carry out its direct programs. This volunteer time is critical to the success of the Foodbank. 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.

The Foodbank's warehouse facilities are donated through lease agreements with the County of Santa Barbara and the City of Goleta. The donated facilities are recorded at the estimated fair market value of the donated facilities. Promises to donate facilities under unconditional pledge agreements are recorded at the fair value of the promise at the time of the pledge.

Donated materials consist primarily of food. The Foodbank 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.

Advertising Costs

Advertising costs are expensed as incurred and approximated \$59,000 during the year ended June 30, 2019.

Functional Expenses

The cost of providing Foodbank programs and other activities is summarized on a functional basis in the statement of functional expenses. The statement of functional expenses presents the natural classification detail of expenses by function. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Expenses that are attributed to more than one program or supporting function require allocation on a reasonable basis that is consistently applied. Indirect expenses allocated and the basis for allocation are as follows:

Salaries and related costs	Time and effort
Freight in-bound	Pounds of food distributed
Warehouse expenses	Pounds of food distributed
General office expenses	Time and effort/Pounds of food Distributed
Utilities	Square footage/Pounds of food distributed
Insurance	Time and effort/Pounds of food Distributed
Business expenses	Time and effort/Pounds of food Distributed
Depreciation	Time and effort/Pounds of food Distributed

Income Taxes

The Foodbank 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 Foodbank 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 Foodbank 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, 2019, the Foodbank had no uncertain tax positions requiring accrual. The Foodbank files tax returns in U.S. federal and California jurisdictions. The Foodbank's tax filings are subject to examination by the IRS, generally for three years after they are filed. SDRI is not aware of any activities that would jeopardize its tax-exempt status.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, Foodbank management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Foodbank management believes that the estimates and assumptions are reasonable in the circumstances; however, the 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.

Prior-Year Summarized Comparative Information

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 Foodbank's audited financial statements for the year ended June 30, 2018, from which the information was derived.

Reclassifications

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

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foodbank has implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented with no material reclassifications between net asset without donor restrictions and net assets with donor restrictions.

NOTE 3 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents -	
without donor restrictions	\$ 2,691,897
Investments – operating	1,868,336
Accounts and other receivables	29,212
Grants and contracts receivables –	
without donor restrictions	143,203
Pledges and bequests receivable –	
without donor purpose restrictions	<u>681,025</u>
Total	<u>\$ 5,413,673</u>

The Board of Directors of the Foodbank has designated \$824,936 for an operating reserve. While the Board does not intend to spend from this board-designated reserve, these amounts could be made available if necessary.

NOTE 4 INVESTMENTS

Investments are carried at fair value based on quoted prices in active markets and consist primarily of U.S. Treasury bills (Level 2) and long-term certificates of deposits (Level 2) as follows:

	Fair Value	Cost	Unrealized Appreciation
<i>Operating</i>			
Long-term certificates of deposit	\$ 252,240	\$ 250,000	\$ 2,240
U.S. Treasury bills	<u>1,616,096</u>	<u>1,605,939</u>	<u>10,157</u>
Total Operating	1,868,336	1,855,939	12,397
<i>Board Designated</i>			
Long-term certificates of deposit	<u>254,388</u>	<u>250,000</u>	<u>4,388</u>
Total Investments	<u>\$ 2,122,724</u>	<u>\$ 2,105,939</u>	<u>\$ 16,785</u>

Investment income is summarized as follows:

Interest income	\$ 26,119
Unrealized gain	<u>16,785</u>
	<u>\$ 42,904</u>

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts owed to the Foodbank 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 5 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, 2020.

NOTE 6 PLEDGES AND BEQUEST RECEIVABLE

Bequests Receivable

The Foodbank 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 Foodbank. In the final year of the trust the remaining balance held in

the trust will be distributed to the named beneficiaries. At June 30, 2019 management has estimated the present value of the Trust to be \$156,376. Management has used a discount rate of 2.5%.

The Foodbank has also been named the beneficiary of bequests that are anticipated to be collected during the year ended June 30, 2020. Management has estimated the value of the bequests receivable at \$600,000.

In-Kind Leases

The Foodbank 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 Foodbank 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 Foodbank 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 Foodbank represents an in-kind donation of rental space.

