

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)

INDEPENDENT AUDITORS' REPORT

June 30, 2011 and 2010

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# BOITANO, SARGENT & LILLY, LLP

*Certified Public Accountants*

1760 THE ALAMEDA  
SAN JOSE, CALIFORNIA 95126  
TELEPHONE (408) 287-2123

*Certified Staff*  
CHRIS COLLINS MADRID  
D. JIMMIE MACHLAN  
JAMES C. WAI  
ANTHIE KARVOUNIS  
CRYSTAL K. HOFER  
KEVIN M. EPES  
ALICE BOYD  
JOE CASEY  
KATHY MCFARLAND

FRANK L. BOITANO  
STEVEN F. BOITANO  
H. OGDEN LILLY

LOUIS F. BOITANO  
(1947-2008)  
FRANCES V. SARGENT  
(1957-1988)

www.bsllcpa.com  
FAX (408) 295-1436

## INDEPENDENT AUDITORS' REPORT

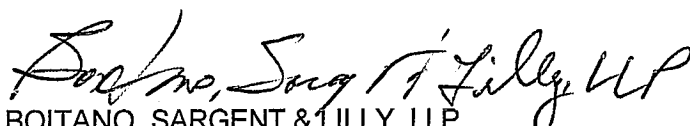
To the Board of Directors of  
Loaves and Fishes Family Kitchen  
(A California Nonprofit Public Benefit Organization)

We have audited the accompanying statements of financial position of Loaves and Fishes Family Kitchen (a California nonprofit public benefit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 the 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 Loaves and Fishes Family Kitchen as of June 30, 2011 and 2010, 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 September 29, 2011, on our consideration of Loaves and Fishes Family Kitchen'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 audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

  
BOITANO, SARGENT & LILLY, LLP  
San Jose, California  
September 29, 2011

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2011 and 2010

ASSETS

	2011	2010
<b>CURRENT ASSETS</b>		
Cash	\$ 523,881	\$ 151,944
Investments	-	257,896
Grants Receivable	14,846	37,670
Inventory	22,352	22,022
Other Assets	18,916	12,996
Total Current Assets	579,995	482,528
 <b>PROPERTY AND EQUIPMENT, NET</b>	 58,008	 32,913
 <b>TOTAL ASSETS</b>	 \$ 638,003	 \$ 515,441

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 3,306	\$ 4,318
Accrued Liabilities	15,471	29,371
Total Current Liabilities	18,777	33,689
 <b>NET ASSETS</b>		
Unrestricted Net Assets		
Undesignated	309,218	385,868
Board Designated Operating Reserve	250,000	50,000
Property and Equipment Fund	58,008	32,913
Total Unrestricted Net Assets	617,226	468,781
Temporarily Restricted Net Assets	2,000	12,971
Total Net Assets	619,226	481,752
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 \$ 638,003	 \$ 515,441

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

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011

	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND OTHER SUPPORT			
Contributions	\$ 319,914	\$ -	\$ 319,914
Contributions In-Kind	277,274	-	277,274
Government Grants	155,824	-	155,824
Other Grants	187,717	2,000	189,717
Special Events	54,766	-	54,766
Interest Income	2,510	-	2,510
Net Assets Released from Restriction	12,971	(12,971)	-
Total Revenue, Other Support and Net Assets Released from Restriction	1,010,976	(10,971)	1,000,005
EXPENSES			
Program Services	693,735	-	693,735
Supporting Services			
Management and General	112,827	-	112,827
Fundraising	55,969	-	55,969
Total Expenses	862,531	-	862,531
CHANGE IN NET ASSETS	148,445	(10,971)	137,474
NET ASSETS, Beginning of Year	468,781	12,971	481,752
NET ASSETS, End of Year	\$ 617,226	\$ 2,000	\$ 619,226

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

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE AND OTHER SUPPORT			
Contributions	\$ 264,605	\$ -	\$ 264,605
Contributions In-Kind	208,250	-	208,250
Government Grants	106,453	15,200	121,653
Other Grants	165,454	5,000	170,454
Special Events	27,162	-	27,162
Interest Income	5,430	-	5,430
Net Assets Released from Restriction	31,461	(31,461)	-
	<u>808,815</u>	<u>(11,261)</u>	<u>797,554</u>
Total Revenue, Other Support and Net Assets Released from Restriction			
EXPENSES			
Program Services	518,931	-	518,931
Supporting Services			
Management and General	132,170	-	132,170
Fundraising	41,795	-	41,795
	<u>692,896</u>	<u>-</u>	<u>692,896</u>
Total Expenses			
CHANGE IN NET ASSETS	115,919	(11,261)	104,658
NET ASSETS, Beginning of Year	<u>352,862</u>	<u>24,232</u>	<u>377,094</u>
NET ASSETS, End of Year	<u>\$ 468,781</u>	<u>\$ 12,971</u>	<u>\$ 481,752</u>

