

**Food Bank Coalition of San Luis Obispo County**

**Financial Statements**

**Year Ended December 31, 2016**

**Food Bank Coalition of San Luis Obispo County**  
**Financial Statements**  
**Year Ended December 31, 2016**

**Table of Contents**

	<b>Page</b>
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 on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19-20
Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	21-22
Schedule of Expenditures of Federal Awards	23
Notes to Schedule of Expenditures of Federal Awards	24-25
Schedule of Findings and Questioned Costs	26-27
Status of Prior Year Findings and Questioned Costs – December 31, 2015	28



## 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, 2016, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

**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, 2016, 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 Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2017, 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*

Glenn Burdette Attest Corporation  
San Luis Obispo, California

September 28, 2017

**Food Bank Coalition of San Luis Obispo County**  
**Statement of Financial Position**  
**December 31, 2016**

**Assets**

**Current assets:**

Cash	\$ 745,364
Grants receivable	103,983
Contributions receivable, net of allowance	124,926
Inventories	525,719
Prepaid expenses	44,755
Total current assets	<u>1,544,747</u>

**Property and equipment, net of accumulated depreciation**

3,866,447

**Other assets:**

Deposits	17,486
Investments	109,253
Total other assets	<u>126,739</u>

Total assets

\$ 5,537,933

**Liabilities and Net Assets**

**Current liabilities:**

Accounts payable	\$ 318,520
Accrued compensation	41,331
Accrued vacation	34,751
Current portion of notes payable, net of unamortized debt issuance costs	2,363,611
Total current liabilities	<u>2,758,213</u>

**Long-term liabilities:**

Notes payable, net of current portion and unamortized debt issuance costs	361,793
Total long-term liabilities	<u>361,793</u>

Total liabilities

3,120,006

**Net assets:**

Unrestricted:

Board-designated	710,925
Undesignated	1,424,760
Total unrestricted	<u>2,135,685</u>
Temporarily restricted	282,242
Total net assets	<u>2,417,927</u>

Total liabilities and net assets

\$ 5,537,933

*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, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues and other support:</b>			
Federal cash contributions	\$ 437,636	\$	\$ 437,636
Donated federal commodities	316,795		316,795
Donated food	6,677,337		6,677,337
In-kind rent	55,809		55,809
Contributions	1,492,344	368,536	1,860,880
Purchased food	180,074		180,074
California tax check off funds	6,561		6,561
Interest		124	124
Investment income	1,253		1,253
Unrealized gain on investments	2,959		2,959
Total revenues and other support	<u>9,170,768</u>	<u>368,660</u>	<u>9,539,428</u>
<b>Net assets released from restrictions</b>	<u>466,622</u>	<u>(466,622)</u>	<u>-</u>
<b>Expenses:</b>			
Program Services:			
Cost of sales (shared maintenance and private purchase goods)	471,793		471,793
Donated food distributed	6,727,671		6,727,671
Commodities distributed	388,944		388,944
Other program services	1,686,535		1,686,535
Supporting Services:			
General and administration	338,725		338,725
Fundraising	299,853		299,853
Total expenses	<u>9,913,521</u>		<u>9,913,521</u>
Change in net assets	(276,131)	(97,962)	(374,093)
<b>Net assets - beginning of year</b>	<u>2,411,816</u>	<u>380,204</u>	<u>2,792,020</u>
<b>Net assets - end of year</b>	<u>\$ 2,135,685</u>	<u>\$ 282,242</u>	<u>\$ 2,417,927</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, 2016**

