

LOS ANGELES REGIONAL



Fighting Hunger. Giving Hope.

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
AND INDEPENDENT AUDITOR'S REPORT**

LOS ANGELES REGIONAL FOOD BANK

CONTENTS

December 31, 2016 and 2015

	Page
INDEPENDENT AUDITOR'S REPORT	1 – 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Functional Expenses	6 – 9
Statements of Cash Flows	10
Notes to Financial Statements	11 – 27

SEE SUPPLEMENTARY INFORMATION IN SEPARATELY ISSUED REPORT

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Los Angeles Regional Food Bank

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 statements of financial position as of December 31, 2016 and 2015, the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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.

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, 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.

Report on Schedule of Expenditures of Federal Awards

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* 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 May 10, 2017 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.



May 10, 2017

LOS ANGELES REGIONAL FOOD BANK
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Assets		
Cash and cash equivalents	\$ 2,026,846	\$ 3,228,339
Investments	223,728	216,136
Receivables from government agencies	1,895,146	1,076,190
Receivables from affiliated charities, net	390,160	473,191
Pledges receivable	609,576	118,276
Food inventory	7,269,403	5,784,851
Prepaid expenses	404,623	279,864
Property and equipment, net	5,218,059	5,445,677
Total assets	<u>\$ 18,037,540</u>	<u>\$ 16,622,524</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 1,939,896	\$ 1,699,776
Total liabilities	1,939,896	1,699,776
Commitments and contingencies		
Net assets		
Unrestricted		
Available for operations	9,426,290	8,492,865
Board-designated	98,153	144,795
Investment in property and equipment, net	5,218,059	5,445,677
Total unrestricted	14,742,502	14,083,337
Temporarily restricted	1,245,142	729,411
Permanently restricted	110,000	110,000
Total net assets	16,097,644	14,922,748
Total liabilities and net assets	<u>\$ 18,037,540</u>	<u>\$ 16,622,524</u>

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

LOS ANGELES REGIONAL FOOD BANK
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue				
Contributions	\$ 7,453,847	\$ 2,798,921	\$ -	\$ 10,252,768
Shared maintenance fees	677,857	-	-	677,857
Payments under government contracts	5,156,280	-	-	5,156,280
Shop Smart & Save income	348,106	-	-	348,106
Special events, net of direct benefit expense	352,188	-	-	352,188
Realized and unrealized gain on investments	18,694	-	-	18,694
Other income	193,260	-	-	193,260
Subtotal	14,200,232	2,798,921	-	16,999,153
Contributed goods	71,529,552	-	-	71,529,552
Contributed assets and services	180,228	-	-	180,228
Total public support and revenue	85,910,012	2,798,921	-	88,708,933
Net assets released from restrictions	2,283,190	(2,283,190)	-	-
Total public support and revenue and net assets released from restrictions	88,193,202	515,731	-	88,708,933
Functional expenses				
Program services				
General food distribution	23,869,279	-	-	23,869,279
Food Rescue Program	255,360	-	-	255,360
Federal Emergency Management Agency Program	207,719	-	-	207,719
USDA – EFAP	13,672,377	-	-	13,672,377
USDA – CSFP	8,193,858	-	-	8,193,858
CalFresh Outreach Program	157,911	-	-	157,911
After-school Meal Program/USDA – CACFP	1,585,746	-	-	1,585,746
USDA – SFSP for Children	433,513	-	-	433,513
Produce and Perishables Program	16,852,599	-	-	16,852,599
Senior Nutrition/Brown Bag Program	1,778,343	-	-	1,778,343
BackPack Program	572,197	-	-	572,197
Product Donations and Extra Helpings Program	17,111,397	-	-	17,111,397
Total program services	84,690,299	-	-	84,690,299
Supporting services				
General and administrative	797,847	-	-	797,847
Fundraising	2,045,891	-	-	2,045,891
Total supporting services	2,843,738	-	-	2,843,738
Total functional expenses	87,534,037	-	-	87,534,037
Change in net assets	659,165	515,731	-	1,174,896
Net assets, beginning of year	14,083,337	729,411	110,000	14,922,748
Net assets, end of year	\$ 14,742,502	\$ 1,245,142	\$ 110,000	\$ 16,097,644

