

Food Bank Coalition of SLO County

Financial Statements

Year Ended December 31, 2011

**Food Bank Coalition of SLO County
Financial Statements
Year Ended December 31, 2011**

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Independent Auditors' Report

Board of Directors
Food Bank Coalition of SLO County
Paso Robles, California

We have audited the accompanying statement of financial position of Food Bank Coalition of SLO County (a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Food Bank Coalition of SLO County as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2012, on our consideration of Food Bank Coalition of SLO County's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads 'GLENN BURDETTE ATTEST CORPORATION'.

Glenn Burdette Attest Corporation
San Luis Obispo, California

June 14, 2012

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SAN LUIS OBISPO

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PASO ROBLES

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Santa Maria, CA 93454
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Food Bank Coalition of SLO County
Statement of Financial Position
December 31, 2011

Assets

Current assets:

Cash	\$ 397,201
Grants and Accounts receivable	39,758
Inventories	541,898
Prepaid expenses	9,006
Total current assets	<u>987,863</u>

Property and equipment, net of accumulated depreciation 835,375

Investments 8,162

Total assets \$ 1,831,400

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 84,264
Accrued compensation	29,772
Accrued liabilities	29,560
Current portion of capital lease obligation	1,339
Current portion of notes payable	19,068
Total current liabilities	<u>164,003</u>

Long-term liabilities:

Capital lease obligation, net of current portion	2,535
Notes payable, net of current portion	752,737
Total long-term liabilities	<u>755,272</u>

Total liabilities 919,275

Net assets:

Unrestricted	654,683
Temporarily restricted	257,442
Total net assets	<u>912,125</u>

Total liabilities and net assets \$ 1,831,400

The accompanying notes are an integral part of these financial statements.

Food Bank Coalition of SLO County
Statement of Activities
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Federal grants	\$ 163,239	\$	\$ 163,239
Grants (state, county, city, private)	256,482	68,000	324,482
Purchased food	313,359		313,359
Donated food	6,619,289		6,619,289
Donated federal commodities	444,105		444,105
Donations	896,139	4,110	900,249
Fundraising events	91,355		91,355
California tax check off funds	6,298		6,298
Interest	1,446	66	1,512
Loss on investments	(1,422)		(1,422)
Miscellaneous income	4,341		4,341
Total revenues and other support	8,794,631	72,176	8,866,807
Net assets released from restrictions	59,925	(59,925)	-
Expenses:			
Program Services:			
Cost of sales (shared maintenance and private purchase goods)	107,458		107,458
Donated food distributed	6,652,843		6,652,843
Commodities distributed	523,750		523,750
Other program services	1,274,553		1,274,553
Supporting Services:			
General and administration	190,076		190,076
Fund-raising	348,578		348,578
Total expenses	9,097,258		9,097,258
Change in net assets	(242,702)	12,251	(230,451)
Net assets - beginning of year	1,048,966	245,191	1,294,157
Prior year restatement	(151,581)		(151,581)
Net assets - beginning of year, restated	897,385	245,191	1,142,576
Net assets - end of year	\$ 654,683	\$ 257,442	\$ 912,125

The accompanying notes are an integral part of these financial statements.

Food Bank Coalition of SLO County
Statement of Functional Expenses
Year Ended December 31, 2011