	Program Services	Supporting Services		Total
		General and Administration	Fund- Raising	
Accounting services	\$ 27,346	\$ 32,256	\$ 2,879	\$ 62,481
Bad debt expense			15,350	15,350
Bank fees		8,520		8,520
Commodities distributed	388,944			388,944
Community relations	727		6,548	7,275
Computer expenses and software	24,036	5,060	2,530	31,626
Contract labor	39,839			39,839
Contract services	44,935			44,935
Cost of sales (donated/shared maintenance)	230,762			230,762
Cost of sales (purchased food)	241,031			241,031
Depreciation	90,234		18,047	108,281
Donated food distributed	6,727,671			6,727,671
Dues and subscriptions	10,862	2,287	1,143	14,292
Donor tracking costs			1,599	1,599
Equipment and machinery maintenance	55,895			55,895
Food drive costs	1,885			1,885
Fundraising	8,713	1,834	114,471	125,018
Government fees and taxes		17,281		17,281
Insurance	26,768	5,635	2,818	35,221
Interest and finance charges	24,961	5,255	2,628	32,844
Loss on disposal of property and equipment	7,385			7,385
Miscellaneous	74	25	25	124
Rent	103,420	21,773	10,886	136,079
Salaries and wages and related expenses	971,813	205,959	96,687	1,274,459
Supplies, printing and postage	10,254	2,159	1,539	13,952
Telephone	17,464	3,676	1,838	22,978
Travel and meeting expenses	236	235	236	707
Utilities	58,338	12,282	6,141	76,761
Vehicle expenses	79,556	9,944	9,944	99,444
Warehouse operations expenses	81,794	4,544	4,544	90,882
	<u>\$ 9,274,943</u>	<u>\$ 338,725</u>	<u>\$ 299,853</u>	<u>\$ 9,913,521</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, 2016**

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (374,093)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	108,281
Unrealized net gain on investments	(2,959)
Loss on disposal of property and equipment	7,386
Amortization of debt issuance costs	2,039
Changes in operating assets and liabilities:	
Grants receivable	(35,806)
Contributions receivable	21,787
Inventories	160,088
Prepaid expenses	(932)
Deposits	4,382
Accounts payable	48,310
Accrued compensation	(1,198)
Accrued vacation	(2,749)
Net cash used in operating activities	<u>(65,464)</u>
<b>Cash flows from investing activities:</b>	
Purchases of investments	(74,784)
Purchases of property and equipment	(2,639,274)
Proceeds from sale of property and equipment	5,000
Net cash used in investing activities	<u>(2,709,058)</u>
<b>Cash flows from financing activities:</b>	
Proceeds from borrowing on notes payable	2,352,525
Debt issuance costs paid	(31,265)
Repayment of notes payable	(41,500)
Net cash provided by financing activities	<u>2,279,760</u>
Net decrease in cash	(494,762)
<b>Cash - beginning of year</b>	<u>1,240,126</u>
<b>Cash - end of year</b>	<u><u>\$ 745,364</u></u>
<b>Supplemental schedule of investing and financing activities:</b>	
Cash paid for interest during the year	\$ 32,844

*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, 2016**

**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, 2016, 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, 2016**

**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, 2016, 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, 2017. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after December 31, 2013, and by the California Franchise Tax Board for fiscal years ending on or after December 31, 2012. 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 an original 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, 2016, management believed that no allowance for doubtful accounts was necessary for grants receivable and recorded an allowance for contributions receivable of \$19,000.

**Inventories**

Inventories consisted of purchased and donated food and government commodities. At December 31, 2016, donated food was recorded in inventory at \$1.67 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, 2016. 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, 2016**

**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 statement of financial position and the resulting gain or loss is reflected in the statement of activities 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 \$1,253 for the year ended December 31, 2016.

**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, 2016 cash included \$243,553 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, 2016, all cash equivalents in the investment account were insured under the SIPC.

**Food Bank Coalition of San Luis Obispo County**

**Notes to Financial Statements**

**December 31, 2016**

**Page 4**

**Note 2: Summary of Significant Accounting Policies (Continued)**

*Major Granting Agencies:*

At December 31, 2016, four entities accounted for 91% of the Organization's total grants receivable and one donor accounted for approximately 95% 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:

*Common stocks and mutual funds:* Corporate common stocks and mutual funds are recorded 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, 2016**

**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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 94,693	\$	\$	\$ 94,693
Mutual funds	14,560			14,560
Total investments at fair value	<u>\$ 109,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,253</u>

All donated non-governmental food and USDA food commodities inventory are classified as Level 2 assets. The Organization did not have any assets or liabilities classified as Level 3.

