# *FEEDING AMERICA SAN DIEGO*

## FINANCIAL STATEMENTS

## YEARS ENDED JUNE 30, 2016 AND 2015

## WITH INDEPENDENT AUDITORS' REPORT

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**JUNE 30, 2016 AND 2015**

# INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Feeding America San Diego
San Diego, California

We have audited the accompanying financial statements of Feeding America San Diego (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors consider internal control relevant to the Organization'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 Organization'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.



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*Offices located in Orange and San Diego Counties*

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feeding America San Diego as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the financial statements, in June 2015, the Organization received a conditional pledge from one donor in the amount of $15,000,000, in which the donor will pay $3,000,000 per year, for a period of five years, starting in July 2015. The pledge is contingent on various organizational goals and factors that must be measured and met, many of which are possible, but not certain. Accordingly, the Organization has recorded deferred revenue of $3,000,000 as of June 30, 2016 and 2015, and did not record the remaining $9,000,000 of the pledge as of June 30, 2016, as the necessary conditions to be met are still uncertain. Our opinion is not modified with respect to that matter.

White Nelson Diehl Evans LLP

Irvine, California
October 20, 2016

**FEEDING AMERICA SAN DIEGO**
**STATEMENTS OF FINANCIAL POSITION**
**JUNE 30, 2016 AND 2015**

## ASSETS

| | 2016 | 2015 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 1,443,533 | $ 610,841 |
| Accounts receivable, net | 25,384 | 17,960 |
| Pledges receivable | 3,320,794 | 3,324,195 |
| Inventory | 998,438 | 983,907 |
| Prepaid expenses and other current assets | 146,286 | 107,412 |
| Total Current Assets | 5,934,435 | 5,044,315 |
| Property and Equipment, at Net Book Value | 564,099 | 539,109 |
| Other Assets: | | |
| Deposits | 58,941 | 63,908 |
| Total Assets | $ 6,557,475 | $ 5,647,332 |

## LIABILITIES AND NET ASSETS

| | 2016 | 2015 |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ 171,104 | $ 172,076 |
| Accrued expenses | 175,958 | 293,004 |
| Deferred donations | 3,000,000 | 3,000,000 |
| Long-term debt - current portion | - | 25,000 |
| Total Current Liabilities | 3,347,062 | 3,490,080 |
| Long-Term Liabilities: | | |
| Deferred rent | 108,850 | 21,673 |
| Total Liabilities | 3,455,912 | 3,511,753 |
| Net Assets: | | |
| Unrestricted | 2,205,632 | 1,428,438 |
| Temporarily restricted | 895,931 | 707,141 |
| Total Net Assets | 3,101,563 | 2,135,579 |
| Total Liabilities and Net Assets | $ 6,557,475 | $ 5,647,332 |

# FEEDING AMERICA SAN DIEGO
## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
## YEAR ENDED JUNE 30, 2016, WITH 2015 COMPARATIVE TOTALS

| | 2016 | | | | |
|---|---|---|---|---|---|
| Support and Revenue: | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | 2015 |
| Community Support: | | | | | |
| Donated food products and merchandise | $ 35,691,113 | $ - | $ - | $ 35,691,113 | $ 33,865,389 |
| Grants and awards | 3,657,069 | 222,240 | - | 3,879,309 | 2,992,158 |
| Contributions | 1,893,978 | 1,117,669 | - | 3,011,647 | 2,494,552 |
| In-kind contributions | 232,995 | - | - | 232,995 | 163,827 |
| Total Community Support | 41,475,155 | 1,339,909 | - | 42,815,064 | 39,515,926 |
| Shared Maintenance Fees | 145,036 | - | - | 145,036 | 362,197 |
| Other Income | 10,461 | - | - | 10,461 | 12,578 |
| Net Assets Released from Restrictions | 1,151,119 | (1,151,119) | - | - | - |
| Total Support and Revenue | 42,781,771 | 188,790 | - | 42,970,561 | 39,890,701 |
| Expenses: | | | | | |
| Program: | | | | | |
| Program expenses | 40,004,582 | - | - | 40,004,582 | 37,616,141 |
| Total Program Expenses | 40,004,582 | - | - | 40,004,582 | 37,616,141 |
| Support: | | | | | |
| General and administrative | 720,246 | - | - | 720,246 | 532,715 |
| Development | 1,279,749 | - | - | 1,279,749 | 1,111,065 |
| Total Support Expenses | 1,999,995 | - | - | 1,999,995 | 1,643,780 |
| Total Expenses | 42,004,577 | - | - | 42,004,577 | 39,259,921 |
| Change in Net Assets | 777,194 | 188,790 | - | 965,984 | 630,780 |
| Total Net Assets at Beginning of Year | 1,428,438 | 707,141 | - | 2,135,579 | 1,504,799 |
| Total Net Assets at End of Year | $ 2,205,632 | $ 895,931 | $ - | $ 3,101,563 | $ 2,135,579 |