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

LOS ANGELES REGIONAL FOOD BANK
STATEMENT OF ACTIVITIES
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	-	-	-	-
USDA – EFAP	13,278,980	-	-	13,278,980
USDA – CSFP	7,784,768	-	-	7,784,768
CalFresh Outreach Program	202,216	-	-	202,216
After-school Meal Program/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
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

	Program Services									Subtotal
	General Food Distribution	Food Rescue Program	FEMA	USDA – EFAP	USDA – CSFP	CalFresh Outreach Program	After-School Meal Program/ USDA-CACFP	USDA – SFSP	Produce and Perishables Program	
Food	\$17,095,462	\$ -	\$ 207,719	\$ 12,635,006	\$ 6,154,974	\$ -	\$ 1,514,204	\$ 391,228	\$ 16,515,458	\$ 54,514,051
Salaries and related expenditures	4,052,264	139,501	-	609,941	1,056,274	135,382	62,473	37,150	8,418	6,101,403
Warehouse rental	541,767	39	-	230,690	718,942	343	52	-	-	1,491,833
Utilities	303,908	86,047	-	55,703	52,454	-	-	-	79,929	578,041
Insurance	209,468	-	-	31,492	118,161	-	-	-	-	359,121
Interest	8,043	-	-	-	-	-	-	-	-	8,043
Repairs and maintenance	321,546	29,773	-	76,766	13,034	-	-	-	-	441,119
Auto and truck	95,677	-	-	1,876	62,805	15,949	4,515	2,463	-	183,285
Freight	3,162	-	-	-	-	-	-	-	201,488	204,650
Travel	6,917	-	-	-	573	1,427	1,672	-	-	10,589
Telephone	92,218	-	-	-	5,456	4,022	-	-	-	101,697
Office and supplies	68,238	-	-	13,073	2,387	697	1,636	2,537	-	88,569
Volunteer lunches and conference	28,961	-	-	-	-	33	-	-	-	28,994
Professional and contract services	319,805	-	-	13,595	8,798	-	-	-	47,282	389,480
Feeding America assessment fee	87,561	-	-	-	-	-	-	-	-	87,561
Miscellaneous	163,652	-	-	4,234	-	56	1,194	135	24	169,294
Total expenses before depreciation	23,398,649	255,360	207,719	13,672,377	8,193,858	157,911	1,585,746	433,513	16,852,599	64,757,730
Depreciation	470,630	-	-	-	-	-	-	-	-	470,630
Total functional expenses	\$ 23,869,279	\$ 255,360	\$ 207,719	\$ 13,672,377	\$ 8,193,858	\$ 157,911	\$ 1,585,746	\$ 433,513	\$ 16,852,599	\$ 65,228,360

(Continued)

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

LOS ANGELES REGIONAL FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

	Program Services				Supporting Services			Total Functional Expenses	
	Subtotal	Senior Nutrition/ Brown Bag	BackPack Program	Product Donations/ Extra Helpings	Total Program	General and Administrative	Fundraising		Total Supporting
(Continued from Previous Page)									
Food	\$ 54,514,051	\$1,524,277	\$ 480,650	\$ 16,763,933	\$ 73,282,911	\$ -	\$ -	\$ -	\$ 73,282,911
Salaries and related expenditures	6,101,403	149,679	45,971	163,646	6,460,699	356,651	848,537	1,205,188	7,665,887
Warehouse rental	1,491,833	27,031	11,023	47,305	1,577,191	67,578	5,151	72,729	1,649,920
Utilities	578,041	18,002	-	31,503	627,546	45,005	13,567	58,571	686,117
Insurance	359,121	11,789	-	20,632	391,542	29,474	23,579	53,053	444,595
Interest	8,043	-	-	-	8,043	-	-	-	8,043
Repairs and maintenance	441,119	16,228	-	28,399	485,746	40,570	13,241	53,811	539,557
Auto and truck	183,285	4,778	1,657	8,361	198,081	11,945	149	12,094	210,175
Freight	204,650	160	-	280	205,090	400	-	400	205,490
Travel	10,589	361	-	632	11,583	904	403	1,306	12,889
Telephone	101,697	4,040	-	7,070	112,807	10,100	7,990	18,090	130,897
Office and supplies	88,569	3,793	22,141	6,638	121,141	9,483	652,292	661,775	782,916
Volunteer lunches and conference	28,994	557	-	975	30,526	1,393	956	2,349	32,875
Professional and contract services	389,480	11,526	-	20,170	421,176	209,042	336,865	545,907	967,083
Feeding America assessment fee	87,561	-	-	-	87,561	-	-	-	87,561
Miscellaneous	169,294	6,121	10,756	11,853	198,026	15,303	143,160	158,465	356,491
Total expenses before depreciation	64,757,730	1,778,343	572,197	17,111,397	84,219,669	797,847	2,045,891	2,843,738	87,063,407
Depreciation	470,630	-	-	-	470,630	-	-	-	470,630
Total functional expenses	\$ 65,228,360	\$ 1,778,343	\$ 572,197	\$ 17,111,397	\$ 84,690,299	\$ 797,847	\$ 2,045,891	\$ 2,843,738	\$ 87,534,037