**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) and Nourish Our Future. 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. Nourish Our Future is a program started in 2015 to fund the Nutrition Outreach Program.

At December 31, 2016, contributions receivable were as follows:

<u>For the Year Ending December 31,</u>	
2017	\$ 65,990
2018	40,000
2019	40,000
Total	<u>145,990</u>
Less: Allowance for uncollectibles	(19,000)
Unamortized discount	<u>(2,064)</u>
Contributions receivable, net of allowance	<u>\$ 124,926</u>

**Food Bank Coalition of San Luis Obispo County**  
**Notes to Financial Statements**  
**December 31, 2016**  
**Page 6**

**Note 4: Inventories**

At December 31, 2016, inventories consisted of the following:

Donated food	\$ 352,923
Purchased food	44,558
USDA commodities	<u>128,238</u>
Inventories	<u><u>\$ 525,719</u></u>

**Note 5: Property and Equipment**

At December 31, 2016, property and equipment consisted of the following:

Land	\$ 763,187
Building	2,940,888
Equipment	66,896
Vehicles	451,398
Computer hardware and software	<u>48,083</u>
	4,270,452
Less accumulated depreciation	<u>(404,005)</u>
Property and equipment, net of accumulated depreciation	<u><u>\$ 3,866,447</u></u>

**Food Bank Coalition of San Luis Obispo County**

**Notes to Financial Statements**

**December 31, 2016**

**Page 7**

**Note 6: Notes Payable**

At December 31, 2016, notes payable consisted of the following:

	<u>Notes Payable</u>	<u>Unamortized Debt Issuance Costs</u>	<u>Total</u>
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	\$	\$ 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		168,612
Note payable to Coast National Bank dated September 4, 2012 with interest rate of 5.50% per annum, payable monthly at \$431 over 60 months. The note is secured by a vehicle. Balance due September 4, 2017.	3,728		3,728
Note payable to Coast National Bank dated June 6, 2012 with interest rate of 6.00% per annum, payable monthly at \$120 over 60 months. The note is secured by equipment. Balance due June 6, 2017.	724		724
Note payable to US Bank dated June 7, 2013 with interest rate of 3.99% per annum, payable monthly at \$2,013 over 60 months. The note is secured by a vehicle. Balance due July 7, 2018.	38,247		38,247
Note payable to Hitachi Capital America Corporation dated January 15, 2014 with interest rate of 5.40% per annum, payable monthly at \$1,064 over 60 months. The note is secured by a vehicle. Balance due February 15, 2019.	25,114		25,114
Construction note payable to Heritage Oaks Bank dated March 18, 2016 with interest rate of 3.99% per annum, accrued interest payable monthly. The note is secured by property. Balance due September 18, 2017. Discount is based on imputed interest rate of 5.12%.	<u>2,352,525</u>	<u>(29,226)</u>	<u>2,323,299</u>
	2,754,630	(29,226)	2,725,404
Less current portion	<u>(2,392,837)</u>	<u>29,226</u>	<u>(2,363,611)</u>
Notes payable, net of current portion	<u>\$ 361,793</u>	<u>\$ -</u>	<u>\$ 361,793</u>

**Food Bank Coalition of San Luis Obispo County**

**Notes to Financial Statements**

**December 31, 2016**

**Page 8**

**Note 6: Notes Payable (Continued)**

At December 31, 2016, the future minimum principal payments on notes payable were as follows:

<u>For the Year Ending December 31,</u>	<u>Principal</u>	<u>Amortization of Debt Issuance Costs</u>	<u>Total</u>
2017	\$ 2,392,837	\$ (29,226)	\$ 2,363,611
2018	26,441		26,441
2019	1,060		1,060
Thereafter	<u>334,292</u>		<u>334,292</u>
Total	<u>\$ 2,754,630</u>	<u>\$ (29,226)</u>	<u>\$ 2,725,404</u>

Subsequent to December 31, 2016, the Organization converted their short-term construction loan to term financing. See additional discussion at Note 10.