The accompanying notes are an integral part of these financial statements

**FEEDING AMERICA SAN DIEGO**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2016 AND 2015**

| | 2016 | 2015 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Change in Total Net Assets | $ 965,984 | $ 630,780 |
| Non-Cash Items Included in Change in Total Net Assets: | | |
| Allowance for doubtful accounts | 2,504 | 6,163 |
| Depreciation | 154,953 | 139,412 |
| Deferred rent | 87,177 | (47,674) |
| Changes in: | | |
| Accounts receivable | (9,928) | 1,054 |
| Pledges receivable | 3,401 | (12,695) |
| Inventory | (14,531) | (330,749) |
| Prepaid expenses and other current assets | (38,874) | (68,319) |
| Deposits | 4,967 | (87) |
| Accounts payable | (972) | 68,610 |
| Accrued expenses | (117,046) | 64,663 |
| Deferred donations | - | (13,500) |
| Net Cash Provided by Operating Activities | 1,037,635 | 437,658 |
| Cash Flows from Investing Activities: | | |
| Purchase of property and equipment | (179,943) | (95,991) |
| Net Cash Used in Investing Activities | (179,943) | (95,991) |
| Cash Flows from Financing Activities: | | |
| Payments on long-term debt | (25,000) | - |
| Net Cash Used in Financing Activities | (25,000) | - |
| Net Change in Cash | 832,692 | 341,667 |
| Cash and Cash Equivalents at Beginning of Year | 610,841 | 269,174 |
| Cash and Cash Equivalents at End of Year | $ 1,443,533 | $ 610,841 |
| Supplemental Disclosure of Non-Cash Activities: | | |
| Pledges receivable recorded as deferred donations | $ 3,000,000 | $ 3,000,000 |

The accompanying notes are an integral part of these financial statements

**FEEDING AMERICA SAN DIEGO**
**STATEMENT OF FUNCTIONAL EXPENSES**
**YEAR ENDED JUNE 30, 2016, WITH 2015 COMPARATIVE TOTALS**

