

LOS ANGELES REGIONAL



Fighting Hunger. Giving Hope.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
AND INDEPENDENT AUDITOR'S REPORT**

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
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December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Los Angeles Regional Food Bank
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles Regional Food Bank (the "Food Bank"), which comprise the statement of financial position as of December 31, 2015, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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.

Auditor's 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 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 auditor's 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 Food Bank'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 Food Bank'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.

To the Board of Directors
Los Angeles Regional Food Bank
April 27, 2016
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of December 31, 2015, and the changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Food Bank's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 our report dated April 27, 2016 on our consideration of the Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 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 the Food Bank's internal control over financial reporting and compliance.



SingerLewak LLP

Los Angeles, California
April 27, 2016

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
STATEMENT OF FINANCIAL POSITION
December 31, 2015
(with Comparative Totals for December 31, 2014)

ASSETS		
	2015	2014
Assets		
Cash and cash equivalents (Note 3)	\$ 3,228,339	\$ 2,031,730
Investments	216,136	226,372
Receivables from government agencies (Note 4)	1,076,190	1,444,836
Receivables from affiliated charities (Note 5)	473,191	590,672
Pledges receivable (Note 6)	118,276	669,088
Food inventory (Note 7)	5,784,851	5,536,718
Prepaid expenses	279,864	276,232
Property and equipment, net (Note 8)	5,445,677	5,782,832
Total assets	\$ 16,622,524	\$ 16,558,480
LIABILITIES AND NET ASSETS		
Liabilities		
Line of credit (Note 9)	\$ -	\$ 300,000
Accounts payable and accrued expenses	1,699,776	1,648,893
Total liabilities	1,699,776	1,948,893
Commitments and contingencies (Note 13)		
Net assets (Note 10)		
Unrestricted		
Available for operations	8,492,865	7,353,849
Board-designated	144,795	149,322
Investment in property and equipment, net	5,445,677	5,782,832
Total unrestricted	14,083,337	13,286,003
Temporarily restricted	729,411	1,213,584
Permanently restricted	110,000	110,000
Total net assets	14,922,748	14,609,587
Total liabilities and net assets	\$ 16,622,524	\$ 16,558,480

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

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015
(with Comparative Totals for the Year Ended December 31, 2014)

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Public support and revenue				
Contributions	\$ 7,173,702	\$ 2,132,158	\$ -	\$ 9,305,860
Shared maintenance fees	805,747	-	-	805,747
Payments under government contracts	5,231,966	-	-	5,231,966
Shop Smart & Save income	562,706	-	-	562,706
Special events, net of direct benefit expense	305,957	-	-	305,957
Interest income	436	-	-	436
Realized and unrealized gain on investments	141	-	-	141
Other income	128,057	-	-	128,057
Subtotal	14,208,712	2,132,158	-	16,340,870
Contributed goods	62,836,844	-	-	62,836,844
Contributed assets and services	269,593	-	-	269,593
Total public support and revenue	77,315,149	2,132,158	-	79,447,307
Net assets released from restrictions	2,616,331	(2,616,331)	-	-
Total public support and revenue and net assets released from restrictions	79,931,480	(484,173)	-	79,447,307
Functional expenses				
Program services				
General food distribution	21,854,482	-	-	21,854,482
Food Rescue Program	247,487	-	-	247,487
Federal Emergency Management Agency Program	-	-	-	302,551
USDA – EFAP	13,278,980	-	-	13,278,980
USDA – CSFP	7,784,768	-	-	7,784,768
CalFresh Outreach Program	202,216	-	-	202,216
Kids Café/USDA – CACFP	1,566,085	-	-	1,566,085
USDA – SFSP for Children	849,125	-	-	849,125
Produce and Perishables Program	13,946,626	-	-	13,946,626
Senior Nutrition/Brown Bag Program	1,954,407	-	-	1,954,407
BackPack Program	1,125,160	-	-	1,125,160
Product Donations and Extra Helpings Program	13,731,702	-	-	13,731,702
Total program services	76,541,038	-	-	76,541,038
Supporting services				
General and administrative	788,180	-	-	788,180
Fundraising	1,804,928	-	-	1,804,928
Total supporting services	2,593,108	-	-	2,593,108
Total functional expenses	79,134,146	-	-	79,134,146
Change in net assets	797,334	(484,173)	-	313,161
Net assets, beginning of year	13,286,003	1,213,584	110,000	14,609,587
Net assets, end of year	\$ 14,083,337	\$ 729,411	\$ 110,000	\$ 14,922,748