**Note 7: Operating Leases**

The Organization leased its South County warehouse facilities and office space from independent third-parties. The lease terms were month-to-month and were terminated as of November 2016. Rent expense for these agreements was \$32,500 for the year ended December 31, 2016.

The Organization leased its Paso Robles warehouse facilities and office space through November 2016 with a portion contributed by the lessor and a portion paid in rental payments. The fair market value of the contributed facilities was \$10,530 per month, totaling \$55,809 for the year ended December 31, 2016. This amount is recorded both as in-kind rent revenue and rent expense. Total rent expense for this agreement was \$103,579 for the year ended December 31, 2016.

**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) 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 2016, there was \$31,296 distributed from the endowment to the Organization. The endowment fair market value was approximately \$518,671 at December 31, 2016.



**Food Bank Coalition of San Luis Obispo County**

**Notes to Financial Statements**

**December 31, 2016**

**Page 9**

**Note 9: Commitments**

The Organization has a contractual Partner Distribution Organization agreement with Feeding America. The agreement improved the capacity of the Organization to provide solutions to the problem of hunger in America. Under the terms of the agreement, the Organization is required to maintain certain financial covenants, which they complied with for the year ended December 31, 2016. The Organization can terminate the agreement by a written notice 30 days in advance subject to the termination provisions as defined by the agreement. Feeding America can terminate the agreement with cause as provided by the compliance standards per the agreement.

**Note 10: Subsequent Events**

Events subsequent to December 31, 2016 have been evaluated through September 28, 2017, which is the date the financial statements were available to be issued.

Subsequent to year end, the Organization received a letter dated September 7, 2017 from Pacific Premier Bank approving the conversion of their current short-term construction loan to long-term financing. The terms of the agreement provide a loan amount of \$2,640,350, amortized over 30 years; due in 10 years at 4.25% fixed rate interest for the first 5 years and at a variable rate of 3.5% over the 6 month LIBOR for the second 5 years. Interest only payments are required for the first twelve months with a principal reduction payment of \$250,000 due at the end of the initial twelve month period. The Organization intends to amortize their remaining debt issuance costs over the life of the long-term note payable and expects the loan to fund before December 31, 2017.

## **Federal Awards**



**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the 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, the 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, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Food Bank Coalition of San Luis Obispo County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Food Bank Coalition of San Luis Obispo County's internal control. Accordingly, we do not express an opinion on the effectiveness of Food Bank of San Luis Obispo County's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2016-001 that we consider to be a significant deficiency.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Food Bank Coalition of San Luis Obispo County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Food Bank Coalition of San Luis Obispo County's Response to Findings**

Food Bank Coalition of San Luis Obispo County's response to the findings identified in our audit is described in the accompanying status of prior year findings and questioned costs. Food Bank Coalition of San Luis Obispo County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Glenn Burdette Attest Corporation  
San Luis Obispo, California

September 28, 2017



**Independent Auditors' Report on Compliance For Each Major Program  
and on Internal Control over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

We have audited Food Bank Coalition of San Luis Obispo County's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Food Bank Coalition of San Luis Obispo County's major federal programs for the year ended December 31, 2016. Food Bank Coalition of San Luis Obispo County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Food Bank Coalition of San Luis Obispo County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Food Bank Coalition of San Luis Obispo County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Food Bank Coalition of San Luis Obispo County's compliance.

