

Food Bank Coalition of San Luis Obispo County

Financial Statements

Year Ended December 31, 2013

Food Bank Coalition of San Luis Obispo County
Financial Statements
Year Ended December 31, 2013

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Independent Auditors' Report

To the Board of Directors of
Food Bank Coalition of San Luis Obispo County

We have audited the accompanying financial statements of Food Bank Coalition of San Luis Obispo County (a nonprofit organization) which comprise the statement of financial position as of December 31, 2013, 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 of 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 auditors' 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.

**Board of Directors of
Food Bank Coalition of San Luis Obispo County
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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 Food Bank Coalition of San Luis Obispo County as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 24, 2014, on our consideration of Food Bank Coalition of San Luis Obispo 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* in considering Food Bank Coalition of San Luis Obispo County's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "GLENN BURDETTE ATTEST CORPORATION". The signature is written in a cursive, slightly stylized font.

Glenn Burdette Attest Corporation
San Luis Obispo, California

July 24, 2014

Food Bank Coalition of San Luis Obispo County
Statement of Financial Position
December 31, 2013

Assets

Current assets:

| | |
|--|------------------|
| Cash | \$ 811,060 |
| Grants receivable | 51,147 |
| Contributions receivable, net of allowance | 200,170 |
| Inventories | 499,322 |
| Prepaid expenses | 49,840 |
| Total current assets | <u>1,611,539</u> |

Property and equipment, net of accumulated depreciation 816,152

Investments 18,269

Total assets \$ 2,445,960

Liabilities and Net Assets

Current liabilities:

| | |
|----------------------------------|----------------|
| Accounts payable | \$ 20,221 |
| Accrued compensation | 51,827 |
| Accrued vacation | 36,517 |
| Current portion of notes payable | 45,497 |
| Total current liabilities | <u>154,062</u> |

Long-term liabilities:

| | |
|---------------------------------------|----------------|
| Notes payable, net of current portion | <u>820,096</u> |
| Total long-term liabilities | <u>820,096</u> |

Total liabilities 974,158

Net assets:

| | |
|------------------------|------------------|
| Unrestricted: | |
| Board-designated | 393,470 |
| Undesignated | 571,517 |
| Total unrestricted | <u>964,987</u> |
| Temporarily restricted | 506,815 |
| Total net assets | <u>1,471,802</u> |

Total liabilities and net assets \$ 2,445,960

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

Food Bank Coalition of San Luis Obispo County
Statement of Activities
Year Ended December 31, 2013

| | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|-----------------------------------|---------------------|
| Revenues and other support: | | | |
| Federal contributions | \$ 291,716 | \$ | \$ 291,716 |
| Contributions | 1,578,093 | 411,381 | 1,989,474 |
| Purchased food | 298,252 | | 298,252 |
| Donated food | 7,600,064 | | 7,600,064 |
| Donated federal commodities | 582,847 | | 582,847 |
| California tax check off funds | 7,278 | | 7,278 |
| Interest | 385 | 5 | 390 |
| Investment income | 611 | | 611 |
| Unrealized gain on investments | 3,265 | | 3,265 |
| Gain on disposal of property and equipment | 2,076 | | 2,076 |
| Miscellaneous income | 225 | | 225 |
| Total revenues and other support | 10,364,812 | 411,386 | 10,776,198 |
| Net assets released from restrictions | 139,460 | (139,460) | - |
| Expenses: | | | |
| Program Services: | | | |
| Cost of sales (shared maintenance and private purchase goods) | 511,558 | | 511,558 |
| Donated food distributed | 7,689,431 | | 7,689,431 |
| Commodities distributed | 581,047 | | 581,047 |
| Other program services | 1,114,375 | | 1,114,375 |
| Supporting Services: | | | |
| General and administration | 194,182 | | 194,182 |
| Fundraising | 382,999 | | 382,999 |
| Total expenses | 10,473,592 | | 10,473,592 |
| Change in net assets | 30,680 | 271,926 | 302,606 |
| Net assets - beginning of year | 934,307 | 234,889 | 1,169,196 |
| Net assets - end of year | \$ 964,987 | \$ 506,815 | \$ 1,471,802 |

