

Food Bank Coalition of San Luis Obispo County

Financial Statements

Year Ended December 31, 2014

Food Bank Coalition of San Luis Obispo County
Financial Statements
Year Ended December 31, 2014

Table of Contents

	Page
Independent Auditors' Report	3-4
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9-17

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, 2014, 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.

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**Board of Directors of
Food Bank Coalition of San Luis Obispo County
Page 2**

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, 2014, 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 August 6, 2015, 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.



Glenn Burdette Attest Corporation
San Luis Obispo, California

August 6, 2015

Food Bank Coalition of San Luis Obispo County
Statement of Financial Position
December 31, 2014

Assets

Current assets:

Cash	\$ 528,005
Grants receivable	49,856
Contributions receivable, net of allowance	130,993
Inventories	583,614
Prepaid expenses	34,248
Total current assets	1,326,716

Property and equipment, net of accumulated depreciation 978,999

Investments 83,209

Total assets \$ 2,388,924

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 49,028
Accrued compensation	13,165
Accrued vacation	40,748
Current portion of notes payable	48,686
Total current liabilities	151,627

Long-term liabilities:

Notes payable, net of current portion	820,106
Total long-term liabilities	820,106

Total liabilities 971,733

Net assets:

Unrestricted:	
Board-designated	591,700
Undesignated	484,344
Total unrestricted	1,076,044
Temporarily restricted	341,147
Total net assets	1,417,191

Total liabilities and net assets \$ 2,388,924

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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Federal contributions	\$ 424,421	\$	\$ 424,421
Donated federal commodities	454,077		454,077
Contributions	1,645,957	138,324	1,784,281
Purchased food	256,030		256,030
Donated food	8,086,231		8,086,231
California tax check off funds	6,190		6,190
Interest	406	5	411
Investment income	913		913
Unrealized loss on investments	(607)		(607)
Total revenues and other support	<u>10,873,618</u>	<u>138,329</u>	<u>11,011,947</u>
Net assets released from restrictions	<u>303,997</u>	<u>(303,997)</u>	<u>-</u>
Expenses:			
Program Services:			
Cost of sales (shared maintenance and private purchase goods)	488,009		488,009
Donated food distributed	8,121,829		8,121,829
Commodities distributed	402,354		402,354
Other program services	1,401,131		1,401,131
Supporting Services:			
General and administration	266,859		266,859
Fundraising	386,376		386,376
Total expenses	<u>11,066,558</u>		<u>11,066,558</u>
Change in net assets	111,057	(165,668)	(54,611)
Net assets - beginning of year	<u>964,987</u>	<u>506,815</u>	<u>1,471,802</u>
Net assets - end of year	<u>\$ 1,076,044</u>	<u>\$ 341,147</u>	<u>\$ 1,417,191</u>

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, 2014

	Program Services	Supporting Services		Total
		General and Administration	Fund- Raising	
Accounting services	\$ 10,684	\$ 21,859	\$ 21,859	\$ 54,402
Bank fees		6,884		6,884
Backpack program expenses	5,856			5,856
Commodities distributed	402,354			402,354
Community relations	1,628		14,654	16,282
Computer expenses and software	10,106	10,105	10,106	30,317
Contract labor	15,276			15,276
Contract services	47,392			47,392
Cost of sales (donated/shared maintenance)	141,981			141,981
Cost of sales (purchased food)	346,028			346,028
Depreciation	100,168	20,034		120,202
Donated food distributed	8,121,829			8,121,829
Dues and subscriptions	9,009			9,009
Donor tracking costs			959	959
Equipment and machinery maintenance	13,336			13,336
Food drive costs	14,572			14,572
Fundraising	8,058		89,417	97,475
Government fees and taxes		552		552
Insurance	26,452	10,535	10,534	47,521
Interest and finance charges	18,810	6,270	6,270	31,350
Rent	38,400			38,400
Salaries and wages and related expenses	875,924	147,825	189,784	1,213,533
Supplies and postage	3,537	6,504	6,505	16,546
Telephone	11,000	5,500	5,499	21,999
Travel and meeting expenses	1,493	1,493	1,493	4,479
Utilities	33,319	4,165	4,165	41,649
Vehicle expenses	111,673	13,959	13,959	139,591
Volunteer program	770	257	256	1,283
Warehouse operations expenses	43,668	10,917	10,916	65,501
	<u>\$ 10,413,323</u>	<u>\$ 266,859</u>	<u>\$ 386,376</u>	<u>\$ 11,066,558</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, 2014

Cash flows from operating activities:	
Change in net assets	\$ (54,611)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	120,202
Changes in operating assets and liabilities:	
Grants and contributions receivable	70,468
Inventories	(84,292)
Prepaid expenses	15,592
Other assets	(64,940)
Accounts payable	28,807
Accrued compensation	(38,662)
Accrued vacation	4,231
Net cash used in operating activities	<u>(3,205)</u>
Cash flows from investing activities:	
Purchases of property and equipment	<u>(227,189)</u>
Net cash used in investing activities	<u>(227,189)</u>
Cash flows from financing activities:	
Proceeds from borrowing on notes payable	75,000
Repayment of notes payable	<u>(127,661)</u>
Net cash provided by financing activities	<u>(52,661)</u>
Net decrease in cash	(283,055)
Cash - beginning of year	<u>811,060</u>
Cash - end of year	<u>\$ 528,005</u>
Supplemental schedule of investing and financing activities:	
Cash paid for interest during the year	\$ 31,350
Supplemental schedule of non-cash financing activities:	
Equipment acquired under note payable	\$ 55,860

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, 2014

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, 2014, 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, 2014

Page 2

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, 2014, 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, 2015. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after December 31, 2011, and by the California Franchise Tax Board for fiscal years ending on or after December 31, 2010. 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, 2014, management believed that no allowance for doubtful accounts was necessary for grants receivable and recorded an allowance for contributions receivable of \$10,615.