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

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015
(with Comparative Totals for the Year Ended December 31, 2014)

	Program Services								
	General Food Distribution	Food Rescue Program	USDA – EFAP	USDA – CSFP	CalFresh Outreach Program	Kids Café/ USDA- CACFP	USDA – SFSP	Produce and Perishables Program	Subtotal
Food	\$ 15,971,827	\$ -	\$ 12,296,725	\$ 5,986,229	\$ -	\$ 1,507,675	\$ 791,303	\$ 13,660,415	\$ 50,214,174
Salaries and related expenditures	3,466,523	138,497	579,573	898,802	169,714	51,933	45,026	9,981	5,360,049
Warehouse rental	256,936	692	209,361	623,311	-	1,300	835	-	1,092,435
Utilities	188,280	80,612	60,260	58,996	-	-	2,002	47,752	437,902
Insurance	189,383	-	33,433	131,086	-	-	3,610	-	357,512
Interest	5,178	-	-	-	-	-	-	-	5,178
Repairs and maintenance	312,092	27,590	66,628	8,022	-	-	-	-	414,332
Auto and truck	113,452	-	2,342	56,670	26,592	4,388	4,178	-	207,622
Freight	11,400	-	-	-	-	-	-	189,542	200,942
Travel	13,292	-	-	2,547	1,141	-	-	-	16,980
Telephone	84,132	-	-	4,200	3,919	-	-	-	92,251
Office and supplies	66,228	-	13,235	3,927	690	319	1,984	-	86,383
Volunteer lunches and conference	32,099	-	-	17	-	-	-	-	32,116
Professional and contract services	294,759	-	11,718	10,736	-	-	-	38,936	356,149
Feeding America assessment fee	93,225	-	-	-	-	-	-	-	93,225
Miscellaneous	209,744	96	5,705	225	160	470	187	-	216,587
Total expenses before depreciation	21,308,550	247,487	13,278,980	7,784,768	202,216	1,566,085	849,125	13,946,626	59,183,837
Depreciation	545,932	-	-	-	-	-	-	-	545,932
Total functional expenses	\$ 21,854,482	\$ 247,487	\$ 13,278,980	\$ 7,784,768	\$ 202,216	\$ 1,566,085	\$ 849,125	\$ 13,946,626	\$ 59,729,769

(Continued)

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

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2015
(with Comparative Totals for the Year Ended December 31, 2014)

	Program Services				Supporting Services			Totals		
	Subtotal	Senior Nutrition/ Brown Bag	BackPack Program	Product Donations/ Extra Helpings	Total Program	General and Administrative	Fundraising	Total	2015	2014
(Continued from Previous Page)										
Food	\$ 50,214,174	\$ 1,732,156	\$ 1,010,200	\$ 13,406,552	\$ 66,363,082	\$ -	\$ -	\$ -	\$ 66,363,082	\$ 66,654,072
Salaries and related expenditures	5,360,049	129,807	46,745	145,728	5,682,329	287,470	836,750	1,124,220	6,806,549	6,662,103
Warehouse rental	1,092,435	15,209	19,648	44,257	1,171,549	38,022	25,285	63,307	1,234,856	1,361,865
Utilities	437,902	12,253	-	21,443	471,598	30,633	13,350	43,983	515,581	657,234
Insurance	357,512	14,791	-	25,885	398,188	36,979	29,583	66,562	464,750	571,525
Interest	5,178	-	-	-	5,178	-	-	-	5,178	2,460
Repairs and maintenance	414,332	17,504	-	30,632	462,468	43,761	10,545	54,306	516,774	491,010
Auto and truck	207,622	5,519	2,542	9,658	225,341	13,797	143	13,940	239,281	314,797
Freight	200,942	540	-	945	202,427	1,351	-	1,351	203,778	250,308
Travel	16,980	681	-	1,191	18,852	1,702	778	2,480	21,332	12,663
Telephone	92,251	3,437	-	6,015	101,703	8,592	5,936	14,528	116,231	118,681
Office and supplies	86,383	3,924	30,316	6,866	127,489	9,809	558,060	567,869	695,358	699,351
Volunteer lunches and conference	32,116	622	4	1,088	33,830	1,554	1,171	2,725	36,555	39,123
Professional and contract services	356,149	12,992	-	22,736	391,877	302,073	162,417	464,490	856,367	763,454
Feeding America assessment fee	93,225	-	-	-	93,225	-	-	-	93,225	96,172
Miscellaneous	216,587	4,972	15,705	8,706	245,970	12,437	160,910	173,347	419,317	362,589
Total expenses before depreciation	59,183,837	1,954,407	1,125,160	13,731,702	75,995,106	788,180	1,804,928	2,593,108	78,588,214	79,057,407
Depreciation	545,932	-	-	-	545,932	-	-	-	545,932	572,372
Total functional expenses	\$ 59,729,769	\$ 1,954,407	\$ 1,125,160	\$ 13,731,702	\$ 76,541,038	\$ 788,180	\$ 1,804,928	\$ 2,593,108	\$ 79,134,146	\$ 79,629,779

