

Food Bank Coalition of San Luis Obispo County

Financial Statements

Year Ended December 31, 2017

Food Bank Coalition of San Luis Obispo County
Financial Statements
Year Ended December 31, 2017

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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, 2017, 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
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Basis for Qualified Opinion

As explained in Note 6 to the financial statements, a note payable that the Organization entered into in September 2017 is due on demand and is therefore not recorded properly in the financial statements as short-term debt. Accounting principles generally accepted in the United States of America require debt to be recorded based upon the terms of the loan agreement. The effects on the accompanying financial statements of the failure to not properly record the debt have not been determined.

Qualified Opinion

In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph, 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, 2017, 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 17, 2018, 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 17, 2018

Food Bank Coalition of San Luis Obispo County
Statement of Financial Position
December 31, 2017

Assets

Current assets:

Cash and cash equivalents	\$ 636,774
Restricted cash	85,193
Grants receivable	25,644
Accounts receivable	13,094
Contributions receivable, net of allowance	126,206
Inventories	316,935
Prepaid expenses	29,541
Total current assets	1,233,387

Property and equipment, net of accumulated depreciation

3,698,531

Other assets:

Deposits	7,486
Total other assets	7,486

Total assets \$ 4,939,404

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$ 39,840
Accrued compensation	42,124
Accrued vacation	20,533
Agency credits	41,726
Deferred revenue	39,732
Current portion of notes payable, net of unamortized debt issuance costs	283,578
Total current liabilities	467,533

Long-term liabilities:

Notes payable, net of current portion and unamortized debt issuance costs	2,343,508
Total long-term liabilities	2,343,508

Total liabilities 2,811,041

Net assets:

Unrestricted:	
Board-designated	161,512
Undesignated	1,610,381
Total unrestricted	1,771,893
Temporarily restricted	356,470
Total net assets	2,128,363

Total liabilities and net assets \$ 4,939,404

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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Federal cash contributions	\$ 336,306	\$	\$ 336,306
Donated federal commodities	453,439		453,439
Donated food	4,540,133		4,540,133
In-kind services	15,000		15,000
Contributions	1,268,618	363,425	1,632,043
Purchased food	128,174		128,174
California tax check off funds	6,606		6,606
Interest	641	5	646
Investment income	2,397		2,397
Gain on investments	3,910		3,910
Debt forgiveness	334,292		334,292
Miscellaneous income	10,020		10,020
Total revenues and other support	<u>7,099,536</u>	<u>363,430</u>	<u>7,462,966</u>
Net assets released from restrictions	<u>289,202</u>	<u>(289,202)</u>	<u>-</u>
Expenses:			
Program Services:			
Cost of sales (shared maintenance and private purchase goods)	392,571		392,571
Donated food distributed	4,801,261		4,801,261
Commodities distributed	385,149		385,149
Other program services	1,582,877		1,582,877
Supporting Services:			
General and administration	318,749		318,749
Fundraising	271,923		271,923
Total expenses	<u>7,752,530</u>		<u>7,752,530</u>
Change in net assets	(363,792)	74,228	(289,564)
Net assets - beginning of year	<u>2,135,685</u>	<u>282,242</u>	<u>2,417,927</u>
Net assets - end of year	<u>\$ 1,771,893</u>	<u>\$ 356,470</u>	<u>\$ 2,128,363</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, 2017