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

Food Bank Coalition of San Luis Obispo County
Statement of Functional Expenses
Year Ended December 31, 2013

| | Program Services | Supporting Services | | Total |
|--|---------------------|-------------------------------|-------------------|----------------------|
| | | General and Administration | Fund- Raising | |
| Accounting services | \$ 8,201 | \$ 17,221 | \$ 17,221 | \$ 42,643 |
| Bad debt expense | | 40 | | 40 |
| Bank fees | | 9,083 | | 9,083 |
| Board of directors expenses | | 19 | | 19 |
| Commodities distributed | 581,047 | | | 581,047 |
| Community relations | 430 | | 3,868 | 4,298 |
| Computer expenses and software | 5,441 | 5,441 | 5,441 | 16,323 |
| Contract Labor | 17,467 | | | 17,467 |
| Contract services | 3,129 | | | 3,129 |
| Cost of sales (donated/shared maintenance) | 117,703 | | | 117,703 |
| Cost of sales (purchased food) | 393,855 | | | 393,855 |
| Depreciation | 73,584 | 14,717 | | 88,301 |
| Donated food distributed | 7,689,431 | | | 7,689,431 |
| Dues and subscriptions | 8,997 | | | 8,997 |
| Equipment and machinery maintenance | 12,051 | | | 12,051 |
| Food drive costs | 10,353 | | | 10,353 |
| Fundraising | | | 91,658 | 91,658 |
| Government fees and taxes | | 1,457 | | 1,457 |
| Insurance | 21,635 | 7,773 | 7,773 | 37,181 |
| Interest and finance charges | 18,286 | 6,096 | 6,096 | 30,478 |
| Miscellaneous | 67 | 181 | | 248 |
| Rent | 37,448 | | | 37,448 |
| Salaries and wages and related expenses | 694,940 | 89,168 | 207,956 | 992,064 |
| Supplies and postage | 6,041 | 7,935 | 7,935 | 21,911 |
| Telephone | 10,433 | 5,217 | 5,217 | 20,867 |
| Travel and meeting expenses | 1,995 | 1,995 | 1,995 | 5,985 |
| Utilities | 25,084 | 3,136 | 3,136 | 31,356 |
| Vehicle expenses | 121,219 | 15,153 | 15,153 | 151,525 |
| Volunteer program | 1,891 | 630 | 630 | 3,151 |
| Warehouse operations expenses | 35,683 | 8,920 | 8,920 | 53,523 |
| | <u>\$ 9,896,411</u> | <u>\$ 194,182</u> | <u>\$ 382,999</u> | <u>\$ 10,473,592</u> |

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

Food Bank Coalition of San Luis Obispo County
Statement of Cash Flows
Year Ended December 31, 2013

| | |
|---|--------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 302,606 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation expense | 88,301 |
| Gain on disposal of property and equipment | (2,076) |
| Changes in operating assets and liabilities: | |
| Grants and contributions receivable | (148,515) |
| Inventories | 88,194 |
| Prepaid expenses | (34,308) |
| Other assets | 4,727 |
| Accounts payable | (15,050) |
| Accrued compensation | 19,976 |
| Accrued vacation | 6,125 |
| Net cash provided by operating activities | <u>309,980</u> |
| Cash flows from investing activities: | |
| Purchases of property and equipment | (137,331) |
| Proceeds from sale of property and equipment | 5,000 |
| Net cash used in investing activities | <u>(132,331)</u> |
| Cash flows from financing activities: | |
| Repayment of capital lease obligation | (2,561) |
| Proceeds from borrowing on notes payable | 512,326 |
| Repayment of notes payable | (426,653) |
| Net cash provided by financing activities | <u>83,112</u> |
| Net increase in cash | 260,761 |
| Cash - beginning of year | <u>550,299</u> |
| Cash - end of year | <u><u>\$ 811,060</u></u> |
| Supplemental schedule of investing and financing activities: | |
| Cash paid for interest during the year | \$ 30,478 |

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

Food Bank Coalition of San Luis Obispo County
Notes to Financial Statements
December 31, 2013

Note 1: Nature of Business

The Food Bank Coalition of San Luis Obispo 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

Basis of Accounting

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, which requires that revenues be recorded when earned and expenses be recorded when incurred.