| | Programs | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Agency Distribution | Feeding Families | Feeding Kids | Feeding Seniors | Feeding Excellence | Total Program Expenses | General And Administrative | Development | 2016 Total Expenses | 2015 Total Expenses |
| In-kind food donations | $ 30,738,072 | $ 2,492,990 | $ 2,657,416 | $ 34,212 | $ 37,916 | $ 35,960,606 | $ - | $ - | $ 35,960,606 | $ 33,692,569 |
| Salaries | 1,033,227 | 80,058 | 176,497 | 7,296 | 124,261 | 1,421,339 | 171,597 | 480,444 | 2,073,380 | 1,823,575 |
| Food procurement | 146,908 | 92,502 | 666,733 | 6,019 | 27,275 | 939,437 | - | - | 939,437 | 1,029,738 |
| Rent | 407,185 | 28,647 | 47,490 | 1,634 | 5,974 | 490,930 | 11,643 | 8,068 | 510,641 | 415,844 |
| Fundraising expense | 10 | - | - | - | - | 10 | - | 312,984 | 312,994 | 412,715 |
| Employee benefits | 151,312 | 11,661 | 24,351 | 1,011 | 13,317 | 201,652 | 26,216 | 58,012 | 285,880 | 228,319 |
| Freight and transportation | 231,105 | 15,514 | 24,681 | 547 | 1,779 | 273,626 | - | - | 273,626 | 358,714 |
| In-kind professional services | - | - | - | - | - | - | 183,384 | 49,612 | 232,996 | 163,827 |
| Public relations and marketing | 13 | - | 269 | - | - | 282 | 7,178 | 213,779 | 221,239 | 109,444 |
| Depreciation | - | - | - | - | - | - | 154,953 | - | 154,953 | 139,412 |
| Miscellaneous expenses | 63,657 | 4,265 | 9,162 | 160 | 7,058 | 84,302 | 43,973 | 14,475 | 142,750 | 96,715 |
| Utilities | 106,671 | 7,505 | 12,441 | 428 | 2,464 | 129,509 | 3,050 | 2,515 | 135,074 | 120,786 |
| Programs | 98,065 | 340 | 10,523 | 12 | 16,034 | 124,974 | - | - | 124,974 | 44,289 |
| Outside services | 21,491 | 2,102 | 13,358 | 52 | 10,880 | 47,883 | 34,652 | 14,744 | 97,279 | 80,810 |
| Dues and subscriptions | 58,789 | 4,947 | 5,669 | 126 | 409 | 69,940 | 584 | 13,044 | 83,568 | 49,650 |
| Travel | 14,764 | 720 | 5,136 | 158 | 15,503 | 36,281 | 16,118 | 5,126 | 57,525 | 29,427 |
| Vehicle expenses | 47,012 | 3,149 | 5,009 | 111 | 361 | 55,642 | - | - | 55,642 | 70,017 |
| Special events | - | - | - | - | - | - | - | 54,746 | 54,746 | 5,092 |
| Repairs and maintenance | 44,729 | 3,003 | 4,777 | 106 | 344 | 52,959 | - | - | 52,959 | 40,368 |
| Postage and printing | 5,116 | 428 | 894 | 10 | 2,413 | 8,861 | 2,197 | 40,360 | 51,418 | 51,442 |
| Supplies | 37,301 | 2,525 | 4,141 | 88 | 456 | 44,511 | 2,074 | 856 | 47,441 | 21,745 |
| Insurance | 33,219 | 2,337 | 3,874 | 133 | 488 | 40,051 | 950 | 658 | 41,659 | 35,100 |
| Bank charges | - | - | - | - | - | - | 34,029 | 1,428 | 35,457 | 42,479 |
| Computer expenses | 13,407 | 1,065 | 2,382 | 28 | 1,440 | 18,322 | 4,651 | 7,122 | 30,095 | 32,394 |
| Professional services | 3,021 | 538 | 257 | 6 | 332 | 4,154 | 9,630 | 1,382 | 15,166 | 148,571 |
| Training and education | 4,322 | 290 | 462 | 10 | 33 | 5,117 | 3,133 | 394 | 8,644 | 2,474 |
| Bad debt expense (recovery) | (6,897) | - | - | - | - | (6,897) | 9,401 | - | 2,504 | 6,582 |
| Repack expense | 921 | 62 | 99 | 2 | 7 | 1,091 | - | - | 1,091 | 6,175 |
| Employee events | - | - | - | - | - | - | 661 | - | 661 | 631 |
| Interest expense | - | - | - | - | - | - | 172 | - | 172 | 1,017 |
| | $ 33,253,420 | $ 2,754,648 | $ 3,675,621 | $ 52,149 | $ 268,744 | $ 40,004,582 | $ 720,246 | $ 1,279,749 | $ 42,004,577 | $ 39,259,921 |
| | 79.17% | 6.56% | 8.75% | 0.12% | 0.64% | 95.24% | 1.71% | 3.05% | 100.00% | 100.00% |