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

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015
(with Comparative Totals for the Year Ended December 31, 2014)

	2015	2014
Cash flows from operating activities		
Change in net assets	\$ 313,161	\$ (1,248,911)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	545,932	572,372
Unrealized gain on investments	(141)	(15,592)
Gain on disposal of assets	(574)	(3,526)
Changes in operating assets and liabilities		
Receivables from government agencies	368,646	9,203
Receivables from affiliated charities and others	117,481	(168,290)
Pledges receivable	550,812	(471,325)
Food inventory	(248,133)	320,754
Prepaid expenses	(3,632)	225
Accounts payable and accrued expenses	50,883	(83,203)
Net cash (used in) provided by operating activities	<u>1,694,435</u>	<u>(1,088,293)</u>
Cash flows from investing activities		
Proceeds from sale of investments	10,377	9,686
Purchases of property and equipment	(208,803)	(106,937)
Proceeds from sale of property and equipment	600	3,850
Net cash used in investing activities	<u>(197,826)</u>	<u>(93,401)</u>
Cash flows from financing activities		
Proceeds from line of credit	-	600,000
Payments on line of credit	(300,000)	(300,000)
Net cash provided by (used in) financing activities	<u>(300,000)</u>	<u>300,000</u>
Net increase (decrease) in cash and cash equivalents	1,196,609	(881,694)
Cash and cash equivalents, beginning of year	<u>2,031,730</u>	<u>2,913,424</u>
Cash and cash equivalents, end of year	<u>\$ 3,228,339</u>	<u>\$ 2,031,730</u>

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

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(with Comparative Amounts for December 31, 2014)

NOTE 1 – ORGANIZATION

The Los Angeles Regional Food Bank (the “Food Bank”) is a nonprofit organization with the mission to mobilize resources to fight hunger in our community. The core work of the Food Bank is the collection and distribution of donated food and other grocery products to charitable agencies in Los Angeles County serving low-income and needy people. The Food Bank supplements donated food and products with the purchase of food and grocery items. The Food Bank also distributes food directly to low-income and needy people through its programs. The Food Bank conducts hunger research and participates in hunger awareness campaigns in order to educate and inform the public regarding the problem of hunger. The Food Bank is affiliated with Feeding America, the Nation’s Food Bank Network.

The following are the primary programs of the Food Bank:

- General Food Distribution is the Food Bank’s core program and includes the distribution of food and products to charitable agencies located throughout Los Angeles County. Part of General Food Distribution is the Food for Families Fund, which helps agencies serving low-income families, including families with young children, obtain food from the Food Bank. Shop Smart & Save is a food-buying service where the Food Bank allows the agencies to maximize their purchasing power by offering food and other items at wholesale prices. Financial donations made to the Emergency Food Fund allow the Food Bank to purchase staple food items.
- The Food Rescue Program is designed to sort salvage donations from local retailers. Products from the Food Rescue Program are distributed to Food Bank agencies and to other Feeding America food banks.

