

**Redwood Empire Food Bank
(A Nonprofit Corporation)**

Financial Statements

Years Ended June 30, 2012 and 2011

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Functional Expenses	5
Statements of Cash Flows	7
Notes to Financial Statements	8

Independent Auditors' Report

To the Board of Directors
Redwood Empire Food Bank
Santa Rosa, California

We have audited the accompanying statements of financial position of Redwood Empire Food Bank (a Nonprofit Corporation) (the "Food Bank") as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Food Bank's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Redwood Empire Food Bank as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012 on our consideration of Redwood Empire Food Bank's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



Petaluma, California
November 29, 2012

**Redwood Empire Food Bank
(A Nonprofit Corporation)**

Statements of Financial Position

June 30,	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 1,288,736	\$ 924,053
Certificates of deposit	441,426	438,328
Accounts receivable	361,914	346,732
Pledges receivable, current portion	639,642	446,803
Food inventory	1,032,055	1,051,660
Other current assets	62,867	55,605
Total current assets	3,826,640	3,263,181
Property, equipment and improvements, net	6,564,092	1,300,748
Pledges receivable, less current portion	780,931	271,725
Restricted cash for capital campaign	1,577,730	1,482,647
Other assets	3,890	75,000
	\$ 12,753,283	\$ 6,393,301
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 290,461	\$ 231,199
Accrued expenses	117,748	120,022
Current portion of long-term debt	63,184	-
Total current liabilities	471,393	351,221
Long-term debt	800,613	-
Total liabilities	1,272,006	351,221
Net assets		
Unrestricted	8,163,756	3,671,086
Temporarily restricted	3,317,521	2,370,994
Total net assets	11,481,277	6,042,080
	\$ 12,753,283	\$ 6,393,301

See accompanying Notes to Financial Statements

**Redwood Empire Food Bank
(A Nonprofit Corporation)**

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Shared maintenance	\$ 992,947	\$ -	\$ 992,947
Grants	1,001,362	-	1,001,362
Donations	7,656,329	1,052,641	8,708,970
Fundraising events	297,156	-	297,156
Donated food	17,168,462	-	17,168,462
Investment income	4,599	-	4,599
Total support and revenue	27,120,855	1,052,641	28,173,496
Net assets released from restrictions	106,114	(106,114)	-
Total support, revenue and net assets released from restrictions	27,226,969	946,527	28,173,496
 Expenses			
Program services	21,980,180	-	21,980,180
Fundraising	610,367	-	610,367
Management and general	143,752	-	143,752
Total expenses	22,734,299	-	22,734,299
Increase in net assets	4,492,670	946,527	5,439,197
Net assets, beginning of year	3,671,086	2,370,994	6,042,080
Net assets, end of year	\$ 8,163,756	\$ 3,317,521	\$ 11,481,277

See accompanying Notes to Financial Statements

**Redwood Empire Food Bank
(A Nonprofit Corporation)**

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
Support and revenue			
Shared maintenance	\$ 998,433	\$ -	\$ 998,433
Grants	1,167,264	-	1,167,264
Donations	3,040,441	781,199	3,821,640
Fundraising events	191,142	-	191,142
Donated food	16,421,377	-	16,421,377
Investment income	6,081	-	6,081
Other income	16,250	-	16,250
Total support and revenue	21,840,988	781,199	22,622,187
Net assets released from restrictions	51,911	(51,911)	-
Total support, revenue and net assets released from restrictions	21,892,899	729,288	22,622,187
Expenses			
Program services	20,970,718	-	20,970,718
Fundraising	535,714	-	535,714
Management and general	194,015	-	194,015
Total expenses	21,700,447	-	21,700,447
Increase in net assets	192,452	729,288	921,740
Net assets, beginning of year	3,478,634	1,641,706	5,120,340
Net assets, end of year	\$ 3,671,086	\$ 2,370,994	\$ 6,042,080