	Program Services	Supporting Services		Total
		General and Administration	Fund- Raising	
Accounting services	\$ 39,025	\$ 46,031	\$ 4,108	\$ 89,164
Bank fees		11,037		11,037
Commodities distributed	385,149			385,149
Community relations	970		8,731	9,701
Computer expenses and software	33,297	7,010	3,505	43,812
Contract labor	18,070			18,070
Contract services	67,335			67,335
Cost of sales (donated/shared maintenance)	177,467			177,467
Cost of sales (purchased food)	215,104			215,104
Depreciation	147,561		29,513	177,074
Donated food distributed	4,801,261			4,801,261
Dues and subscriptions	12,479	2,628	1,313	16,420
Donor tracking costs			3,790	3,790
Equipment and machinery maintenance	15,378			15,378
Food drive costs	39			39
Fundraising	9,762	2,055	96,025	107,842
Government fees and taxes		1,792		1,792
Insurance	28,501	6,000	3,001	37,502
Interest and finance charges	83,436	17,564	8,766	109,766
Miscellaneous	342	1,019	82	1,443
Rent	909	191	96	1,196
Salaries and wages and related expenses	898,414	190,403	89,384	1,178,201
Supplies, printing and postage	11,858	2,494	1,246	15,598
Telephone	11,773	2,478	1,238	15,489
Travel and meeting expenses	2,097	2,097	2,097	6,291
Utilities	65,713	13,834	6,912	86,459
Vehicle expenses	65,740	8,217	8,217	82,174
Warehouse operations expenses	70,178	3,899	3,899	77,976
	<u>\$ 7,161,858</u>	<u>\$ 318,749</u>	<u>\$ 271,923</u>	<u>\$ 7,752,530</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, 2017

Cash flows from operating activities:	
Change in net assets	\$ (289,564)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	177,074
Gain on investments	(3,910)
Debt forgiveness	(334,292)
Amortization of debt issuance costs	2,719
Changes in operating assets and liabilities:	
Grants receivable	78,339
Accounts receivable	(13,094)
Contributions receivable	(1,280)
Inventories	208,784
Prepaid expenses	15,214
Deposits	10,000
Accounts payable	(278,680)
Accrued compensation	793
Accrued vacation	(14,218)
Agency credits	41,726
Deferred revenue	39,732
Net cash used in operating activities	<u>(360,657)</u>
 Cash flows from investing activities:	
Proceeds from sales of investments	154,016
Purchases of investments	(40,853)
Purchases of property and equipment	(9,158)
Net cash provided by investing activities	<u>104,005</u>
 Cash flows from financing activities:	
Proceeds from borrowing on notes payable	273,567
Repayment of notes payable	(40,312)
Net cash provided by financing activities	<u>233,255</u>
 Net decrease in cash	(23,397)
 Cash and cash equivalents - beginning of year	<u>745,364</u>
 Cash and cash equivalents - end of year	<u><u>\$ 721,967</u></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, 2017

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Reconciliation of cash and cash equivalents to balance sheet:

Cash and cash equivalents	\$ 636,774
Restricted cash	<u>85,193</u>

Cash and cash equivalents - end of year	<u><u>\$ 721,967</u></u>
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Supplemental schedule of investing and financing activities:

Cash paid for interest during the year	\$ 109,766
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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, 2017

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. Major sources of revenue come from donated federal commodities, individual donations of cash and food, as well as grants from various governmental and non-profit organizations.

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 (GAAP), 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, 2017, 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, 2017

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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, 2017, 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, 2018. However, tax returns remain subject to examination by the Internal Revenue Service for fiscal years ending on or after December 31, 2014, and by the California Franchise Tax Board for fiscal years ending on or after December 31, 2013. 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 and Restricted Cash

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. As of December 31, 2017, the Company had \$167,028 of cash equivalents.

Restricted cash consists of cash held in an escrow account for the payment of the initial year of interest on a note payable related to the Organization's building.

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, 2017, management believed that no allowance for doubtful accounts was necessary for grants receivable or accounts receivable and recorded an allowance for contributions receivable of \$3,000.

Inventories

Inventories consisted of purchased and donated food and government commodities. At December 31, 2017, donated food was recorded in inventory at \$1.57 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.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2017

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Note 2: Summary of Significant Accounting Policies (Continued)

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, 2017. The cost of government commodities were recorded based upon pounds distributed at the USDA established prices.