The Food Bank obtains funding from the following contracts with government agencies:

- The Emergency Food and Shelter National Board/Federal Emergency Management Agency Program (FEMA) are federal funds that are allocated to the Food Bank through the Los Angeles County Emergency Food and Shelter Board. The funds are utilized for the purchase of food for distribution to qualified agencies.
- The Emergency Food Assistance Program (EFAP) provides emergency food assistance to residents of Los Angeles County through qualified agencies and is partially funded by the United States Department of Agriculture (USDA) through its agent, the California Department of Social Services.

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(with Comparative Amounts for December 31, 2014)

NOTE 1 – ORGANIZATION (Continued)

- USDA Commodity Supplemental Food Program (CSFP) allows the Food Bank to distribute supplemental food to low-income seniors age 60 and older who are especially vulnerable to health problems resulting from general and continued hunger due to insufficient foods. CSFP is partially funded by the USDA through its agent, the California Department of Education.
- CalFresh Outreach Program is partially funded by the USDA through its agent, California Department of Health Services, Cancer Prevention and Nutrition Section, and through its agents, the California Nutrition Network and California Association of Food Banks. CalFresh Outreach work includes identifying low-income families and individuals who are eligible but not receiving CalFresh benefits and, when necessary, helping the family or individual with the application process, as well as educating Food Bank agencies and the general public about the CalFresh Program.
- USDA Summer Food Service Program (SFSP) provides nutritious meals to needy children in a safe and nurturing setting. The SFSP is designed to provide funding for a nutritious lunch when children are on their summer recess. The SFSP is funded by the USDA and administered by the California Department of Education.
- Kids Cafe™ and USDA Child and Adult Care Food Program (CACFP) provide afterschool meals to children at Food Bank agency sites throughout Los Angeles County. Children in the Kids Cafe™ program typically receive tutoring assistance, participate in sports and benefit from mentoring. Participating agencies include after-school programs, day care centers, community centers and youth centers. The Kids Cafe™ program, run by the Food Bank, is part of a national network of similar programs run by other Feeding America food banks. CACFP funding offsets some of the meal and other costs incurred by the children receiving meals at Kids Cafe™ program sites. Funding other Kids Cafe™ program-related expenses is provided by grants and community support.

Other nongovernmental programs at the Food Bank include:

- Produce and Perishables Program distributes a variety of fresh, nutritious and healthy produce donated through local and regional produce distributors and growers to its agencies. The produce and perishable foods are distributed to agencies and through Food Bank programs.

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(with Comparative Amounts for December 31, 2014)

NOTE 1 – ORGANIZATION (Continued)

- Senior Nutrition/Brown Bag Program provides agencies serving senior citizens the opportunity to receive and distribute fresh fruits, vegetables and other foods to low-income elderly persons on a weekly basis.
- The Backpack Program provides a package of healthy, nutritious food for eligible school-aged children every week during the school year to target hunger experienced by children during the weekend. Each package contains enough food for six meals to include breakfast, lunch and dinner. The program is privately funded.
- Product Donations Department works with donors to identify surplus food to be picked up by the Food Bank's fleet of trucks, and Extra Helpings is a food recovery program linking agencies with food donation sources. Extra Helpings was originally developed in cooperation with the California Restaurant Association and the Los Angeles County Department of Health Services to facilitate the contribution of food from restaurants, hotels and the hospitality industry to agencies, and has expanded to include donations from retail grocery stores and other food sources.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Food Bank recognizes contributions, including unconditional promises to give, as revenue in the period received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Food Bank and changes therein are classified and reported as follows:

- Unrestricted net assets – represent the portion of expendable funds that are available for support of the operations of the Food Bank and are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the board of directors or may otherwise be limited by contractual agreements with outside parties.
- Temporarily restricted net assets – consist of contributions that are restricted for use in specified programs or whose restrictions expire with the passage of time. The Food Bank records temporarily restricted cash contributions that are received and expended in the same year as temporarily restricted revenue. As the donor restrictions are satisfied, net assets are released from restrictions.

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(with Comparative Amounts for December 31, 2014)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

- Permanently restricted net assets – comprise funds that are subject to restrictions that the principal must be maintained in perpetuity and invested for the purpose of producing present and future income that may be expended by the Food Bank. The Endowment Fund has a balance of \$110,000 as of December 31, 2015 and 2014.