See accompanying Notes to Financial Statements

**Redwood Empire Food Bank
(A Nonprofit Corporation)**

Statement of Functional Expenses

Year Ended June 30, 2012

	Program Services	Fund- raising	Management & General	Total Expenses
Food distributed	\$ 17,229,115	\$ -	\$ -	\$ 17,229,115
Food purchased	1,480,005	-	-	1,480,005
Salaries and wages	1,358,294	187,379	94,043	1,639,716
Food handling costs	859,913	-	-	859,913
Employee benefits and payroll taxes	299,096	41,261	20,708	361,065
Public relations and marketing	63,114	159,345	189	222,648
Professional fees	67,903	132,215	2,743	202,861
Depreciation	122,816	12,220	6,132	141,168
Office expenses	139,483	17,106	8,585	165,174
Auto and truck expenses	121,876	-	-	121,876
Occupancy expenses	121,579	12,096	6,071	139,746
Insurance	59,400	6,878	3,452	69,730
Other expenses	51,113	2,751	1,381	55,245
Fundraising events	-	38,223	-	38,223
Meetings and conferences	6,473	893	448	7,814
	\$ 21,980,180	\$ 610,367	\$ 143,752	\$ 22,734,299

See accompanying Notes to Financial Statements

**Redwood Empire Food Bank
(A Nonprofit Corporation)**

Statement of Functional Expenses

Year Ended June 30, 2011

	Program Services	Fund- raising	Management & General	Total Expenses
Food distributed	\$ 16,617,512	\$ -	\$ -	\$ 16,617,512
Food purchased	1,520,310	-	-	1,520,310
Salaries and wages	1,208,855	173,699	132,691	1,515,245
Food handling costs	733,301	-	-	733,301
Employee benefits and payroll taxes	242,626	34,862	26,632	304,120
Public relations and marketing	42,306	173,091	165	215,562
Professional fees	81,933	98,606	4,112	184,651
Depreciation	113,488	9,614	7,344	130,446
Office expenses	106,973	12,806	9,783	129,562
Auto and truck expenses	120,521	-	-	120,521
Occupancy expenses	101,547	8,602	6,571	116,720
Insurance	41,868	4,732	3,615	50,215
Other expenses	34,702	3,375	2,578	40,655
Fundraising events	-	15,641	-	15,641
Meetings and conferences	4,776	686	524	5,986
	\$ 20,970,718	\$ 535,714	\$ 194,015	\$ 21,700,447

See accompanying Notes to Financial Statements

**Redwood Empire Food Bank
(A Nonprofit Corporation)**

Statements of Cash Flows

Year Ended June 30,	2012	2011
Cash flows from operating activities		
Increase in net assets	\$ 5,439,197	\$ 921,740
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	141,168	130,446
Contributions and pledges restricted for capital campaign & equipment	(5,163,985)	(658,221)
Changes in assets and liabilities affecting operating activities:		
Decrease (increase) in assets:		
Accounts receivable	(15,182)	(18,051)
Food inventory	19,605	208,448
Other assets	(11,152)	25,142
Increase (decrease) in liabilities:		
Accounts payable	59,262	49,513
Accrued expenses	(2,274)	19,981
Deferred revenue	-	(27,500)
Net cash provided by operating activities	466,639	651,498
Cash flows from investing activities		
Purchases of property and equipment	(5,329,512)	(171,592)
Deposit on building purchase	-	(75,000)
Investments in certificates of deposit, net	(3,098)	(438,328)
Investment in assets restricted for capital purchases, net	(95,083)	(225,566)
Net cash used by investing activities	(5,427,693)	(910,486)
Cash flows from financing activities		
Proceeds from note payable	1,500,000	-
Payments on note payable	(636,203)	-
Contributions restricted for capital campaign & equipment	4,461,940	272,407
Net cash provided by financing activities	5,325,737	272,407
Net increase in cash and cash equivalents	364,683	13,419
Cash and cash equivalents, beginning of year	924,053	910,634
Cash and cash equivalents, end of year	\$ 1,288,736	\$ 924,053
Supplemental disclosure of cash flow information		
Noncash investing and financing activities		
Application of deposit to building purchase	\$ 75,000	\$ -