	Program Services	Supporting Services		Total
		General and Administration	Fund- Raising	
Accounting services	\$ 11,911	\$ 18,717	\$ 18,717	\$ 49,345
Bad debt expense		147		147
Bank fees		531	4,780	5,311
Board of directors expenses		133		133
Commodities distributed	523,750			523,750
Community relations	1,629			1,629
Computer expenses and software	4,926	4,926	4,926	14,778
Contract labor	8,000	200	16,901	25,101
Contract services	47,419			47,419
Cost of sales (purchased food)	323,545			323,545
Cost of sales (donated/shared maintenance)	107,458			107,458
Depreciation	82,286	16,457		98,743
Donated food distributed	6,652,843			6,652,843
Dues and subscriptions	9,253			9,253
Equipment and machinery maintenance	17,042			17,042
Food drive costs	15,858			15,858
Fundraising			113,781	113,781
Government fees and taxes		476		476
Insurance	14,971	8,334	8,334	31,639
Interest and finance charges	17,278	5,760	5,760	28,798
Legal		3,193		3,193
Printing	619			619
Rent	36,000			36,000
Salaries and wages and related expenses	546,156	77,573	121,750	745,479
Summer food procurement fees	20,196			20,196
Supplies and postage	2,428	4,235	4,235	10,898
Telephone	7,120	4,703	4,703	16,526
Travel and meeting expenses		1,248	1,248	2,496
Utilities	23,787	2,974	2,974	29,735
Vehicle expenses	55,134	33,122	33,122	121,378
Volunteer program	1,183	394	394	1,971
Warehouse operations expenses	27,812	6,953	6,953	41,718
	<u>\$ 8,558,604</u>	<u>\$ 190,076</u>	<u>\$ 348,578</u>	<u>\$ 9,097,258</u>

The accompanying notes are an integral part of these financial statements.

Food Bank Coalition of SLO County
Statement of Cash Flows
Year Ended December 31, 2011

Cash flows from operating activities:	
Change in net assets	\$ (230,451)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	98,743
Changes in operating assets and liabilities:	
Accounts receivable	(19,064)
Inventories	126,227
Prepaid expenses	(2,301)
Other assets	13,043
Accounts payable	39,652
Accrued compensation	114
Accrued liabilities	1,459
Net cash provided by operating activities	<u>27,422</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(7,024)</u>
Net cash used in investing activities	<u>(7,024)</u>
Cash flows from financing activities:	
Repayment of capital lease obligation	(1,214)
Repayment of notes payable	<u>(16,848)</u>
Net cash used in financing activities	<u>(18,062)</u>
Net increase in cash	2,336
Cash - beginning of year	<u>394,865</u>
Cash - end of year	<u>\$ 397,201</u>
Supplemental schedule of investing and financing activities:	
Cash paid for interest during the year	\$ 28,798

The accompanying notes are an integral part of these financial statements.

Food Bank Coalition of SLO County
Notes to Financial Statements
December 31, 2011

Note 1: Nature of Business

The Food Bank Coalition of SLO County (the Organization) is a nonprofit organization incorporated for charitable purposes as permitted under section 501(c)(3) of the Internal Revenue Code. The Organization's purpose is to acquire and provide surplus and salvageable food and commodities to qualified social service agencies and community groups serving the low income and unemployed in San Luis Obispo County.

Note 2: Summary of Significant Accounting Policies

Financial Statement Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, except for inventory, which the Organization values at a fixed estimated value per pound for donated and purchased inventory and at the estimated value of individual types of donated commodities for USDA commodities.

In accordance with the Not-For-Profit Entities Balance Sheet Presentation Topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Organization is required to classify its financial position and activities for accounting and reporting purposes into three classes of net assets according to externally (donor) imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has only unrestricted and temporarily restricted net assets.

Under Not-For-Profit Entities Other Presentation Matters Topic in FASB ASC, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. For the year ended December 31, 2011, the Organization received only unrestricted and temporarily restricted contributions. As the Organization incurs expenses that meet the restricted purposes, net assets are released from restriction. Restrictions that are met in the same year as the temporarily restricted contributions are treated as unrestricted on the accompanying statement of activities.

Income Taxes

The Organization is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. No liability for income taxes has been recorded since the amount is not expected to be significant. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified by IRS as an organization that is not a private foundation. The Organization is also exempt from state income taxes.

Food Bank Coalition of SLO County

Notes to Financial Statements

December 31, 2011

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Note 2: Summary of Significant Accounting Policies (Continued)

Income Taxes Topic of FASB ASC requires, among other things, the recognition and measurement of tax positions based on a "more likely than not" (likelihood greater than 50%) approach. As of December 31, 2011, the Organization did not maintain any tax positions that did not meet the "more likely than not" threshold. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after December 31, 2008, and by the California Franchise Tax Board for fiscal years ending on or after December 31, 2007. As noted above, the Organization does not currently pay income taxes.