In June 2019 the Foodbank entered into a 1-year lease agreement with the City of Goleta. The lease agreement was for warehouse space and required a payment of \$1. The estimated fair value of the lease space has been recorded as 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 Foodbank 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 Foodbank has recorded unconditional pledges receivable totaling \$103,025 and \$17,361 at June 30, 2019 and 2018, respectively. The unconditional pledges primarily relate to the operation of the Foodbank programs. The Foodbank 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 Receivable</u>	<u>In-Kind Leases</u>	<u>Loan Forgiveness</u>	<u>Other Pledges</u>	<u>Total</u>
Within one year	\$ 603,000	\$ 125,818	\$ 72,000	\$ 103,025	\$ 903,843
Within two to five years	12,000	84,000	72,000	-	168,000
Thereafter	<u>173,321</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,321</u>
	788,321	209,815	144,000	103,025	1,245,164
Less Discount	<u>(31,945)</u>	<u>(8,834)</u>	<u>(3,469)</u>	<u>-</u>	<u>(44,248)</u>
	<u>\$ 756,376</u>	<u>\$ 200,984</u>	<u>\$ 140,531</u>	<u>\$ 103,025</u>	<u>\$ 1,200,916</u>

NOTE 6 FIXED ASSETS

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

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 1,081,864	\$ 998,492
Structures	1,937,999	1,937,999
Furniture and equipment	1,395,105	1,395,105
Vehicles	<u>828,387</u>	<u>594,771</u>
Total Property and Equipment	5,243,355	4,926,367
Accumulated depreciation	<u>(3,656,958)</u>	<u>(3,539,571)</u>
	<u>\$ 1,586,397</u>	<u>\$ 1,386,796</u>

Depreciation expense for the years ended June 30, 2019 and 2018, was \$212,340 and \$212,746, respectively.

NOTE 7 BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Foodbank 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 Foodbank 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, 2019 and 2018, the estimated fair market value of the Foodbank's interest in the Fund was \$368,908 and \$363,764, 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 Foodbank's advice concerning the timing and amounts of distributions from the Fund to the Foodbank. The Foodbank also may request an extraordinary distribution from the Fund. The funding of any extraordinary distribution is at the SBF's sole discretion. Currently, the Foodbank requests a distribution of 5% of the prior year fair market value of funds.

NOTE 8 DEBT

The Foodbank 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 Foodbank 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 Foodbank continuing operations related to the distribution of food to low income people. As the Foodbank expects to continue operations, the Foodbank recorded a grant receivable representing the forgiveness of the loan (See Note 5).

The loan balances, and related grant receivable, as of June 30, 2019 and 2018 were \$144,000 and \$216,000, respectively. The total imputed interest rate of 6% for the bargain rate loan for the years ended June 30, 2019 and 2018, was \$10,776 and \$15,144, respectively.

The note is being forgiven as follows:

Fiscal year ending June 30,	
2020	\$ 72,000
2021	<u>72,000</u>
	144,000
Less discount	<u>(789)</u>
Note payable balance, net of discount	<u>\$ 143,211</u>

NOTE 9 BOARD DESIGNATED NET ASSETS

As part of the Foodbank'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:

	2019	2018
Cash	\$ 201,640	\$ 155,375
Certificate of deposit	254,388	250,000
Beneficiary interest in assets held by others	<u>368,908</u>	<u>363,764</u>
Total	<u>\$ 824,936</u>	<u>\$ 769,139</u>

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions temporary in nature consist of the following amounts at June 30:

	2019	2018
<i>Restricted for Specific Purpose</i>		
Government food program – USDA food inventory	\$ 914,865	\$ 712,816
Government grant for equipment	101,490	-
Special event sponsorships	90,750	-
Safety and disaster	25,000	-
Endowment	205	-
Truck purchase	-	100,000
	<u>1,132,310</u>	<u>812,816</u>
<i>Restricted for Time</i>		
Pledge receivable for facility leases	200,984	355,715
Pledge receivable for loan forgiveness – City of Santa Maria	140,531	207,390
Unrestricted pledges and bequest receivable	<u>859,401</u>	<u>108,182</u>
Total	<u>\$ 2,333,226</u>	<u>\$ 1,484,103</u>

Net assets with donor restrictions perpetual in nature consist of the following amounts at June 30:

	2019	2018
Endowment	<u>\$ 5,379</u>	<u>\$ 5,379</u>

NOTE 11 CONTINGENT LIABILITIES

Government Grants and Contracts

The Foodbank 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 Foodbank would be liable for any government funds expended during year ended June 30, 2019, should those costs charged to the grants be disallowed.

Solar Panel Agreement

During the year ended June 30, 2017, the Foodbank 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 Foodbank 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 Foodbank entered into a three-year lease agreement to rent office space effective April 1, 2019 and expiring March 31, 2022. The monthly rent is \$4,025 plus common area maintenance. The minimum rent is adjusted annually based on the previous year CPI.

The Foodbank also has three in-kind leases for warehouses and other program activities (See Note 5).