Financial Statement Presentation

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, 2013, 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. 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 San Luis Obispo County

Notes to Financial Statements

December 31, 2013

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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, 2013, management has considered its tax positions and believes that the Organization did not maintain any tax positions that did not meet the "more likely than not" threshold. The Organization does not expect any material changes through December 31, 2014. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after December 31, 2010, and by the California Franchise Tax Board for fiscal years ending on or after December 31, 2009. As noted above, the Organization does not currently pay income taxes. 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 in the accompanying financial statements since management believed the Organization has no taxable unrelated business income.

Cash and Cash Equivalents

For purposes of the statement of cash flow, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

It is the policy of management to review the outstanding grants and contributions 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, 2013, management believed that no allowance for doubtful accounts was necessary for grants receivable and recorded an allowance for contributions receivable of \$17,042.

Inventories

Inventories consisted of purchased and donated food and government commodities. At December 31, 2013, donated food was recorded in inventory at \$1.69 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.

Government commodities were recorded at the price established for each item by the USDA at December 31, 2013. The cost of government commodities were recorded based upon pounds distributed at the USDA established prices.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2013

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Note 2: Summary of Significant Accounting Policies (Continued)

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.

Investments

In accordance with Not-for-Profit Entities Investments subtopic of FASB ASC, 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 was \$611 for the year ended December 31, 2013.

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. In addition, the Organization maintains an investment account at an institution that participates in the Securities Investor Protection Corporation (SIPC). At December 31, 2013, cash included \$82,727 which was not insured under the SIPC.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2013

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Note 2: Summary of Significant Accounting Policies (Continued)

Major Granting Agencies:

At December 31, 2013, four entities accounted for approximately 100% of the Organization's total grants receivable and three donors accounted for approximately 86% of the Organization's total contributions 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 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.

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 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.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2013

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Note 2: Summary of Significant Accounting Policies (Continued)

The following sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2013:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------------|------------------|----------------|----------------|------------------|
| US Equities | \$ 18,269 | \$ | \$ | \$ 18,269 |
| Total investments at fair value | <u>\$ 18,269</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 18,269</u> |

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, 2013 have been evaluated through July 24, 2014, which is the date the financial statements were available to be issued. Management did not identify any subsequent events that required disclosure.

Note 3: Contributions Receivable

Contributions receivable are unconditional promises to give to Silver Legacy for a Healthier Community (Silver Legacy). Silver Legacy is a program started in 2013 based on personal visits with major donors requesting unrestricted donations that are designated in a board restricted fund.

At December 31, 2013, contributions receivable were as follows:

| <u>For the Year Ending December 31,</u> | |
|--|-------------------|
| 2013 | \$ 191,575 |
| 2014 | 23,600 |
| 2015 | <u>2,400</u> |
| Total | 217,575 |
| Less: Allowance for uncollectibles | (17,042) |
| Unamortized discount | <u>(363)</u> |
| Contributions receivable, net of allowance | <u>\$ 200,170</u> |

Food Bank Coalition of San Luis Obispo County
Notes to Financial Statements
December 31, 2013
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Note 4: Inventories

At December 31, 2013, inventories consisted of the following:

| | |
|------------------|--------------------------|
| Donated food | \$ 310,296 |
| Purchased food | 36,542 |
| USDA commodities | <u>152,484</u> |
| Inventories | <u><u>\$ 499,322</u></u> |