Property and Equipment

Property and equipment are shown at cost or fair value on the date of acquisition or contribution. The Organization's policy is to capitalize fixed assets with a value of \$5,000 or more. Depreciation is recorded over their estimated useful lives using the straight-line depreciation method over five to ten years, except for the building which is being depreciated over 31.5 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the 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 \$2,397 for the year ended December 31, 2017.

Board Restricted Net Assets

Board restricted net assets are assets restricted for use by the board of directors to meet debt service requirements.

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.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2017

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Note 2: Summary of Significant Accounting Policies (Continued)

Deferred revenue is recorded when the Organization has received advanced payments for products or services that are to be delivered or performed in the future and for which the grant is conditional on them providing that product or service.

Donated Materials and Services

The Organization receives donated professional services which are recorded in the financial statements if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the financial statements as contributed services were offset by like amounts of accounting services and were \$15,000 for the year ended December 31, 2017.

The Organization also receives donations of time and services from members of the community and volunteers. However, the value of these donations is not reflected in the accompanying financial statements since they do not meet the two recognition criteria described above.

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, 2017 cash included \$259,645 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, 2017, all cash equivalents in the investment account were insured under the SIPC.

Major Granting Agencies:

At December 31, 2017, three entities accounted for 100% of the Organization's total grants receivable and two donors accounted for approximately 97% 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.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2017

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Note 2: Summary of Significant Accounting Policies (Continued)

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:

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 assist in raising funds for building construction and future debt payments on the San Luis Obispo building. These funds are donor restricted net assets.

Food Bank Coalition of San Luis Obispo County
Notes to Financial Statements
December 31, 2017
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Note 3: Contributions Receivable (Continued)

At December 31, 2017, contributions receivable were as follows:

<u>For the Year Ending December 31,</u>		
2018		\$ 91,270
2019		40,000
Total		<u>131,270</u>
Less: Allowance for uncollectibles		(3,000)
Unamortized discount		<u>(2,064)</u>
Contributions receivable, net of allowance		<u><u>\$ 126,206</u></u>

Note 4: Inventories

At December 31, 2017, inventories consisted of the following:

Donated food	\$ 91,795
Purchased food	28,612
USDA commodities	<u>196,528</u>
Inventories	<u><u>\$ 316,935</u></u>

Note 5: Property and Equipment

At December 31, 2017, property and equipment consisted of the following:

Land	\$ 763,187
Building and improvements	2,950,046
Equipment	66,896
Vehicles	451,398
Computer hardware and software	<u>48,083</u>
	4,279,610
Less accumulated depreciation	<u>(581,079)</u>
Property and equipment, net of accumulated depreciation	<u><u>\$ 3,698,531</u></u>

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2017

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Note 6: Notes Payable

At December 31, 2017, notes payable consisted of the following:

	<u>Notes Payable</u>	<u>Unamortized Debt Issuance Costs</u>	<u>Total</u>
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.	\$ 14,091	\$	\$ 14,091
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.	13,410		13,410
Note payable to Pacific Premier Bank (formerly Heritage Oaks Bank) dated March 18, 2016, due on demand. If no demand, interest rate of 4.25% per annum through September 17, 2022, adjusting to variable rate, accrued interest payable monthly through September 17, 2018 with one \$250,000 principal payment due on September 18, 2018 and monthly principal and interest payments of \$11,689 due beginning October 18, 2018. The note is secured by property and due on September 18, 2027.	<u>2,626,092</u>	<u>(26,507)</u>	<u>2,599,585</u>
	2,653,593	(26,507)	2,627,086
Less current portion	<u>(286,297)</u>	<u>2,719</u>	<u>(283,578)</u>
Notes payable, net of current portion	<u>\$ 2,367,296</u>	<u>\$ (23,788)</u>	<u>\$ 2,343,508</u>