See accompanying Notes to Financial Statements

Note A. Summary of Activities and Significant Accounting Policies

Redwood Empire Food Bank (the “Food Bank”) is a California nonprofit public benefit corporation whose mission is to end hunger in the community. Founded in 1987, the Food Bank has become Sonoma County’s largest hunger-relief organization. The Food Bank solicits donations from a wide variety of sources, including manufacturers, wholesalers, grocers, growers, governments, individuals and other nonprofit organizations. The Food Bank acquires food and distributes it through a network of charitable agencies and the Food Bank’s own food assistance programs. The Food Bank also provides food to member nonprofit organizations engaged in providing food to the needy of Lake, Mendocino, Humboldt, and Del Norte Counties. The member organizations help defray part of the operating costs by contributing a “shared maintenance” fee to the Food Bank.

In addition to operating its shared maintenance program, the Food Bank also obtains government assistance in the form of food commodities and reimbursements for distribution costs associated with the delivery of the food commodities. Revenue from government agency contracts is recognized when the related service has been provided.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to make a gift to the Food Bank that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets represent assets that must be permanently maintained in accordance with the stated wishes of the donor. The Food Bank does not currently have any permanently restricted net assets.

Contributed services are recognized when the Food Bank would typically purchase such services if they require specialized skills and the contributor possesses such skills. Contributions recognized under these circumstances for 2012 and 2011 approximated \$10,000 and \$16,000, respectively. Many individuals volunteer their time and perform a variety of tasks that assist the Food Bank in the performance of its mission; however, these services do not meet the criteria for recognition as contributed services. The Food Bank received over 87,500 volunteer hours during each of the fiscal years.

Cash and cash equivalents

Cash and cash equivalents include cash in banks, money market accounts and investments with original maturity dates of 90 days or less.

Pledges receivable

Pledges receivable consists of unconditional promises to give. The Food Bank uses the allowance method to determine uncollectible pledges receivable. The allowance for uncollectible pledges is based on management’s assessment of the collectibility of specific donor pledges, historical experience and other currently available evidence.

Note A. Summary of Activities and Significant Accounting Policies (continued)

Accounts receivable

Accounts receivable represent funds due from affiliated agencies for shared maintenance costs and from governments for contracted food distribution services. As of June 30, 2012 and 2011, management estimates that no reserve for losses on accounts receivable is necessary. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on past due accounts receivable balances.

Food inventory

Food inventory consists of food items, both donated and purchased. Purchased food products are stated at the lower of cost (first-in, first-out method) or market, government commodities are carried in inventory at a cost figure provided by government agencies and the value of donated food is determined according to a composite per-pound rate determined by a cost study performed by Feeding America. Donated food for 2012 and 2011 was valued at \$1.66 per pound.

Property, equipment and improvements

Property, equipment and improvements are stated at cost less accumulated depreciation and amortization. Equipment depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 20 years. Buildings and related improvements are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years. Motor vehicle depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 10 years. Donated property is recorded at its estimated fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Long-lived assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless otherwise stated by the donor, the restriction expires when the asset is purchased.

The Food Bank reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the recorded amount of the asset to the estimated undiscounted future net cash flows expected to be generated by the asset. During 2012 and 2011, there were no impairments identified.

In September 2011, the Organization purchased a building which required significant improvements and will be used as its new office and warehouse facilities when complete. This building is included in construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. The Organization capitalizes interest cost incurred on funds used to construct property and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost incurred and capitalized was \$42,106 for 2012.

Note A. Summary of Activities and Significant Accounting Policies (continued)

Financial instruments

The carrying amount of financial instruments approximate fair value based on quoted market prices or discounted cash flow analysis for cash, restricted cash and other financial instruments. Financial instruments that potentially subject the Food Bank to concentrations of credit risk consist principally of cash, certificates of deposit, restricted cash, and receivables. The Food Bank places its temporary cash investments with high quality financial institutions. At times, cash investments may exceed insured limits.