Basis of Accounting

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Comparative Statements

The financial statements include certain prior-year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Food Bank's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Revenue and Expense Recognition

The Food Bank recognizes contributions, including unconditional promises to give, as revenue in the period received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions.

Contributed Goods

The Food Bank receives a significant amount of contributed food inventory that is recorded in the financial statements as unrestricted contributions, net of amounts related to food that is unusable or spoiled (Note 7). One of the major sources of contributed food is the USDA, which allocates food commodities to the Food Bank under EFAP and CSFP.

Under these programs, food commodities are distributed without cost to all eligible recipients within the approved service areas. Upon distribution, the food is recorded as a decrease in unrestricted net assets.

The Food Bank records contributed food received from the USDA based on prices provided by the USDA. During the year ended December 31, 2015, the EFAP food product prices averaged \$0.63 per pound, and CSFP food product prices averaged \$0.78 per pound, respectively. During the year ended December 31, 2014, the EFAP food product prices averaged \$0.68 per pound, and CSFP food product prices averaged \$0.80 per pound.

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(with Comparative Amounts for December 31, 2014)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods (Continued)

All other contributed food items are valued using a weighted-average price per pound determined using studies commissioned by Feeding America, the nation's largest nongovernmental food distribution program. For the year ended December 31, 2015, the weighted-average value for contributed food was \$1.33 per pound (\$1.51 per pound in 2014). The total net value of contributed food, for the years ended December 31, 2015 and 2014, was \$62,836,844 and \$61,653,300, respectively.

Contributed Services and Property and Equipment

Contributed services are recognized by the Food Bank 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. For the years ended December 31, 2015 and 2014, the fair value of such services totaled \$269,593 and \$277,492, respectively.

The Food Bank also receives contributions of property and equipment which are recognized at fair value at the date of donation. The Food Bank did not receive any donated property and equipment during the years ended December 31, 2015 and 2014.

The Food Bank also receives a significant amount of contributed time from volunteers that does not meet the two recognition criteria described above. Accordingly, the value of this contributed time is not reflected in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the Food Bank's various programs and other activities have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits in banks and money market accounts maturing within 90 days of the purchase date.

Investments

Investments in marketable equity securities and mutual or money market fund securities with readily determinable fair values are recorded at fair value. Fair value is established based on quoted prices from recognized securities exchanges. Investment income – including realized gains and losses on investments, interest, and dividends – is included as increases in unrestricted net assets, unless the income is restricted by the donor or by law. Unrealized gains and losses on investments are reported in the applicable net asset category. Realized gains and losses on disposals of investments are determined on the basis of specific identification.

LOS ANGELES REGIONAL FOOD BANK
(A NONPROFIT ORGANIZATION)
NOTES TO FINANCIAL STATEMENTS
December 31, 2015
(with Comparative Amounts for December 31, 2014)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Purchased Inventory

Purchased inventory is stated at cost using the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost or, for contributed items, at fair market value at the date of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from three to five years for equipment, trucks, furniture, and fixtures, seven years for cold storage, and 20 years for the building. The Food Bank's capitalization policy is to capitalize all fixed assets over \$1,000.

The Food Bank reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of property and equipment may not be recoverable. Recoverability is measured by a comparison of the amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair market value of the asset. During 2015, there were no events or changes in circumstances indicating that the carrying amount of property and equipment might not be recoverable.

Income Taxes

Los Angeles Regional Food Bank is exempt from income taxes under Internal Revenue Code §501(c)(3) and California Revenue and Taxation Code §23701(d). Accordingly, a provision for federal or state income taxes is not recorded in the accompanying financial statements. The Food Bank is classified as an organization that is not a private foundation under Internal Revenue Code §509(a)(i) and §170(b)(a)(vi) of the.

The Food Bank recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Food Bank has not recorded any uncertain tax positions. The Food Bank recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the years ended December 31, 2015 and 2014, the Food Bank performed an evaluation of uncertain tax positions and did not note any matters that would require recognition in the financial statements or which might have an adverse effect on its tax-exempt status.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations

Cash and Cash Equivalents and Restricted Cash

The Food Bank places its cash and cash equivalents and restricted cash with high-credit, quality financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. As of December 31, 2015 and 2014, the Food Bank had \$2,388,149 and \$1,617,991, respectively, of uninsured cash and cash equivalents and restricted cash. The Food Bank has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents or restricted cash.