Allowance for Doubtful Accounts

It is the policy of management to review the outstanding accounts receivable at year-end, as well as historical bad debt write-offs and aging analysis, and establish an allowance for doubtful accounts for estimated uncollectible amounts. At December 31, 2011, management believed that no allowance for doubtful accounts was necessary.

Inventories

Inventories consisted of purchased and donated food and government commodities. At December 31, 2011, donated food was recorded in inventory at \$1.66 per pound, the value established by Feeding America, the nation's largest charitable hunger-relief organization, in which the Organization is an affiliate. Cost of donated food was recorded based on pounds distributed at the annually established price per pound.

Purchased food was recorded in inventory at cost on a first in, first out basis, which was a change in valuation method from December 31, 2010, when purchased food was recorded at the per pound rate established by Feeding America. This change resulted in a prior year restatement.

Government commodities were recorded at the price established for each item by the USDA at December 31, 2011. The cost of government commodities were recorded based upon pounds distributed at the USDA established prices.

Property and Equipment

Property and equipment are shown at cost or fair value on the date of acquisition or contribution. The Organization's policy is to capitalize fixed assets with a value of \$5,000 or more. Depreciation is recorded over their estimated useful lives using the straight-line depreciation method over five to ten years, except for the building which is being depreciated over 31.5 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in the statement of income in the period realized. Maintenance and repairs are charged to operations as incurred.

Food Bank Coalition of SLO County

Notes to Financial Statements

December 31, 2011

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Note 2: Summary of Significant Accounting Policies (Continued)

Investments

The Organization initially records marketable securities at acquisition cost if purchased and subsequently carries them at fair value. Donated investments are reported at fair value at the date of gift.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted carrying value of the securities sold. Net unrealized gains and losses represent the net change in fair value of the securities and are recorded as an increase or decrease to net assets. Investment income is shown net of fees and was \$432 for the year ended December 31, 2011.

Revenues and Cost Recognition

The Organization's revenue is recognized on the accrual basis as earned and expenditures are recorded on the accrual basis whereby expenses are recorded when incurred, rather than when paid.

Concentrations

Credit Risk:

The Organization maintains cash balances at various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures interest bearing accounts at each institution up to \$250,000 and fully insures non-interest bearing accounts with participating financial institutions under the Transaction Account Guarantee Program. At December 31, 2011, the Organization had no cash deposits in excess of the federally-insured limit. At December 31, 2011, cash included money market mutual funds of \$1,357 which are not insured under the FDIC.

Major Granting Agencies:

At December 31, 2011, four government entities accounted for approximately 92% of the Organization's total accounts receivable.

Fair Value Measurements

The Organization records its financial assets and liabilities at fair value in accordance with the Fair Value Measurements and Disclosures Topic of FASB ASC (the "Topic"). This Topic provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Topic also establishes a three-tier hierarchy as

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Note 2: Summary of Significant Accounting Policies (Continued)

follows, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value:

Stocks: Corporate common stocks are reported at fair value based on quoted market prices on national securities exchanges.

This hierarchy requires the Organization to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

The following sets forth by level, within the fair value hierarchy, the Organization’s assets at fair value as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 8,162	\$	\$	\$ 8,162
Total assets at fair value	<u>\$ 8,162</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,162</u>

Note 2: Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Events subsequent to December 31, 2011 have been evaluated through June 14, 2012, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Inventories

At December 31, 2011, inventories consisted of the following:

Donated food	\$	320,679
Purchased food		74,835
USDA commodities		<u>146,384</u>
Inventories	\$	<u>541,898</u>

Food Bank Coalition of SLO County
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Note 4: Property and Equipment

At December 31, 2011, property and equipment consisted of the following:

	<u>Balance</u> <u>December 31, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>December 31, 2011</u>
Land	\$ 169,746	\$	\$	\$ 169,746
Building	678,985			678,985
Building improvements	185,947	7,024		192,971
Equipment	55,201			55,201
Vehicles	352,434			352,434
Computer hardware and software	8,354			8,354
	<u>1,450,667</u>	<u>7,024</u>		<u>1,457,691</u>
Less accumulated depreciation	<u>(523,573)</u>	<u>(98,743)</u>		<u>(622,316)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 927,094</u>	<u>\$ (91,719)</u>	<u>\$ -</u>	<u>\$ 835,375</u>

For equipment that was acquired under capital lease, \$6,478 is included in computer hardware and software and the associated amortization of \$1,296 is included in accumulated depreciation.