At December 31, 2017, 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>
2018	\$ 286,297	\$ (2,719)	\$ 283,578
2019	41,545	(2,719)	38,826
2020	42,239	(2,719)	39,520
2021	44,070	(2,719)	41,351
2022	45,980	(2,719)	43,261
Thereafter	<u>2,193,462</u>	<u>(12,912)</u>	<u>2,180,550</u>
Total	<u>\$ 2,653,593</u>	<u>\$ (26,507)</u>	<u>\$ 2,627,086</u>

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2017

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Note 6: Notes Payable (Continued)

As mentioned in the independent auditors' report, the note payable due to Pacific Premier Bank is due on demand, but has payment terms detailed in the agreement if the note payable is not called. The Organization has chosen to present the information above as though the due on demand clause did not exist in the note payable, which is a departure from GAAP and the basis for the qualified opinion. As the note payable is due on demand, the entire net balance of \$2,559, 585 would be considered a current liability.

Note 7: 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 2017, there was \$25,934 distributed from the endowment to the Organization. The endowment fair market value was approximately \$561,647 at December 31, 2017.

Note 8: 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, 2017. 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 9: Forgiveness of Debt

The Organization had two forgivable grants received in 2001 and 2002 from the County of San Luis Obispo using Housing and Urban Development (HUD) Community Development Block Grant (CDBG) funds and carried a 10 year restriction on the use of the property. This agreement was later amended on March 29, 2016 requiring that the use restriction extend through December 12, 2017. Effective December 12, 2017, the County released these funds from restriction and the Organization recognized \$334,292 in debt forgiveness related to the notes that were recorded on the Organizations financial statements.

Food Bank Coalition of San Luis Obispo County

Notes to Financial Statements

December 31, 2017

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Note 10: Subsequent Events

Events subsequent to December 31, 2017 have been evaluated through September 17, 2018, which is the date the financial statements were available to be issued. Management did not identify any subsequent events requiring disclosure.

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, 2017, 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 17, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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

Glenn Burdette Attest Corporation
San Luis Obispo, California

September 17, 2018



**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, 2017. 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.

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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, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002 that we consider to be significant deficiencies.

Food Bank Coalition of San Luis Obispo County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of 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 compliance and, accordingly, we express no opinion on the response.

Board of Directors
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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

Glenn Burdette Attest Corporation
San Luis Obispo, California

September 17, 2018

Food Bank Coalition of San Luis Obispo County
Schedule of Expenditure of Federal Awards
Year Ended December 30, 2017

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency Number	Federal Expenditures
US Department of Agriculture			
National Institute of Food and Agriculture, Community Food Project	10.225	13-329-33800	\$ 110,899
SNAP Cluster:			
Passed through San Luis Obispo County Department of Public Health Supplemental Nutrition Assistance Program (SNAP)	10.551	13-20492	27,712
Passed through the California Association of Food Banks State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	10-10031	669
Total SNAP Cluster			<u>28,381</u>
Child and Adult Care Food Program	10.558	Z76600	<u>30,944</u>
Child Nutrition Cluster:			
Passed through California Department of Education Summer Food Service Program	10.559	Z76600	<u>95,634</u>
Food Distribution Cluster:			
Passed through California Department of Social Services Emergency Food Assistance Program (Administrative Costs)	10.568	MOU 07-6047	66,333
Emergency Food Assistance Program (Food Commodities)	10.569	MOU 07-6047	<u>453,439</u>
Total Food Distribution Cluster			<u>519,772</u>
Total US Department of Agriculture			<u>785,630</u>
US Department of Housing and Urban Development			
CDBG - Entitlement Grants Cluster:			
Passed through County of San Luis Obispo Community Development Block Grants/ Entitlement Grants	14.218	N/A	334,292
Total US Department of Housing and Urban Development			<u>334,292</u>
US Department of Homeland Security			
Passed through SLO County United Way Chapter Emergency Food and Shelter National Board Program - Phase 33	97.024	LRO 086400-012	4,115
Total US Department of Homeland Security			<u>4,115</u>
Total expenditures of federal awards			<u>\$ 1,124,037</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, 2017

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, 2017, 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. There were no sub-recipients for the year ended December 31, 2017.