The accompanying notes are an integral part of these financial statements

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### Nature of Operations

Feeding America San Diego (the "Organization") was established in 2007 to efficiently gather, warehouse, and distribute shelf-stable food and produce to over 150 nonprofit agencies, including food pantries, after-school and senior programs, and congregate feeding programs that operate their own distributions to meet the needs of food-insecure people in San Diego County. The Organization also operates rural food distribution sites through the Mobile Pantry Program, as well as partners with schools, health clinics, and senior-specific sites, which directly distribute food to those in need. The mission of the Organization is to feed people facing hunger, to advocate, and to educate. The Organization strives to provide the highest possible service to those in need. During the year ended June 30, 2016, the Organization distributed over 21 million pounds of food, serving 60,000 children, families, and seniors each week.

### Program Services

The Organization has four initiatives to capture the nature of the programs that it operates in furtherance of its mission. The initiatives focus on each target population and the over-arching vision of a hunger-free and healthy San Diego.

*Feeding Families*

**Partner Agencies:** Promoting sustainability and capacity building, the Organization provides food and other capacity-building resources to more than 150 nonprofits operating food programs throughout San Diego County. Nonprofit agency partners are held to a strict set of guidelines and governing procedures that ensure food is distributed safely, in accordance with state and federal law.

**Mobile Pantry:** Serving rural areas, especially in the North and East counties of San Diego, the Mobile Pantry delivers food to underserved neighborhoods that have a high incidence of poverty and lack consistent access to transportation to reach grocery stores or other sources of fresh, healthy food. Families have access to this farmer's market style distribution at sites across the county twice per month, often coupled with nutrition education, CalFresh outreach, or other community resources.

**Military Families:** The Organization provides food to partner agencies and schools who serve the military and their families. Of the more than 150 partner agencies, 68, or 45%, report serving active-duty military or veterans. Key partnerships include a Mobile Pantry distribution with USO San Diego. This targeted distribution provides nutritious food to members of the military and their families as a special service when they are away from the support of their communities back home.

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Program Services (Continued)**

*Feeding Families (Continued)*

The Organization operates the School Pantries programs at Dewey Elementary, Perry Elementary, and Fallbrook Elementary, where a majority of students come from military families. School Pantries provide nutritious food in a farmer's market style setting.

*Feeding Seniors*

**Senior Housing Complexes:** In Escondido, the Organization partners with a senior independent living facility to provide nutritious foods to residents. In Central San Diego, the Organization partners with the Fourth District Resource Center to provide groceries to program participants on a monthly basis.

**Meals on Wheels Partnership:** In East County, the Organization provides fresh produce to several Meals on Wheels routes, a program that delivers prepared meals to hundreds of San Diego seniors, eliminating transportation barriers that are especially challenging for them.

*Feeding Kids*

**BackPack:** The BackPack program aims to meet the nutritional needs of food insecure children over weekends. Typically, each child receives an easy-to-carry bag filled with nutritious staple items and two to three pounds of fresh produce when leaving school on Thursday or Friday afternoons.

**School Pantry:** The School Pantry program helps alleviate child hunger in San Diego County by providing nutritious, healthy food to low-income students and their families. Distributions set up in a farmer's market style are consistently in the same locations at each campus, have routine distribution schedules, and provide access to nutrition education and additional community resources. When food is provided at locations a family already visits, parents and guardians do not have to give up more of their valuable time and transportation budget to put food on the table.

**CACFP and SFSP:** The Child and Adult Care Food Program ("CACFP") and the Summer Food Service Program ("SFSP") are federal, child-focused nutrition programs that contribute to the wellness, healthy growth, and development of children and youth by providing healthy meals and snacks. The Organization sponsors CACFP at after-school sites throughout the year and SFSP during the summer to meet increased need when children are not receiving school meals.

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Program Services (Continued)**

*Feeding Kids* *(Continued)*

**Kids Community Pantries:** Kids Community Pantries reach children outside of the school setting. Distributions at childcare facilities provide produce and healthy staple items to children and their families in a convenient location while special summer and school break pantries throughout the county provide food when school is out.