Note 5: Investments

Investments totaling \$8,162 at December 31, 2011 were all equity securities.

Note 6: Notes Payable

At December 31, 2011, notes payable consisted of the following:

Note payable to Mission Community Bank dated April 18, 2002 with a fixed interest rate of 6.25% per annum, payable monthly at \$2,995 over 119 months, balance due March 1, 2017, secured by deed of trust.	\$ 409,448
Note payable to the County of San Luis Obispo under the Community Development Block Grant. The note is dated April 2002, secured by a deed of trust, no interest. The debt is expected to be forgiven in April 2012 pursuant to County approval.	165,680

Food Bank Coalition of SLO County

Notes to Financial Statements

December 31, 2011

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Note 6: Notes Payable (Continued)

Note payable to the County of San Luis Obispo under the Community Development Block Grant. The note is dated April 2002, secured by a deed of trust, no interest. The debt is expected to be forgiven in April 2012 pursuant to County approval. \$ 168,612

Note payable to Isuzu Finance of America, Inc dated December 17, 2010 with interest rate of 7.40% per annum, payable monthly at \$851 over 48 months. The note is secured by a 2007 GMC Truck. Balance due December 17, 2014. 28,065

Less current portion 771,805
(19,068)

Notes payable, net of current portion \$ 752,737

At December 31, 2011, the future minimum principal payments on notes payable were as follows:

<u>For the Year Ending December 31,</u>	
2012	\$ 19,068
2013	20,398
2014	21,821
2015	13,693
2016	13,673
Thereafter	<u>683,152</u>
Total	<u><u>\$ 771,805</u></u>

Note 7: Operating and Capital Leases

The Organization leases its South County warehouse facilities from an independent third-party. The lease term is month-to-month. Rent expense was \$36,000 for the year ended December 31, 2011.

The Organization entered into a capital lease for a copier with monthly payments of \$130 per month for 60 months at 7.2% interest. The lease expires on August 23, 2014. At December 31, 2011, future minimum lease payments under this capital lease were as follows:

<u>For the Year Ending December 31,</u>	
2012	\$ 1,560
2013	1,560
2014	<u>754</u>
Total	<u><u>\$ 3,874</u></u>

Food Bank Coalition of SLO County

Notes to Financial Statements

December 31, 2011

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Note 8: Endowment to Support Food Acquisition and Distribution

The County of San Luis Obispo established an endowment with the San Luis Obispo County Community Foundation (the Foundation) for \$500,000 during 2004. The primary purpose of the endowment is to make annual grants to the Organization in order to support programs that provide food or other services that reduce hunger for those in need in San Luis Obispo County. The Foundation's Board retains control over the endowment principal and distributions, which are not to exceed 5% of the fair market value of the endowment each year. Distributions from the endowment began in 2005. In 2011, there were no distributions from the endowment to the Organization. The endowment fair market value was approximately \$494,516 at December 31, 2011.

In November 2011, the County of San Luis Obispo and the Organization signed an amendment to the original endowment agreement requiring the Foundation to pay the Organization a refund of \$26,464 in investment management fees and requiring annual distributions of \$20,000 or 5% of the fair market value of the fund, whichever is greater, until the funds are fully distributed.

Note 9: Prior Year Restatement

A prior year restatement was recorded in these financial statements to reflect the change in methodology in purchased food inventory valuation. The purchased food inventory is now valued at cost on a first in, first out basis and was previously valued at a price per pound established by Feeding America. Beginning net assets and inventory were both overstated by \$151,581.