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, but the loans were forgiven as of December 31, 2017.

<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, 2017
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, 2017, the Organization had food commodities totaling \$196,528 in inventory.

Food Bank Coalition of San Luis Obispo County
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

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: **None reported.**
- (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: **Yes, 2017-001 and 2017-002**
- (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*

None

Food Bank Coalition of San Luis Obispo County
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017
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Section III: Findings and Questioned Costs for Federal Awards

Program: US Department of Agriculture: Emergency Food Assistance Program Cluster
CFDA #: 10.568, 10.569

Finding 2017-001 – Claims for Reimbursement (Significant Deficiency)

Condition: During our audit of the Emergency Food Assistance Program (TEFAP) Cluster it was noted that not all TEFAP related expenses were included in submitted claims for reimbursement.

Criteria: Per review of the TEFAP Policy and Procedure Manual, Section 17.1 – Reimbursement for Expenses – Eligible Recipient Agencies (ERAs), Food Bank Coalition of San Luis Obispo County, are eligible to receive reimbursement for expenses directly related to their administration of TEFAP in their service area. Further, ERAs must include all program costs in their claims for reimbursement, even if they exceed their tentative reimbursement.

Cause: As the Organization historically receives reimbursement for approximately 20%-40% of the expenditures reported on the claim for reimbursement, the Organization deemed it reasonable to allocate more expenses to general administrative and program expenses.

Effect: The Organization has historically requested reimbursement for all of their eligible costs, but due to the time it took to track and calculate their eligible reimbursement amount, the Organization deemed it reasonable to only include on their reimbursement request enough costs to cover what they already knew they would be receiving. This caused the Organizations requested reimbursement to be understated, but not to effect what their reimbursement was.

Recommendation: We recommend that management establish policies and procedures to ensure that all federal expenditures are properly accounted for and reported on submitted claims for reimbursement as this may affect future reimbursement allocations.

Views of Responsible Officials and Planned Corrective Actions: The Food Bank faced a high volume of staff turnover in 2017, such that leadership and bookkeeping personnel within the organization were effectively entirely changed, and regrettably, meaningful process explanations to many recurring tasks within the organization were not recorded or shared with incoming personnel. This meant that as new personnel began to takeover historic tasks, there was a need to absorb a high volume of information and logistics. It was, for instance, not immediately clear to our new staff why we were seemingly over-reporting expenses to the TEFAP program, when only 20%-40% of historic reimbursement requests were actually funded. Before making changes to how we track and submit expenses eligible for quarterly TEFAP reimbursements, we consulted our TEFAP Program Consultant and understood from that interaction –

Food Bank Coalition of San Luis Obispo County
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017
Page 3

Section III: Findings and Questioned Costs for Federal Awards (Continued)

incorrectly - that there was no need to report expenses beyond our reimbursement levels. This is not to suggest any fault on the part of our TEFAP Consultant, as we acknowledge compliance is incumbent upon us. As noted by our auditors, The TEFAP Program Manual specifies that all eligible Program costs be reported each quarter, even those that exceed our known reimbursement eligibility.

The following plan has been formulated to correct this matter and ensure that all eligible costs are reported, going forward. Reviewing the TEFAP Manual, the following costs relevant to fulfilling TEFAP Program tasks will be tracked each quarter and reported:

- Intrastate transportation, storage, handling, distribution, repackaging and processing
- Salaries of persons directly administering program and program-related expenses
- Fringe benefits and travel expenses
- Rent and utilities
- Accounting, auditing and other administrative services
- Computer services
- Costs related to TEFAP training
- Costs associated with determination of eligibility, verification, and documentation
- Costs associated with providing information to persons receiving U.S. Department of Agriculture (USDA) commodities regarding proper storage and preparation
- Costs for publication of times and locations of distributions
- Meals provided to volunteers, i.e., non-salaried staff, for services rendered during the distribution of USDA commodities. Meal cost must be reasonable and adequately documented with volunteer's name, hours worked, receipts, invoices or other evidence of the cost of providing meals and the volunteer's signature for each meal received.