*Feeding Excellence*

**Healthy Cook Program:** The Healthy Cook program is a six-part nutrition course including hands-on training and cooking demonstrations targeted at improving the health of clients at specific distribution sites. The Organization gauges the impact of the program through client surveys that capture client eating habits and health behaviors.

**Agency Capacity Building:** Through close communication and regular evaluation, the Organization works to build the capacity of its network in the areas of advocacy, CalFresh outreach, nutrition education and volunteer programs, as well as the safe and effective distribution of nutritious foods. Part of this includes convening an Agency Advisory Council (AAC) comprised of agency representatives from across San Diego County that regularly convene to provide guidance, insight, and educational support to the partner agency network through training, networking, and online resources.

**CalFresh Outreach:** The Organization's CalFresh team enrolls eligible clients, dispels myths about food stamp assistance, and helps eliminate the stigma surrounding the program. The Organization's outreach model is designed to move clients toward self-sufficiency and provide support throughout the complex application process. The CalFresh team conducts outreach at large-scale food distributions, pantries, and community events and is growing the highly successful same-day application workshops in conjunction with the County of San Diego CalFresh eligibility workers.

**Healthcare Partnerships:** With the growing understanding of the link between hunger and health, the Organization has developed strategic partnerships with healthcare providers such as University of California San Diego's student-run Free Health Clinic and Sharp Grossmont Hospital to improve the health of the community. The latest Community Health Needs Assessment conducted jointly by hospitals throughout San Diego County identified food security and access to food as the number one social determinant of health for San Diegans. By screening patients for food insecurity and integrating food assistance and nutrition education into healthcare, the Organization can increase food access to those in need and reduce the health implications of food insecurity.

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Program Services (Continued)**

*Feeding Excellence (Continued)*

**Advocacy:** In order to achieve a hunger-free and healthy community, the Organization advocates for the rights of the food insecure on a federal, state, and local level. Through a variety of partnerships, the Organization educates the community and elected officials on the issues impacting the clients and distribution partners. When appropriate, the Organization gives clients and partner agencies the opportunity to share their stories with elected officials and give a testimony of how specific legislation will affect their lives and those of their clients, including an annual trip to Sacramento to speak directly with legislative offices at the capitol.

**Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting. Contributions, including unconditional promises to give, are recognized as revenues in the period in which they are received, and expenses are recorded as they are incurred.

**Basis of Presentation**

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with accounting principles generally accepted in the United States of America, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- Temporarily restricted net assets - include resources expendable only in the manner specified by the donor or grantor. The restrictions are satisfied either by the passage of time or by actions of the Organization.
- Permanently restricted net assets - include resources subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no assets with such stipulations at June 30, 2016 and 2015.

**Comparative Financial Information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

## Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include petty cash funds, bank checking accounts used for operating purposes, and investments with maturities of three months or less from the original purchase dates.

### Accounts Receivable

Receivables represent amounts due from affiliated agencies and are stated at the amount the Organization expects to collect for partner agency income and federally funded programs administered by the States. Provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Organization determines that payments will not be received. Any subsequent receipts are credited to the allowance. At June 30, 2016 and 2015, the Organization has recorded an allowance for doubtful accounts totaling $8,667 and $6,163, respectively. Bad debt expense for the years ended June 30, 2016 and 2015, amounted to $2,504 and $6,582, respectively.

### Inventory

Inventory consists of donated, non-government food and grocery items, purchased food, and emergency food boxes stored in the event of a disaster. Donated food for the years ended June 30, 2016 and 2015, is valued at $1.67 and $1.70 per pound, respectively, based on an annual cost study conducted for Feeding America's national office. Purchased food is valued at its historical cost.

### Property and Equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from three to six years for vehicles, office furniture and equipment, and fifteen years for cold storage and leasehold improvements. Equipment purchases over $1,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is charged to the activity benefiting from the use of the facilities or equipment. Depreciation expense for the years ended June 30, 2016 and 2015 amounted to $154,953 and $139,412, respectively.

## Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

### Long-Lived Assets and Asset Impairment

The Organization accounts for impairment and disposition of long-lived assets in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10, *"Property, Plant, and Equipment"*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. At June 30, 2016 and 2015, no impairment losses have been recorded.

### Accrued Paid Time Off

Accrued paid time off represents time earned but not taken as of June 30. The maximum paid time off that can be accrued and carried over to the next year is 160 hours. The accrued paid time off balance as of June 30, 2016 and 2015, is $61,080 and $64,359, respectively, and has been included in accrued expenses in the accompanying statements of financial position.

### Deferred Rent

Rent expense is recognized in compliance with FASB ASC 840-10, *"Accounting for Leases"*, whereby the expense is accrued ratably over the life of the subject lease with the intent to even out the effect of rent holidays and scheduled rent increases. At June 30, 2016 and 2015, the Organization's total deferred rent liabilities were $108,850 and $21,673, respectively, and were included within deferred rent in the accompanying statements of financial position.

### Support and Revenue

The Organization relies on grants and awards from public and private foundations and contributions from individuals, corporations, government programs, and other miscellaneous organizations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

- <u>Contributions</u> - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily unrestricted net assets depending on the nature of the restrictions. Unconditional promises to give are recorded as contributions receivable and contribution revenue when received. Pledges are recorded at their net realizable value if expected to be collected in one year and at their fair value if expected to be collected in more than one year. Conditional promises to give, if any, are not included as support until the conditions on which they depend are substantially met.

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Support and Revenue (Continued)**

- In-Kind Contributions - As stated above, donated food for the years ended June 30, 2016 and 2015 is valued at $1.67 and $1.70 per pound, respectively, based on an annual cost study conducted for Feeding America's national office. Donated equipment and other goods are recorded at their estimated fair market value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. While these contributed services are not reflected in the financial statements, the estimated value of these services is disclosed in Note 8.

- Shared Maintenance Fees - The Organization receives fees from participating agencies to assist in the costs of distributing food. These fees are based on predetermined rates from $0 to $0.18 per pound, or an average of $.014 per pound. Total shared maintenance fees for the years ended June 30, 2016 and 2015, were $145,036 and $362,197, respectively.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Allocation of Joint Costs**

For the years ended June 30, 2016 and 2015, the Organization conducted activities that included appeals for contributions and incurred joint costs of $367,740 and $417,807, respectively. For the years ended June 30, 2016 and 2015, these activities included costs from direct mail campaigns totaling $312,994 and $412,715, respectively, and special event costs totaling $54,746 and $5,092, respectively.

**Public Relations and Marketing Costs**

Public relations and marketing costs are charged to operations when incurred. Public relations and marketing costs charged to operations for the years ended June 30, 2016 and 2015, totaled $221,239 and $109,444, respectively.

**Special Events**

To increase the financial viability and impact of the Organization now and in the future, a private donor underwrote the majority of the cost of hosting a large-scale fundraising gala during the years ended June 30, 2016 and 2015. A large expense such as this would not have been possible without the generosity of this donor, enabling the Organization to increase awareness of hunger relief in new philanthropic communities through the education of 300 guests.

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Income Taxes**

The Organization is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code and is classified as an organization other than a private foundation. Accordingly, there is no provision for income taxes in the accompanying financial statements.

The Organization accounts for the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* (FIN 48)), and under these provisions, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties. The Organization's 2013 to 2015 tax years are open to review for federal tax purposes and 2012 to 2015 tax years are open to review for state income tax purposes.

**New Pronouncements**

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *"Leases (Topic 842)"*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted.

The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958)"*. ASU 2016-14 requires improved presentation and disclosures to help not-for-profit entities provide more relevant information about their resources to donors, grantors, creditors, and other users. These improvements apply to qualitative and quantitative requirements in net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early application is permitted.

The Organization is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

**Reclassifications**

Certain reclassifications have been made to the accompanying 2015 summarized comparative financial statement information to conform to the current year presentation. These reclassifications had no effect on the change in net assets.