Investments

The Food Bank holds its investments in the form of equity securities and mutual or money market fund securities with third-party investment houses. Invested funds are subject to certain risks, such as market fluctuation, credit risk, and/or changes in interest rates that could result in losses in the event of adverse economic circumstances. The Food Bank attempts to limit its risk associated with investments through diversification and monitoring of investment activity.

Pledges, Grants and Contracts Receivable

With respect to pledges, grants, and contracts receivables, the Food Bank routinely assesses the financial strength of its grantors and believes that the related credit risk exposure is limited. For the year ended December 31, 2015, two donors composed a total of 68%, or \$80,000, of pledges receivable and three government grantors composed a total of 94%, or \$1,016,932, of grants receivable from government agencies. For the year ended December 31, 2014, two donors composed a total of 90%, or \$600,000, of pledges receivable and two government grantors composed a total of 97%, or \$1,395,193, of grants receivable from government agencies.

Revenue and Support

For the year ended December 31, 2015, three government agencies accounted for a total of 95%, or \$4,990,795 of payments under government contracts. For the year ended December 31, 2014, one government agency accounted for a total of 91%, or \$4,894,970 of payments under government contracts.

Estimated Fair Value of Financial Instruments

As defined in U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Food Bank uses the market approach.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments (Continued)

Based on this approach, the Food Bank utilizes certain assumptions about the risk or risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable inputs. The Food Bank utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the observability of the inputs used in the valuation techniques, the Food Bank is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and the reliability of the information used to determine fair values. As a basis for considering such assumptions, U.S. GAAP establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2 – Include other inputs that are directly or indirectly observable in the marketplace
- Level 3 – Unobservable inputs which are supported by little or no market activity

The fair value hierarchy also requires the Food Bank to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. For the years ended December 31, 2015 and 2014, the application of valuation techniques applied to similar assets and liabilities has been consistent.

The Food Bank's investments are reflected at estimated fair value based on quoted market prices. These are classified within Level 1 of the valuation hierarchy.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Food Bank has not yet selected a transition method and is currently evaluating the effect that the standard will have on its financial statements.

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first-in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. This ASU will be effective for the Food Bank for fiscal years beginning after December 15, 2016. Early adoption of ASU 2015-11 is permitted. The Food Bank does not expect the adoption of ASU 2015-11 to have a material effect on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Food Bank for fiscal years beginning after December 15, 2018. The Food Bank is currently evaluating the impact of the adoption of this standard on its financial statements. The Food Bank elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Food Bank is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

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NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

As of December 31, 2015 and 2014, cash, cash equivalents, and investments are designated and restricted as follows:

	2015	2014
Available for operations	\$ 2,460,269	\$ 1,430,375
Board-designated capital asset reserve	50,000	50,000
Board-designated primary endowment	94,795	99,322
Temporarily restricted	729,411	568,405
Permanently restricted	110,000	110,000
Total	\$ 3,444,475	\$ 2,258,102
Cash and cash equivalents	\$ 3,228,339	\$ 2,031,730
Investments	216,136	226,372
Total	\$ 3,444,475	\$ 2,258,102

NOTE 4 – RECEIVABLES FROM GOVERNMENT AGENCIES

As of December 31, 2015 and 2014, receivables from government agencies consisted of amounts due from the following agencies:

	2015	2014
Federal Emergency Management Agency, passed through United Way Emergency Food and Shelter National Board Program	\$ -	\$ 153,218
Department of Social Services Emergency Food Assistance Program	332,334	152,958
Department of Education Child Nutrition and Food Distribution Division Commodity Supplemental Food Program	436,866	838,198
Department of Education Child and Adult Care Food Program	247,732	250,819
Department of Health Services Cal Fresh Outreach and Nutrition Education	59,258	49,643
Total	\$ 1,076,190	\$ 1,444,836

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NOTE 5 – RECEIVABLES FROM AFFILIATED CHARITIES AND OTHERS

As of December 31, 2015 and 2014, receivables from affiliated agencies consisted of the following:

	2015	2014
Shared maintenance fees	\$ 502,154	\$ 619,635
Less allowance for doubtful accounts	(28,963)	(28,963)
Total	<u>\$ 473,191</u>	<u>\$ 590,672</u>

NOTE 6 – PLEDGES RECEIVABLE

Pledge receivables, totaling \$118,276 and \$669,088, at December 31, 2015 and 2014, respectively, are from various individuals and organizations. Management anticipates collection within one year. No allowance for potentially uncollectible pledges was deemed necessary at December 31, 2015 and 2014.