Inventories

Inventories consisted of purchased and donated food and government commodities. At December 31, 2014, donated food was recorded in inventory at \$1.72 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, 2014. 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, 2014

Page 3

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 \$913 for the year ended December 31, 2014.

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. At December 31, 2014 cash included \$318 which was not insured under the FDIC. In addition, the Organization maintains an investment account at an institution that participates in the Securities Investor Protection Corporation (SIPC). At December 31, 2014, all cash was insured under the SIPC.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2014

Page 4

Note 2: Summary of Significant Accounting Policies (Continued)

Major Granting Agencies:

At December 31, 2014, four entities accounted for approximately 100% of the Organization's total grants receivable and three donors accounted for approximately 85% 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, 2014

Page 5

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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
US equities	\$ 83,209	\$ -	\$ -	\$ 83,209
Total investments at fair value	<u>\$ 83,209</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,209</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.

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, 2014, contributions receivable were as follows:

<u>For the Year Ending December 31,</u>		
2015		\$ 74,473
2016		27,100
2017		21,000
2018		<u>20,000</u>
Total		142,573
Less: allowance for uncollectibles		(10,615)
Unamortized discount		<u>(965)</u>
Contributions receivable, net of allowance		<u>\$ 130,993</u>

Food Bank Coalition of San Luis Obispo County
Notes to Financial Statements
December 31, 2014
Page 6

Note 4: Inventories

At December 31, 2014, inventories consisted of the following:

Donated food	\$ 274,698
Purchased food	104,709
USDA commodities	<u>204,207</u>
Inventories	<u><u>\$ 583,614</u></u>

Note 5: Property and Equipment

At December 31, 2014, property and equipment consisted of the following:

	Balance			Balance
	December 31, 2013	Additions	Disposals	December 31, 2014
Land	\$ 169,746	\$	\$	\$ 169,746
Building	678,985			678,985
Building improvements	202,175			202,175
Equipment	72,140			72,140
Vehicles	418,639	259,060		677,699
Computer hardware and software	8,354	23,989		32,343
	<u>1,550,039</u>	<u>283,049</u>	-	<u>1,833,088</u>
Less accumulated depreciation	<u>(733,887)</u>	<u>(120,202)</u>	-	<u>(854,089)</u>
Property and equipment, net of accumulated depreciation	<u><u>\$ 816,152</u></u>	<u><u>\$ 162,847</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 978,999</u></u>

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2014

Page 7

Note 6: Notes Payable

At December 31, 2014, 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 February 1, 2015.	1,686
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.	13,090
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.	3,528
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.	80,526
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.	388,958
Note payable to Hitachi Capital America Corp. dated January 15, 2014 with interest rate of 5.4% per annum, payable monthly at \$1,064.41 over 60 months. The note is secured by a 2014 Isuzu refrigerated truck. Balance due February 15, 2019.	46,712
	<u>868,792</u>
Less current portion	<u>(48,686)</u>
Notes payable, net of current portion	<u>\$ 820,106</u>

Food Bank Coalition of San Luis Obispo County
Notes to Financial Statements
December 31, 2014
Page 8

Note 6: Notes Payable (Continued)

At December 31, 2014, the future minimum principal payments on notes payable were as follows:

<u>For the Year Ending December 31,</u>	
2015	\$ 48,686
2016	49,263
2017	49,446
2018	36,982
2019	12,340
Thereafter	<u>672,075</u>
Total	<u>\$ 868,792</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 \$38,400 for the year ended December 31, 2014.

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, 2014. 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, 2014 was 5%. The line of credit agreement expires September 6, 2015.

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 2014, there was \$33,698 distributed from the endowment to the Organization. The endowment fair market value was approximately \$551,476 at December 31, 2014.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2014

Page 9

Note 10: Subsequent Events

Events subsequent to December 31, 2014 have been evaluated through August 6, 2015, which is the date the financial statements were available to be issued.

In May 2015, the Organization entered into an operating agreement to create Lot 11 EAP, LLC, a California limited liability company (LLC). The purpose of this LLC is to acquire, process a lot split and distribute in kind certain real property. The Organization intends to utilize this real property to build a central distribution facility in San Luis Obispo. The LLC will be dissolved once the property split is complete or upon agreement of the members. On June 11, 2015, the LLC purchased the property for \$1.3M of which the Organization's proportionate share was 58% or \$692,065.

In July 2015, the Organization sold their Paso Robles warehouse and office space for \$1,550,000 in anticipation of building their new central distribution facility. The Organization also entered into a lease with the purchaser to lease the property for one year beginning July 10, 2015. Monthly rent is \$0.