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

**Opinion on Each Major Federal Program**

In our opinion, Food Bank Coalition complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

**Report on Internal Control Over Compliance**

Management of Food Bank Coalition of San Luis Obispo County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Food Bank Coalition of San Luis Obispo County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Food Bank Coalition of San Luis Obispo County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of control over compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charges with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Glenn Burdette Attest Corporation  
San Luis Obispo, California

September 28, 2017

**Food Bank Coalition of San Luis Obispo County**  
**Schedule of Expenditure of Federal Awards**  
**Year Ended December 30, 2016**

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency Number</b>	<b>Federal Expenditures</b>
<b>US Department of Agriculture</b>			
National Institute of Food and Agriculture, Community Food Project	10.225	13-329-33800	\$ 97,615
<u>SNAP Cluster:</u>			
<u>Passed through San Luis Obispo County Public Health Department of Public Health</u> Supplemental Nutrition Assistance Program (SNAP)	10.551	13-20492	78,539
<u>Passed through the California Association of Food Banks</u> State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	10-10031	466
Total SNAP Cluster			<u>79,005</u>
Child and Adult Care Food Program	10.558	Z76600	<u>105,490</u>
<u>Child Nutrition Cluster:</u>			
<u>Passed through California Department of Education</u> Summer Food Service Program	10.559	Z76600	<u>78,913</u>
<u>Food Distribution Cluster:</u>			
<u>Passed through California Department of Social Services</u> Emergency Food Assistance Program (Administrative Costs)	10.568	MOU 07-6047	69,635
Emergency Food Assistance Program (Food Commodities)	10.569	MOU 07-6047	316,795
DFAP, Drought Federal Assistance Program	10.569	Oct-58	4,478
Total Food Distribution Cluster			<u>390,908</u>
<b>US Department of Housing and Urban Development</b>			
<u>CDBG - Entitlement Grants Cluster:</u>			
<u>Passed through County of San Luis Obispo</u> Community Development Block Grants/ Entitlement Grants	14.218	N/A	334,292
<b>US Department of Homeland Security</b>			
<u>Passed through SLO County United Way Chapter</u> Emergency Food and Shelter National Board Program - Phase 33	97.024	LRO 086400-012	2,500
Total expenditures of federal awards			<u>\$ 1,088,723</u>

*The accompanying notes are an integral part of this schedule.*

**Food Bank Coalition of San Luis Obispo County**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended December 30, 2016**

**Note 1: Basis of Presentation**

The purpose of the accompanying schedule of expenditures of federal awards (the schedule) is to present a summary of those activities of the Food Bank Coalition of San Luis Obispo County (Organization) for the year ended December 31, 2016, which have been financed by federal awards. For purposes of the schedule, federal awards include all federal grants received directly from the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. Because the schedule presents only a selected portion of the activities of the Organization, it is not intended to and does not present either the financial position or changes in net position of the Organization.

The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in the basic financial statements.

**Note 2: Expenditures**

For new awards or modifications of existing awards after December 26, 2014, the expenditures reported in the schedule follow the cost principles contained in the Uniform Guidance. For existing awards prior to December 26, 2014, the expenditures follow the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. The cost principles indicate that certain types of expenditures are not allowable and certain allowable costs are limited as to reimbursement.

**Note 3: Indirect Cost Rate**

The Corporation has not elected to use the ten percent de minimis indirect cost rate as allowed under the Uniform Guidance, but rather the rates established directly with the respective federal agencies.

**Note 4: Loans Outstanding**

Food Bank Coalition of San Luis Obispo County had the following loan balances outstanding at December 31, 2016. This loan program is also included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Community Development Block Grants	14.218	\$334,292



**Food Bank Coalition of San Luis Obispo County**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2016**  
**Page 2**

**Note 5: Food Distribution**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At December 31, 2016, the Organization had food commodities totaling \$128,238 in inventory.