Finding 2017-002 – Tracking and Allocation of Employee Costs (Significant Deficiency)

Condition: During our audit of the Emergency Food Assistance Program (TEFAP) Cluster it was noted that employee salaries were not being correctly allocated to the program per grant requirements.

Criteria: Per review of the TEFAP Policy and Procedure Manual, Section 17.5 – Allowable and Restricted Costs – expenses for operational costs and warehouse staff salaries/benefits will be cost allocated to TEFAP based on a percentage of the total pounds of food distributed under TEFAP guidelines in the previous calendar quarter, and the total pounds of food distributed by all programs in the same quarter. Further, expenditures on salaries/benefits of non-warehouse program staff shall be determined by a quarterly time study to calculate the allowable amount that can be charged to TEFAP.

Food Bank Coalition of San Luis Obispo County
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017
Page 4

Section III: Findings and Questioned Costs for Federal Awards (Continued)

Cause: The Organization currently uses manual timecards for employees as well as time allocations based on the employee's role/position and their assumed time spent on the TEFAP program.

Effect: This may cause the Organization to improperly include on their request for reimbursement, the actual amount of salary that should be allocated to the grant. As the requested reimbursement far exceeds the reimbursement actually received, the Organization does not believe that there are any questioned costs in relation to this finding nor do we believe this would affect the Organizations actual reimbursement.

Recommendation: We recommend that the Organization follow the TEFAP program guidelines to ensure that adequate time/expenditures are being allocated to the program.

Views of Responsible Officials and Planned Corrective Actions: While in 2017 The Food Bank had in place procedures to track employee time worked towards TEFAP program tasks, there is no clear record of the performance of quarterly time studies by which allowable time worked for reimbursement was adjusted. Going forward, the following plan will be in place to correct.

- Upon the compilation of each quarter's eligible TEFAP Program reimbursable expenses and their submission to TEFAP staff, Food Bank Staff will review current allocations to determine any changes needed for the coming quarter. For instance, changes in staff, increases / decreases in the frequency of recurring TEFAP commodity food distributions, or changes in warehouse operations which affect time worked towards TEFAP tasks will all be considered and live adjustments will be made, as needed. For internal files, a copy of each quarter's accepted time study will be attached to our records of said quarter's reimbursement filing, such that it will be transparent how staff time allocations were to be tracked within the quarter, and so that changes between quarters may be transparently understood upon review by auditing parties.
- We intend to standardize all staff time sheet reporting (both non-exempt and exempt staff) through our digital time clock software, which allows our bookkeeper the opportunity to automatically program time splits for relevant staff, and to adjust them, if needed, each quarter.

Food Bank Coalition of San Luis Obispo County
Status of Prior Year Findings and Questioned Costs – December 31, 2016
Year Ended December 31, 2017

Section IV: Status of Prior Year Findings and Questioned Costs

Finding 2016-01: Physical Inventory Procedures (Significant Deficiency)

Context:

In order to properly value inventory, it is important that the Organization know the quantities of inventory items on hand. Proper physical inventory count procedures are not in place or were not properly followed during the physical inventory observation. 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.

Management Status:

While The Food Bank was unable to go live with Ceres software in 2017, due to anticipated changes to our Chart of Accounts and financials tracking which need to be in place prior to implementing the software, the following procedures for physical inventory procedures were put in place:

- At the close of each month, full inventory counts are taken by The Warehouse Manager or assigned staff.
- In cases where a discrepancy between the physical count of an inventory item and our inventory system's reporting differ, The Warehouse Manager will perform the count again with a second staff member present to confirm the accurate count.
- Upon completion of inventory counts, The Warehouse Manager or Assistant Manager will then adjust the inventory systems records to reconcile.