(Concluded)

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

LOS ANGELES REGIONAL FOOD BANK
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2015

	Program Services								Subtotal
	General Food Distribution	Food Rescue Program	USDA – EFAP	USDA – CSFP	CalFresh Outreach Program	After-School Meal Program/ USDA-CACFP	USDA – SFSP	Produce and Perishables Program	
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
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2015

	Program Services				Supporting Services			Total Functional Expenses	
	Subtotal	Senior Nutrition/ Brown Bag	BackPack Program	Product Donations/ Extra Helpings	Total Program	General and Administrative	Fundraising		Total
(Continued from Previous Page)									
Food	\$50,214,174	\$1,732,156	\$ 1,010,200	\$ 13,406,552	\$ 66,363,082	\$ -	\$ -	\$ -	\$ 66,363,082
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
Warehouse rental	1,092,435	15,209	19,648	44,257	1,171,549	38,022	25,285	63,307	1,234,856
Utilities	437,902	12,253	-	21,443	471,598	30,633	13,350	43,983	515,581
Insurance	357,512	14,791	-	25,885	398,188	36,979	29,583	66,562	464,750
Interest	5,178	-	-	-	5,178	-	-	-	5,178
Repairs and maintenance	414,332	17,504	-	30,632	462,468	43,761	10,545	54,306	516,774
Auto and truck	207,622	5,519	2,542	9,658	225,341	13,797	143	13,940	239,281
Freight	200,942	540	-	945	202,427	1,351	-	1,351	203,778
Travel	16,980	681	-	1,191	18,852	1,702	778	2,480	21,332
Telephone	92,251	3,437	-	6,015	101,703	8,592	5,936	14,528	116,231
Office and supplies	86,383	3,924	30,316	6,866	127,489	9,809	558,060	567,869	695,358
Volunteer lunches and conference	32,116	622	4	1,088	33,830	1,554	1,171	2,725	36,555
Professional and contract services	356,149	12,992	-	22,736	391,877	302,073	162,417	464,490	856,367
Feeding America assessment fee	93,225	-	-	-	93,225	-	-	-	93,225
Miscellaneous	216,587	4,972	15,705	8,706	245,970	12,437	160,910	173,347	419,317
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
Depreciation	545,932	-	-	-	545,932	-	-	-	545,932
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

(Concluded)

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

LOS ANGELES REGIONAL FOOD BANK
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 1,174,896	\$ 313,161
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	470,630	545,932
Change in allowance of doubtful accounts	(15,743)	-
Realized and Unrealized gain on investments	(18,694)	(141)
Gain on disposal of assets	(2,304)	(574)
Changes in operating assets and liabilities:		
Receivables from government agencies	(818,956)	368,646
Receivables from affiliated charities	98,774	117,481
Pledges receivable	(491,300)	550,812
Food inventory	(1,484,552)	(248,133)
Prepaid expenses	(124,759)	(3,632)
Accounts payable and accrued expenses	240,120	50,883
Net cash provided by (used in) operating activities	(971,888)	1,694,435
Cash flows from investing activities		
Proceeds from sale of investments	11,102	10,377
Purchases of property and equipment	(271,457)	(208,803)
Proceeds from sale of property and equipment	30,750	600
Net cash used in investing activities	(229,605)	(197,826)
Cash flows from financing activities		
Proceeds from line of credit	900,000	-
Payments on line of credit	(900,000)	(300,000)
Net cash used in financing activities	-	(300,000)
Net increase (decrease) in cash and cash equivalents	(1,201,493)	1,196,609
Cash and cash equivalents, beginning of year	3,228,339	2,031,730
Cash and cash equivalents, end of year	\$ 2,026,846	\$ 3,228,339

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

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – NATURE OF 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. To fulfill its mission, the Food Bank sources and acquires food and other products and distributes them to needy people through charitable agencies or directly through programs; conducts hunger education and awareness campaigns and advocates for public policies that alleviate hunger; and energizes the community to get involved and support hunger relief.