Functional allocation of expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services based upon management estimates.

Advertising

Advertising costs are charged to operations when incurred. Advertising costs for 2012 and 2011 totaled \$18,496 and \$4,487 respectively.

Use of estimates

The preparation of financial statements requires management to make estimates based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenue and expenses. Due to their prospective nature, actual results could differ from those estimates.

Income taxes

As a nonprofit corporation, the Food Bank is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. These exemptions are subject to periodic review by the taxing authorities. Accordingly, a provision for federal or state income taxes is not recorded. With few exceptions, the Organization is no longer subject to U.S. and California income tax examinations by tax authorities for tax years before 2007.

Redwood Empire Food Bank
(A Nonprofit Corporation)

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

Note B. Pledges Receivable

As of June 30,	2012	2011
Restricted for capital campaign	\$ 1,461,962	\$ 751,991
Less: unamortized discount	(16,389)	(8,463)
allowance for uncollectible pledges	(25,000)	(25,000)
Pledges receivable, net	\$ 1,420,573	\$ 718,528
Amounts due in:		
Less than one year	\$ 639,642	\$ 446,803
One to five years	780,931	271,725
	\$ 1,420,573	\$ 718,528

Pledges receivable due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.0% in each of the years.

Note C. Food Inventory

As of June 30,	2012	2011
Donated food	\$ 378,616	\$ 352,758
Government commodities	306,270	392,781
Purchased food	347,169	306,121
	\$ 1,032,055	\$ 1,051,660

Note D. Property, Equipment and Improvements

As of June 30,	2012	2011
Land	\$ 175,000	\$ 175,000
Buildings and improvements	1,148,134	1,148,134
Equipment and fixtures	800,974	772,688
Motor vehicles	849,894	699,173
Construction in progress	5,228,720	3,215
	8,202,722	2,798,210
Accumulated depreciation	(1,638,630)	(1,497,462)
	\$ 6,564,092	\$ 1,300,748

For the Years Ended June 30, 2012 and 2011

Note E. Commitments Under Operating Leases

The Food Bank rents equipment under a non-cancelable operating lease which requires monthly payments of approximately \$220 and expires in 2015. The following is a schedule of minimum future rental payments required under the noncancelable operating lease as of June 30, 2012.

Year ending June 30,		
2013	\$	2,640
2014		2,640
2015		2,200
		\$ 7,479

Rent expense amounted to \$73,237 and \$115,607 for 2012 and 2011 respectively.

Note F. Long-Term Debt

The Food Bank has a note payable to a bank which was obtained in September 2011. The note is due in monthly installments of \$8,571, including interest at 4.75% per annum. The note is collateralized by the building included in construction in progress at June 30, 2012. The note matures in October 2016.

Maturities of long-term debt were as follows as of June 30, 2012.

Year ending June 30,		
2013	\$	63,184
2014		66,251
2015		69,467
2016		72,841
2017		592,054
		\$ 863,797

Note G. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

As of June 30,	2012	2011
Funding for capital campaign	\$ 2,998,303	\$ 2,201,175
Funding for specific programs	283,284	77,704
Funding for specific purchases	35,934	92,115
	\$ 3,317,521	\$ 2,370,994

Note H. Retirement Plan

The Food Bank has a savings incentive match retirement plan which is available to eligible employees having completed one month of service. The Food Bank makes matching contributions up to 3% of employee compensation. Contributions were \$36,828 and \$32,862 for 2012 and 2011, respectively.

Note I. Subsequent Events

In accordance with ASC 855, the Food Bank has evaluated subsequent events through November 29, 2012, the date these financial statements were available to be issued. On September 5, 2012, the Organization entered into an agreement to sell its existing office and warehouse space for \$1,275,000. The proceeds will be used towards the completion of construction on the building purchased in September 2011. The new owner agreed to a short-term monthly lease back until the Organization's new facilities are complete. There were no other material subsequent events that required recognition or disclosure in these financial statements.