**Note 2: Pledges Receivable**

In June 2015, the Organization received a conditional pledge from one donor in the amount of $15,000,000, in which the donor will pay $3,000,000 per year, for a period of five years, starting in July 2015. The pledge is contingent on various organizational goals and factors that must be measured and met, many of which are possible, but not certain. Subsequent to the years ended June 30, 2016 and 2015, the Organization received the first quarterly installment payments totaling $750,000 in July 2016 and July 2015 as a result of meeting the annual requirements set forth in the conditional pledge. Thus, the Organization has recorded a pledge receivable and corresponding deferred pledge revenue of $3,000,000 for the years ended June 30, 2016 and 2015. The Organization did not record the remaining $9,000,000 of the pledge as of June 30, 2016, as the necessary conditions for remaining periods to be met are still uncertain.

**Note 3: Inventory**

Inventory consists of the following at June 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Donated food | $ 432,992 | $ 702,485 |
| Purchased commodities | 277,034 | 189,886 |
| Produce inventory | 288,412 | 91,536 |
| Total Inventory | $ 998,438 | $ 983,907 |

**Note 4: Donations**

The Organization receives substantial donations of food (which includes personal hygiene items and other staples), equipment and volunteer services. Contributions of food and equipment are recorded at their estimated fair values in the period received.

Food distribution activity during the year ended June 30, 2016 was as follows (in pounds) (unaudited):

| | Donated | Purchased | Total |
|---|---|---|---|
| Food Held for Distribution, Beginning of Year | 467,071 | 247,491 | 714,562 |
| Food Received | 21,016,378 | 1,163,376 | 22,179,754 |
| Food Distributed and Unusable Product | (21,051,471) | (1,006,140) | (22,057,611) |
| Food Held for Distribution, End of Year | 431,978 | 404,727 | 836,705 |

Food distribution activity during the year ended June 30, 2015 was as follows (in pounds) (unaudited):

| | Donated | Purchased | Total |
|---|---|---|---|
| Food Held for Distribution, Beginning of Year | 323,540 | 97,251 | 420,791 |
| Food Received | 20,001,656 | 948,565 | 20,950,221 |
| Food Distributed and Unusable Product | (19,858,125) | (798,325) | (20,656,450) |
| Food Held for Distribution, End of Year | 467,071 | 247,491 | 714,562 |

## Note 5: Property and Equipment

At June 30, 2016 and 2015, property and equipment consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Machinery, equipment, and vehicles | $ 889,480 | $ 720,284 |
| Cold storage and leasehold improvements | 357,741 | 357,741 |
| Furniture and fixtures | 92,873 | 92,873 |
| Computer equipment | 174,626 | 122,586 |
| Total property and equipment, at cost | 1,514,720 | 1,293,484 |
| Less: Accumulated depreciation | (969,604) | (814,651) |
| | 545,116 | 478,833 |
| Construction in progress | 18,983 | 60,276 |
| Property and Equipment, at Net Book Value | $ 564,099 | $ 539,109 |

## Note 6: Employee Benefit Plan

The Organization has a qualified defined benefit contributory 401(k) plan, whereby eligible employees may contribute a percentage of compensation, and the Organization contributes a discretionary match. The Organization began contributing a discretionary match beginning in February 2012. For the years ended June 30, 2016 and 2015, employer contributions were $41,774 and $36,215, respectively. Pension administrative expenses for the years ended June 30, 2016 and 2015, were approximately $2,900 and $3,500, respectively.

## Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets consist of cash and pledges receivable. The restricted cash and pledges receivable are for future expenditures in relation to various programs, initiatives, and asset purchases. Temporarily restricted net assets as of June 30, 2016 and 2015 consist of the following by Organization initiative:

| | 2016 | 2015 |
|---|---|---|
| Feeding Kids | $ 129,714 | $ 263,816 |
| Feeding Excellence | 27,083 | 55,750 |
| CRM/Truck | - | 141,673 |
| Operations/Food Sourcing | 485,500 | 22,000 |
| Feeding Families | 135,134 | 223,902 |
| Furniture and Building | 110,000 | - |
| Marketing | 8,500 | - |
| Total Temporarily Restricted Net Assets | $ 895,931 | $ 707,141 |

**Note 8: Contributed Services**

A substantial number of volunteers have donated significant amounts of time in the operation of the Organization's various programs and initiatives at the food bank. Legal, accounting, engineering, counseling, and medical services meet the criteria of FASB ASC 958-605, *"Accounting for Contributions Received"*. For the year ended June 30, 2016, there were donated services that qualify under FASB ASC 958-605 of $1,468. For the year ended June 30, 2015, there were $1,416 donated services that qualified under FASB ASC 958-605.