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
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – NATURE OF 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.
- The After-school meal program, partially funded by the USDA Child and Adult Care Food Program (CACFP) serves children at Food Bank agency sites throughout Los Angeles County. Children in the After-school meal 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 After-school meal 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 After-school meal program sites. Funding other After-school meal program-related expenses is provided by grants and community support.
- 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.

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.
- 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.

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – NATURE OF ORGANIZATION (Continued)

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

The Food Bank reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Food Bank and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions. Donor-restricted contributions received and expended in the same reporting period are recorded as unrestricted support.
- *Permanently restricted net assets* – Net assets subject to donor-imposed restrictions requiring that the amounts contributed be invested in perpetuity. The investment income generated from these funds is available for general support of the Food Bank's programs and operations.

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Expense Recognition

The Food Bank recognizes contributions, including unconditional promises to give, as revenue in the period received or promised. 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, 2016, the EFAP food product prices averaged \$0.65 per pound, and CSFP food product prices averaged \$0.73 per pound. 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.

All other contributed food items are valued using a weighted-average price per pound determined using studies commissioned by Feeding America. For the year ended December 31, 2016, the weighted-average value for contributed food was \$1.38 per pound (\$1.33 per pound in 2015). The total net value of contributed food, for the years ended December 31, 2016 and 2015, was \$71,529,553 and \$62,836,844, 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, 2016 and 2015, the fair value of such services totaled \$180,228 and \$269,593, 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, 2016 and 2015.

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.

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 interest-bearing deposits and money market funds with a maturing within 90 days of the purchase date.

Revenue and Support

For the year ended December 31, 2016, three government agencies accounted for a total of 91%, or \$4,672,442 of payments under government contracts. 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.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP 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.

Concentrations of Credit Risk

Cash and Cash Equivalents

The Food Bank maintains its cash and cash equivalents at various reputable financial institutions. The balances at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2016 and 2015, the Company had \$1,456,388 and \$2,388,149 of cash and cash equivalents and restricted cash that were not fully insured by the FDIC, respectively. The Organization has not experienced any losses in such accounts.

LOS ANGELES REGIONAL FOOD BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk (Continued)

Pledges, Grants and Contracts Receivable

With respect to pledge 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, 2016, two donors composed a total of 78%, or \$475,000, of pledges receivable and four government grantors composed a total of 93%, or \$1,765,016, of grants receivable from government agencies. 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.

Investments

The Food Bank's investments consist principally of marketable equity securities and mutual or money market fund securities with readily determinable fair values. 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.

The Food Bank's classifies its investments at the time of purchase as available-for-sale and are presented at fair value. Unrealized gains and losses on available-for-sale investments are excluded from earnings and included in accumulated other comprehensive income until realized. Realized gains and losses of available-for-sale investments are included in the statement of income.

Food Inventory

Food inventory is stated at cost using the first-in, first-out (FIFO) 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 estimated useful lives of 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.

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-lived Assets

The Food Bank reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset. As of December 31, 2016 and 2015, there were no events or changes in circumstances indicating the carrying amount of long-lived assets may not be recoverable.

Income Taxes

The 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).

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, 2016 and 2015, 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.

Fair Value of Financial Instruments

In accordance with U.S. GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3 – Unobservable inputs that are not corroborated by market data

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

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Food Bank is currently evaluating the impact the adoption of this guidance will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for years beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Food Bank is currently evaluating the impact of the adoption of this guidance on its financial statements.

NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of December 31, 2016 and 2015, the significant components of cash, cash equivalents, and investments are as follows:

	2016	2015
Available for operations	\$ 1,350,106	\$ 2,460,269
Board-designated capital asset reserve	-	50,000
Board-designated primary endowment	98,153	94,795
Temporarily restricted	692,315	729,411
Permanently restricted	110,000	110,000
	<u>\$ 2,250,574</u>	<u>\$ 3,444,475</u>
Cash and cash equivalents	\$ 2,026,846	\$ 3,228,339
Investments	223,728	216,136
	<u>\$ 2,250,574</u>	<u>\$ 3,444,475</u>

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 4 – RECEIVABLES FROM GOVERNMENT AGENCIES

As of December 31, 2016 and 2015, receivables from government agencies consisted of amounts due from the following agencies:

	2016	2015
Federal Emergency Management Agency, passed through United Way Emergency Food and Shelter National Board Program	\$ 103,860	\$ -
Department of Social Services Emergency Food Assistance Program	354,217	332,334
Department of Social Services State Emergency Food Assistance Program	207,512	-
Department of Education Child Nutrition and Food Distribution Division Commodity Supplemental Food Program	953,319	436,866
Department of Education Child and Adult Care Food Program	249,968	247,732
Department of Health Services Cal Fresh Outreach and Nutrition Education	26,270	59,258
	<u>\$ 1,895,146</u>	<u>\$ 1,076,190</u>

NOTE 5 – RECEIVABLES FROM AFFILIATED CHARITIES AND OTHERS

As of December 31, 2016 and 2015, receivables from affiliated agencies consisted of the following:

	2016	2015
Shared maintenance fees	\$ 403,380	\$ 502,154
Less allowance for doubtful accounts	(13,220)	(28,963)
	<u>\$ 390,160</u>	<u>\$ 473,191</u>

NOTE 6 – PLEDGES RECEIVABLE

Pledge receivables, totaling \$609,576 and \$118,276 at December 31, 2016 and 2015, 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, 2016 and 2015.

LOS ANGELES REGIONAL FOOD BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 7 – FOOD INVENTORY

As of December 31, 2016, the food inventory consisted of the following:

	Contributed	Purchased	Total
<u>Dollar Value:</u>			
Beginning of Year	\$ 5,556,368	\$ 228,483	\$ 5,784,851
Receipts	71,529,553	2,539,252	74,068,805
Distributions	<u>(69,978,691)</u>	<u>(2,605,562)</u>	<u>(72,584,253)</u>
End of Year	<u>\$ 7,107,230</u>	<u>\$ 162,173</u>	<u>\$ 7,269,403</u>
<u>Poundage:</u>			
Beginning of Year	7,034,812	362,326	7,397,138
Receipts	67,587,483	1,883,830	69,471,313
Distributions	<u>(65,025,499)</u>	<u>(1,968,118)</u>	<u>(66,993,617)</u>
End of Year	<u>9,596,796</u>	<u>278,038</u>	<u>9,874,834</u>

As of December 31, 2015, the food inventory consisted of the following:

	Contributed	Purchased	Total
<u>Dollar Value:</u>			
Beginning of Year	\$ 5,089,258	\$ 447,460	\$ 5,536,718
Reallocation of Beginning Balance	(27,192)	27,192	-
Receipts	62,836,486	3,208,424	66,044,910
Distributions	<u>(62,342,184)</u>	<u>(3,454,593)</u>	<u>(65,796,777)</u>
End of Year	<u>\$ 5,556,368</u>	<u>\$ 228,483</u>	<u>\$ 5,784,851</u>
<u>Poundage:</u>			
Beginning of Year	5,952,795	649,916	6,602,711
Receipts	61,215,844	2,495,827	63,711,671
Distributions	<u>(60,133,827)</u>	<u>(2,783,420)</u>	<u>(62,917,247)</u>
End of Year	<u>7,034,812</u>	<u>362,323</u>	<u>7,397,135</u>

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 8 – PROPERTY AND EQUIPMENT

As of December 31, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Land	\$ 2,260,008	\$ 2,260,008
Building	5,758,110	5,589,065
Trucks	1,528,255	2,250,121
Equipment	2,027,375	1,652,786
Computer software	224,213	639,127
Furniture and fixtures	380,309	378,362
Construction in progress	34,225	22,750
	12,212,495	12,792,219
Less accumulated depreciation	(6,994,436)	(7,346,542)
	\$ 5,218,059	\$ 5,445,677

For the years ended December 31, 2016 and 2015, depreciation expense totaled \$470,630 and \$545,932, 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, 2017. 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, 2016). An approved written authorization from the executive committee is required to draw down on the line of credit. During the year ended December 31, 2016, the executive committee approved a draw down on the line of credit of \$900,000, all of which was repaid in 2016.