The Foodbank also leases various autos, trucks and other equipment under operating leases. The terms of the leases range from 3 years to 6 years. The leases expiration dates range from July 2020 to August 2023.

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

<u>Year ended June 30.</u>	<u>Cash</u>	<u>In-kind</u>	<u>Total</u>
2020	\$ 83,671	\$ 125,818	\$ 209,489
2021	66,802	24,000	90,802
2022	19,076	24,000	43,076
2023	16,776	24,000	40,776
2024	2,796	12,000	14,796
Thereafter	-	-	-
Totals	<u>\$ 189,121</u>	<u>\$ 209,818</u>	<u>\$ 398,939</u>

NOTE 13 RETIREMENT PLANS

Beginning May 1, 2007, the Foodbank initiated a new 403(b) annuity plan. The plan was amended and restated effective January 1, 2017. For purposes of Matching Contributions, an employee must complete 3 months of service beginning on the employment commencement date. The Foodbank provides a matching contribution that are not in excess of 3% of salary compensation. At June 30, 2019 and 2018, the Foodbank contributed \$75,000 and \$77,668, respectively. The employer contribution amount is paid every pay period.

Effective July 1, 2011, the Foodbank adopted 457(b) and 457(f) deferred compensation plans for the benefit of the Foodbank's chief executive officer. During the year ended June 30, 2016, the Foodbank 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 Foodbank restated the 457(f) plan, effective July 1, 2016.

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

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, 2019, the asset and related liability of the 457(b) plan in the amount of \$148,373 are recorded in other assets and liabilities on the statement of financial position.

NOTE 14 CONCENTRATIONS OF CREDIT RISK

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

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

The Foodbank maintains bank accounts at three financial institutions. Deposits at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. From time to time cash held during the year exceeded the insured thresholds. At June 30, 2019 the Foodbank held \$1,462,994 of non-interest bearing cash deposits in excess of FDIC insurance limits.

NOTE 15 ENDOWMENT

The Foodbank'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 Foodbank 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 Foodbank in a manner consistent with the standard for prudence prescribed by UPMIFA.

In accordance with California UPMIFA, the Foodbank 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 Foodbank 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 Foodbank
- (6) The investment policies of the Foodbank

Return Objectives and Risk Parameters

The Foodbank 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 Foodbank must hold in perpetuity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foodbank 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 Foodbank 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, 2019, the endowment comprised of \$5,584 of net assets with donor restrictions.

Changes in endowment net assets for the fiscal years ended June 30, 2019 are as follows:

	<u>With Donor Restriction</u>		
	Temporary	Perpetual	Total
Balance at June 30, 2018	\$ -	\$ 5,379	\$ 5,379
Investment income	<u>205</u>	<u>-</u>	<u>205</u>
Balance at June 30, 2019	<u>\$ 205</u>	<u>\$ 5,379</u>	<u>\$ 5,584</u>

NOTE 16 FAIR VALUE MEASUREMENT

The Foodbank 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 Foodbank to sell an asset or be paid by the Foodbank 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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Operating Assets</u>			
<i>Investments:</i>			
Long-term certificates of deposit	\$ -	\$ 252,240	\$ -
U.S. Treasury bills	-	1,616,096	-
Subtotal investments	-	1,868,336	-
Beneficial interest in assets held others	-	368,908	-
Pledges and bequests receivable	-	-	1,200,916
Total operating assets	-	2,237,244	1,200,916
<u>Board Designated Assets</u>			
<i>Investments</i>			
Long-term certificates of deposit	-	254,388	-
Total Assets at Fair Value	<u>\$ -</u>	<u>\$ 2,491,632</u>	<u>\$ 1,200,916</u>

The Foodbank 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, 2019.

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2019:

Pledges and Bequests Receivable:

Balance at Beginning of Year	\$ 560,830
Additions	773,843
Collections	<u>(133,757)</u>
Balance at End of Year	<u>\$ 1,200,916</u>

NOTE 18 SUBSEQUENT EVENTS

Management has evaluated events through November 22, 2019, which is the date the financial statements were available to be issued. With exception of the events described below, there were no subsequent events requiring disclosure.

In August 2019 the Foodbank entered into a \$250,000 line of credit agreement with Montecito Bank & Trust. The line of credit matures June 2020 and is subject to an annual interest rate of 4.23%.

In July 2019 the Foodbank entered into a 36-month lease agreement to lease a 2019 Toyota Camry requiring monthly payments of \$388.

Subsequent to June 30, 2019 the Foodbank exercised the option of extending the lease with the County of Santa Barbara. The amended lease continues to provide the Santa Barbara warehouse and offices at no cost to the Foodbank through 2025.