**Food Bank Coalition of San Luis Obispo County**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2016**

**Section I: Summary of Auditors' Results**

**Financial Statements**

- (a) Type of auditors' report issued on financial statements: **Unmodified.**
- (b) Internal control over financial reporting:
- Material weakness(es) identified: **No.**
  - Significant deficiencies identified not considered to be material weaknesses: **Yes, 2016-001**
- (c) Noncompliance material to financial statements noted: **No.**

**Federal Awards**

- (d) Internal control over major programs:
- Material weakness(es) identified: **No.**
  - Significant deficiencies identified not considered to be material weaknesses: **None reported.**
- (e) Type of auditors' report issued on compliance for major programs: **Unmodified.**
- (f) Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a): **No.**
- (g) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000.**
- (h) Major program(s):
- US Department of Agriculture: Emergency Food Assistance Program Cluster (CFDA 10.568, 10.569)
- (i) Auditee qualified as low-risk auditee: **Yes.**

**Section II: Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted *Government Auditing Standards***

**Finding 2016-001 – Physical Inventory Procedures (Significant Deficiency)**

*Condition:*

In order to properly value inventory, it is important that the Organization know the quantities of inventory items on hand.

*Criteria:*

Internal controls should be in place that provide reasonable assurance that physical inventory count procedures will result in proper inventory counts.

**Food Bank Coalition of San Luis Obispo County**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2016**  
**Page 2**

**Finding 2016-001 – Physical Inventory Procedures (Continued)**

*Cause:*

Proper physical inventory count procedures are not in place or were not properly followed during the physical inventory observation and proper Organization personnel were not available to reconcile discrepancies.

*Effect:*

Because all receipts of inventory on hand had not been processed in the Organizations inventory tracking system, the Organization was not able to properly reconcile inventory quantities on hand. In addition, the Organization did not have the personnel on site during the physical observation to properly reconcile and locate all items being counted. These issues resulted in additional physical counts being performed as well as significant discrepancies that required a significant amount of time to resolve.

*Recommendation:*

We recommend that the Organization review its physical inventory observation policies and strengthen them where needed or enforce them where they were not being enforced. We also recommend that client personnel be on hand during the physical inventory observation so that discrepancies can be resolved in a timely manner.

*Views of Responsible Officials and Planned Corrective Actions:*

We have reviewed procedures and plan to make the necessary changes to improve internal control. Due to the transition to our new warehouse in November 2016 the CERES software was not installed at the date anticipated. In consultation with this vendor the Food Bank is now scheduled to adopt CERES on April 1, 2018. We expect all necessary inventory and associated adjustments to be included at least by the end of the second quarter of 2018, to include monthly financial reporting and detailed quarterly review of inventory.

**Section III: Findings and Questioned Costs for Federal Awards**

None noted.

**Food Bank Coalition of San Luis Obispo County**  
**Status of Prior Year Findings and Questioned Costs – December 31, 2015**  
**Year Ended December 31, 2016**

**Section IV: Status of Prior Year Findings and Questioned Costs**

**Finding 2015-01: Site Distribution Forms Not Properly Completed (Significant Deficiency)**

*Context:*

A sample of 25 USDA Distribution sites were tested to verify the control over compliance that the distribution form was properly filled out and signed by an authorized representative. Out of our sample, 8 of the distribution forms were not properly completed.

*Management Status:*

We recognized through the audit that there were occasions that volunteer site leaders forgot to record the amount of USDA product left after a distribution on our Distribution Report form, or they forget to sign it, or both.

We have modified our training manual for volunteers who run our USDA distributions. All volunteers are required to read and sign this document which clearly states that leftover USDA product needs to be counted and recorded on our Distribution Report form at the end of every distribution at that site. Subsequent to our audit findings we have added an additional sentence to our training manual to make it more clear that site leaders also need to sign the Distribution Report form.

We continue to utilize our Distribution Order form and Distribution Report form, which track the USDA inventory going out to sites and returning to our warehouse. We provide these forms at each distribution to the site leader which includes highlighted areas that the site leader is responsible for completing. The site leader records on the Distribution Order a record what USDA product was delivered, and on the Distribution Report what was left over.

Additionally, a letter was forwarded to all of our site leaders to remind them about this critical nature of fully completing this procedure. We have also built up a system whereby paperwork returning to the warehouse is double checked and follow up is scheduled with any sites who fail to complete or sign these forms.