Note 5: Property and Equipment

At December 31, 2013, property and equipment consisted of the following:

| | Balance | | | Balance |
|--|--------------------------|-------------------------|--------------------------|--------------------------|
| | December 31, 2012 | Additions | Disposals | December 31, 2013 |
| Land | \$ 169,746 | \$ | \$ | \$ 169,746 |
| Building | 678,985 | | | 678,985 |
| Building improvements | 192,971 | 9,204 | | 202,175 |
| Equipment | 63,440 | 8,700 | | 72,140 |
| Vehicles | 343,053 | 119,427 | (43,841) | 418,639 |
| Computer hardware and software | 8,354 | | | 8,354 |
| | <u>1,456,549</u> | <u>137,331</u> | <u>(43,841)</u> | <u>1,550,039</u> |
| Less accumulated depreciation | <u>(686,503)</u> | <u>(88,301)</u> | <u>40,917</u> | <u>(733,887)</u> |
| Property and equipment, net of accumulated depreciation | <u><u>\$ 770,046</u></u> | <u><u>\$ 49,030</u></u> | <u><u>\$ (2,924)</u></u> | <u><u>\$ 816,152</u></u> |

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2013

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Note 6: Notes Payable

At December 31, 2013, notes payable consisted of the following:

| | |
|---|-------------------|
| 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. Management believes the debt will be forgiven pursuant to County approval. | \$ 165,680 |
| 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. Management believes the debt will be forgiven pursuant to County approval. | 168,612 |
| Note payable to Isuzu Finance of America, Inc. dated December 17, 2010 with interest rate of 7.4% per annum, payable monthly at \$851 over 48 months. The note is secured by a 2007 GMC Truck. Balance due December 17, 2014. | 10,596 |
| Note payable to Coast National Bank dated September 4, 2012 with interest rate of 5.5% per annum, payable monthly at \$431 over 60 months. The note is secured by a 2007 International 4300 Truck. Balance due September 4, 2017. | 17,395 |
| Note payable to Coast National Bank dated June 6, 2012 with interest rate of 6% per annum, payable monthly at \$120 over 60 months. The note is secured by a Sharp Color MFP copier/scanner MX-3610. Balance due June 6, 2017. | 4,806 |
| Note payable to US Bank dated June 7, 2013 with interest rate of 4% per annum, payable monthly at \$2,013 over 60 months. The note is secured by a 2014 International Truck. Balance due July 7, 2018. | 101,023 |
| Note payable to Coast National Bank dated April 16, 2013 with a variable interest rate based on the Wall Street Journal Prime Rate with a minimum rate of 5%. The current rate is 5%, payable monthly at \$2,373 over 120 months, balance due April 16, 2023, secured by deed of trust. | <u>397,481</u> |
| | 865,593 |
| Less current portion | <u>(45,497)</u> |
| Notes payable, net of current portion | <u>\$ 820,096</u> |

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2013

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Note 6: Notes Payable (Continued)

At December 31, 2013, the future minimum principal payments on notes payable were as follows:

| <u>For the Year Ending December 31,</u> | |
|---|-------------------|
| 2014 | \$ 45,497 |
| 2015 | 36,508 |
| 2016 | 38,189 |
| 2017 | 37,736 |
| 2018 | 24,647 |
| Thereafter | <u>683,016</u> |
| Total | <u>\$ 865,593</u> |

Note 7: Operating Leases

The Organization leases its South County warehouse facilities and office space from independent third-parties. The lease terms are month-to-month. Rent expense for these agreements was \$37,400 for the year ended December 31, 2013.

Note 8: Line of Credit

The Organization has a \$75,000 line of credit with Coast National Bank of which there was no balance outstanding at December 31, 2013. The interest rate charged on any balances outstanding is the Wall Street Journal Prime Rate plus 1%, but not less than 5% per annum. The rate at December 31, 2013 was 5%. The line of credit agreement expired June 6, 2014.

Note 9: 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) of \$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 and this endowment is not recorded in the Organization's financial statements. Currently, the Organization receives annual distributions of \$20,000 or 5% of the fair market value of the endowment, whichever is greater, until the funds are fully distributed. In 2013, there was \$26,076 distributed from the endowment to the Organization. The endowment fair market value was approximately \$556,058 at December 31, 2013.