NOTE 7 – FOOD INVENTORY

The food inventory consisted of the following:

	2015			2014
	Contributed	Purchased	Total	Total
Dollar Value:				
Beginning of Year	\$ 5,089,258	\$ 447,460	\$ 5,536,718	\$ 5,857,472
Reallocation of Beginning Balance	(27,192)	27,192	-	-
Receipts	62,836,486	3,208,424	66,044,909	65,678,181
Distributions	(62,342,184)	(3,454,593)	(65,796,776)	(65,998,935)
End of Year	<u>\$ 5,556,368</u>	<u>\$ 228,483</u>	<u>\$ 5,784,851</u>	<u>\$ 5,536,718</u>
Poundage:				
Beginning of Year	5,952,795	649,916	6,602,711	5,665,611
Receipts	61,215,844	2,495,827	63,711,671	60,111,694
Distributions	(60,133,827)	(2,783,420)	(62,917,247)	(59,174,594)
End of Year	<u>7,034,812</u>	<u>362,323</u>	<u>7,397,135</u>	<u>6,602,711</u>

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NOTE 8 – PROPERTY AND EQUIPMENT

As of December 31, 2015 and 2014, property and equipment consisted of the following:

	2015	2014
Land	\$ 2,260,008	\$ 2,260,008
Building	5,589,065	5,491,972
Trucks	2,250,121	2,250,121
Equipment	1,652,786	1,687,953
Computer software	639,127	576,096
Furniture and fixtures	378,362	374,504
Construction in progress	22,750	-
	12,792,219	12,640,654
Less accumulated depreciation	(7,346,542)	(6,857,822)
Total	\$ 5,445,677	\$ 5,782,832

For the years ended December 31, 2015 and 2014, depreciation expense totaled \$545,932 and \$572,372, respectively.

NOTE 9 – LINE OF CREDIT

The Food Bank maintains a \$1,000,000 line of credit with US Bank. The purpose of the line of credit is to provide the Food Bank with access to short-term working capital needs in the event of an emergency or disaster, or other reasons as designated by the Food Bank’s board of directors. The line of credit matures on October 5, 2016. The line of credit is subject to an annual renewal and bears an interest rate equal to the bank prime rate minus 0.25% (3.50% at December 31, 2015). An approved written authorization from the executive committee is required to draw down on the line of credit. During the year ended December 31, 2015, the executive committee approved a draw down on the line of credit of \$300,000. As of December 31, 2015 and 2014, \$0 and \$300,000, respectively, was outstanding under the line of credit.

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NOTE 10 – NET ASSETS

Unrestricted

For the years ended December 31, 2015 and 2014, the board of directors established a capital asset reserve totaling \$50,000, and a primary endowment totaling \$94,795 and \$99,322, respectively, consisting of unrestricted cash, in anticipation of future organizational needs.

Temporarily Restricted

As of December 31, 2015, temporarily restricted net assets for specific programs are as follows:

	Balance at December 31, 2014	<u>Revenues</u>	<u>Expenditures</u>	Balance at December 31, 2015
Temporarily restricted				
BackPack Program Fund	\$ 269,979	\$ 277,484	\$ (419,973)	\$ 127,490
CalFresh Outreach	35,770	170,888	(136,659)	69,999
Children's Nutrition Program Fund	122,752	360,317	(190,873)	292,196
Emergency Food Fund	45,607	116,957	(125,198)	37,366
Emergency Food Fund 2	-	141,409	(141,409)	-
Hunger Survey/Hunger Survey	4,433	-	(4,433)	-
Fixed Assets Fund	46,113	30,000	(46,113)	30,000
Food for Families Fund	1,284	27,145	(22,320)	6,109
Mobile Food Pantry	-	1,200	(1,200)	-
Produce & Perishable Food Programs Fund	-	19,695	(19,695)	-
Senior Nutrition Program Fund	76,146	209,224	(198,125)	87,245
Restricted Due to Time	<u>611,500</u>	<u>777,839</u>	<u>(1,310,334)</u>	<u>79,005</u>
Total temporarily restricted	<u>\$ 1,213,584</u>	<u>\$ 2,132,158</u>	<u>\$ (2,616,332)</u>	<u>\$ 729,410</u>