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 10 – NET ASSETS

Unrestricted

For the years ended December 31, 2016 and 2015, the board designated endowment totaling \$98,153 and \$94,795, respectively, consisted of unrestricted cash, in anticipation of future organizational needs.

Temporarily Restricted

As of December 31, 2016, temporarily restricted net assets for specific programs are as follows:

	Balance at December 31, <u>2015</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance at December 31, <u>2016</u>
Temporarily restricted				
BackPack Program Fund	\$ 127,490	\$ 411,948	\$ 275,184	\$ 264,254
CalFresh Outreach	69,999	123,815	157,809	36,005
Children’s Nutrition Program Fund	292,196	656,886	543,039	406,043
Emergency Food Fund	37,366	126,500	126,984	36,882
Emergency Food Fund 2	-	98,799	98,799	-
Fixed Assets Fund	30,000	75,250	30,000	75,250
Food for Families Fund	6,109	28,985	29,750	5,345
Produce & Perishable Food Programs Fund	-	36,749	36,749	-
Senior Nutrition Program Fund	87,245	177,642	163,394	101,493
Agency Capacity Fund	-	50,000	46,130	3,870
Restricted Due to Time	<u>79,005</u>	<u>1,012,347</u>	<u>775,352</u>	<u>316,000</u>
Total temporarily restricted	<u>\$ 729,410</u>	<u>\$ 2,798,921</u>	<u>\$ 2,283,190</u>	<u>\$ 1,245,142</u>

LOS ANGELES REGIONAL FOOD BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 10 – NET ASSETS (Continued)

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

	Balance at December 31, <u>2014</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance at December 31, <u>2015</u>
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>\$ 729,411</u>

Permanently Restricted

The permanently restricted net assets consisted of a donor-restricted perpetual endowment fund in the amount of \$110,000 at both December 31, 2016 and 2015. 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.

LOS ANGELES REGIONAL FOOD BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10 – NET ASSETS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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, 2016, the permanently restricted and board-designated endowment fund had the following activities:

Changes in Endowment Net Assets for the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	\$ 94,795	\$ 11,341	\$ 110,000	\$ 216,136
Investment income	3,358	4,234	-	7,592
Balance, end of year	\$ 98,153	\$ 15,575	\$ 110,000	\$ 223,728

Endowment Net Asset by Composition by Type of Fund as of December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$	\$ 15,575	\$ 110,000	\$ 125,575
Board-designated endowment fund	98,153	-	-	98,153
Balance, end of year	\$ 98,153	\$ 15,575	\$ 110,000	\$ 223,728

LOS ANGELES REGIONAL FOOD BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10 – NET ASSETS (Continued)

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 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	(4,527)	(5,709)	-	(10,236)
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	94,795	-	-	94,795
Balance, end of year	<u>\$ 94,795</u>	<u>\$ 11,341</u>	<u>\$ 110,000</u>	<u>\$ 216,136</u>

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, 2016 and 2015, such fees totaled \$677,857 and \$805,747, 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. In 2016, the Food Bank implemented an employer match of up to 3%. During the year ended December 31, 2016, the Food Bank made non-elective employer contributions of \$43,085, employer-match contributions of \$36,302, and no discretionary employer contributions to the Plan. During the year ended December 31, 2015, the Food Bank made non-elective employer contributions of \$39,563 and no matching or discretionary employer contributions to the Plan.

LOS ANGELES REGIONAL FOOD BANK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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:

2017	\$ 623,841
2018	<u>157,104</u>
Total	<u>\$ 780,945</u>

For the years ended December 31, 2016 and 2015, rent expense totaled \$577,670 and \$452,881, respectively.

NOTE 14 – SUBSEQUENT EVENTS

During March 2017, the Food Bank entered into a lease agreement for a building in Commerce, California. The noncancelable lease term is from May 2017 to June 2022. The monthly rental payment is \$65,451 and increases by 3% in each succeeding year of the lease. During April 2017, the Food Bank terminated the lease agreement for the Vernon building effective April 30, 2017 and a third party assumed the contractual obligations for the remaining lease term.

Management evaluated all activity of the Food Bank through May 10, 2017 (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.