Substantial volunteer time does not meet the criteria for FASB ASC 958-605 and accordingly, has not been reflected in the accompanying financial statements. However, the tasks performed by these volunteers are central to the Organization's operations. The unaudited estimated value of such volunteer time for the years ended June 30, 2016 and 2015 was calculated using the California minimum wage of $10.00 per hour and amounted to $626,402 and $646,938, respectively.

**Note 9: Conflict of Interest**

Included among the Organization's Board of Directors are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby Board members are disqualified from participation in the final decision regarding any action that might affect their related company or organization.

**Note 10: Risks and Uncertainties**

The Organization received 45% and 36% of its monetary support via one contributor for the years ended June 30, 2016 and 2015, respectively.

The Organization maintains cash and cash equivalent balances at a financial institution. At June 30, 2016 and 2015, accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Organization's cash balances at the institution in excess of federally insured limits at June 30, 2016 and 2015 totaled approximately $1,311,000 and $386,000, respectively.

**Note 11: Line of Credit**

The Organization has available a revolving line of credit up to $500,000. There were no balances outstanding at June 30, 2016 and 2015. Monthly interest payments are made at 1.0 percent above the prime rate. The line of credit is secured by substantially all of the Organization's assets. The line of credit expires in June 2018.

## Note 12: Commitments and Contingencies

### Long-Term Debt

Long-term debt as of June 30, 2015, consists of the following:

| | | |
|---|---|---|
| | | 2015 |
| On August 31, 2012, the Organization entered into a note agreement with an institution with a borrowing amount totaling $75,000 bearing a progressive interest rate up to four percent. Secured by computer equipment. The principal can be paid at any time or in three annual installments and outstanding interest is due on the maturity date, August 31, 2015. This loan was paid in full during the fiscal year ended June 30, 2016. | $ | 25,000 |
| Less: Current Portion of Long-Term Debt | | (25,000) |
| Long-Term Debt | $ | - |

### Operating Leases

The Organization leases warehouse and office space and office equipment expiring through November 2020. Total rent expense related to such operating leases for the years ended June 30, 2016 and 2015 amounted to $510,641 and $415,844, respectively. Future aggregate minimum annual rent payments under these non-cancelable leases, as of June 30, 2016, are as follows:

| | | |
|---|---|---|
| 2017 | $ | 443,568 |
| 2018 | | 456,502 |
| 2019 | | 457,376 |
| 2020 | | 471,097 |
| 2021 | | 198,702 |
| Total Future Minimum Lease Payments | $ | 2,027,244 |

**Note 12: Commitments and Contingencies (Continued)**

**Employment Agreement**

During 2015, the Organization was engaged in an employment agreement with a company that provided executive management and leadership transition services. The agreement provided for monthly fees of $30,000 beginning in January 2015 through the subsequent hiring of a permanent executive director. The fees of this agreement are classified as “In-Kind Professional Services” and are included in Program Expenses, General and Administrative, and Development in the accompanying statements of activities and changes in net assets. In addition, the fees of the employment agreement are paid via contributions from one donor. These contributions are included in “In-Kind Contributions” in the accompanying statements of activities and changes in net assets.

**Litigation**

The Organization experiences litigation during the normal course of its operations. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

**Note 13: Subsequent Events**

As discussed in Note 2, the Organization has received the first quarterly installment for Year 2 totaling $750,000 of its pledge receivable recorded. Other events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of October 20, 2016, which is the date the financial statements were available to be issued.