Permanently Restricted

The permanently restricted net assets consisted of a donor-restricted perpetual endowment fund in the amount of \$110,000 at December 31, 2015 and 2014. According to the donor's stipulations, a historical value of \$110,000 should be maintained in the fund; all additions to the fund over and above the historic dollar value may, subject to the discretion policies and procedures of the Food Bank, be used to fund distributions or awards supporting the purposes of the fund.

According to the provision of the donor's stipulation and U.S. GAAP, the Food Bank records the original value of the donation to this fund as permanently restricted net assets, and investment income is appropriated for the current year's expenditures and is classified within unrestricted net assets.

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NOTE 10 – NET ASSETS (Continued)

Permanently Restricted (Continued)

The Food Bank has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the board of directors, endowment assets are invested in a manner that is intended to produce results that exceed the spending rate policy while assuming a moderate level of investment risk.

To satisfy its long-term rate of return objectives, the Food Bank relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Food Bank targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Food Bank has established a spending rate policy of 5.0% on the endowment.

During the year ended December 31, 2015, the permanently restricted and board-designated endowment fund had the following activities:

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, beginning of year	\$ 99,322	\$ 17,050	\$ 110,000	\$ 226,372
Investment loss	<u>(4,527)</u>	<u>(5,709)</u>	<u>-</u>	<u>(10,236)</u>
Balance, end of year	<u>\$ 94,795</u>	<u>\$ 11,341</u>	<u>\$ 110,000</u>	<u>\$ 216,136</u>

Endowment Net Asset by Composition by Type of Fund as of December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment fund	\$ -	\$ 11,341	\$ 110,000	\$ 121,341
Board-designated endowment fund	<u>94,795</u>	<u>-</u>	<u>-</u>	<u>94,795</u>
Balance, end of year	<u>\$ 94,795</u>	<u>\$ 11,341</u>	<u>\$ 110,000</u>	<u>\$ 216,136</u>

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NOTE 11 – SHARED MAINTENANCE FEES

The Food Bank receives fees from participating agencies to assist in the costs of distributing food by the Food Bank. These shared maintenance fees are based on predetermined rates of \$0.26 per pound or less. For the years ended December 31, 2015 and 2014, such fees totaled \$805,747 and \$1,011,668, respectively.

NOTE 12 – 403(B) RETIREMENT PLAN

All employees who have completed a year of service, as defined in the 403(b) Plan (the “Plan”), and are at least 18 years of age are eligible to participate in the Plan. The Food Bank will make a non-elective contribution equal to 1% of employees’ compensation for the Plan year. During the year ended December 31, 2015, the Food Bank made non-elective employer contributions of \$39,563 and no discretionary employer contributions to the Plan. During the year ended December 31, 2014, the Food Bank made non-elective employer contributions \$35,262 and no discretionary employer contributions to the Plan.

NOTE 13 – COMMITMENT AND CONTINGENCIES

From time to time, the Food Bank may have certain contingent liabilities that arise in the ordinary course of its business activities. The Food Bank accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. In the opinion of management, there are no pending claims of which the outcome is expected to result in a material adverse effect on the financial position, results of operations or cash flows of the Food Bank.

The Food Bank leases one warehouse under operating lease. Minimum lease payments for future years ending December 31 are as follows:

2016	\$ 580,344
2017	623,841
2018	<u>157,104</u>
Total	<u>\$ 1,361,289</u>

For the years ended December 31, 2015 and 2014, rent expense totaled \$452,881 and \$615,603, respectively.

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NOTE 14 – SUBSEQUENT EVENTS

Management evaluated all activity of the Food Bank through April 27, 2016 (the date these financial statements were available to be issued), and concluded that no material subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.