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

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2011  
(with comparative totals for the year ended June 30, 2010)

	PROGRAM SERVICES	SUPPORTING SERVICES			TOTALS	
		Management and General	Fundraising	Total	2011	2010
<b>SALARIES AND RELATED EXPENSES</b>						
Salaries and Wages	\$ 217,183	\$ 48,323	\$ 15,305	\$ 63,628	\$ 280,811	\$ 247,849
Health Benefits	45,545	2,685	854	3,539	49,084	36,083
Payroll Taxes	21,472	3,955	1,339	5,294	26,766	23,975
Workers Compensation	9,370	555	178	733	10,103	4,805
Payroll Fees	1,564	204	70	274	1,838	3,784
Retirement Plan	-	-	-	-	-	147
Total Salaries and Related Expenses	295,134	55,722	17,746	73,468	368,602	316,643
<b>OTHER EXPENSES</b>						
Food	280,081	21	8,878	8,899	288,980	197,958
Rent	70,520	18,144	-	18,144	88,664	65,365
Professional Fees	-	22,947	1,550	24,497	24,497	40,108
Insurance	3,970	1,494	467	1,961	5,931	5,923
Repairs and Maintenance	2,313	553	-	553	2,866	3,487
Printing	4,666	1,025	18,753	19,778	24,444	16,913
Supplies	12,600	77	-	77	12,677	5,932
Telephone	3,942	2,082	200	2,282	6,224	5,443
Vehicle Expense	3,834	793	373	1,166	5,000	3,982
Postage	299	1,807	4,629	6,436	6,735	8,351
Office Supplies and Expenses	3,260	5,935	3,172	9,107	12,367	11,950
Bank Charges	-	72	-	72	72	70
Volunteer Development	599	219	-	219	818	113
Dues and Subscriptions	-	786	-	786	786	931
Employee Development	165	112	201	313	478	1,355
Miscellaneous Expenses	-	-	-	-	-	50
Community Services	-	-	-	-	-	1,261
Total Other Expenses	386,249	56,067	38,223	94,290	480,539	369,192
Total Expenses Before Depreciation	681,383	111,789	55,969	167,758	849,141	685,835
Depreciation	12,352	1,038	-	1,038	13,390	7,061
Total Functional Expenses	\$ 693,735	\$ 112,827	\$ 55,969	\$ 168,796	\$ 862,531	\$ 692,896
Percentage of Total	80.4%	13.1%	6.5%	19.6%	100%	

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

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 137,474	\$ 104,658
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	13,390	7,061
(Increase) Decrease in Operating Assets		
Grants Receivable	22,824	(11,120)
Inventory	(330)	(16,309)
Other Assets	(5,920)	(1,831)
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(1,012)	3,496
Accrued Liabilities	(13,900)	240
	152,526	86,195
Net Cash Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	-	(104,791)
Investment Redemptions	257,896	-
Purchase of Property and Equipment	(38,485)	(17,367)
	219,411	(122,158)
Net Cash Provided (Used) by Investing Activities		
NET INCREASE (DECREASE) IN CASH	371,937	(35,963)
CASH, Beginning of Year	151,944	187,907
CASH, End of Year	\$ 523,881	\$ 151,944

SUPPLEMENTAL NON-CASH DISCLOSURES

In-Kind Contributions of Food	\$ 275,607	\$ 186,089
Distribution of Donated Food	\$ 266,470	\$ 169,780

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

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 1 – NATURE OF ACTIVITIES

Loaves and Fishes Family Kitchen (the "Organization") is a California nonprofit public benefit organization founded in 1980 and located in San Jose, California. The Organization provides no-cost hot meals and support services in a safe, caring, and friendly environment. The Organization offers and provides all of its services free of charge to needy individuals with special concern for families and senior citizens.

NOTE 2 – PROGRAM SERVICES

Kitchen – Loaves and Fishes Family Kitchen provides hot meals and food baskets at three San Jose dining rooms at InnVision, St. Maria Goretti Church, and Eastside Neighborhood Center. The Organization utilizes hundreds of volunteers to assist with all aspects of its meal program including setting up the dining room, preparing the meals, greeting guests, serving and cleaning up. The Organization currently serves eleven meals per week to approximately 200 guests per serving, or nearly 114,400 meals each year. Over 1,980 food baskets are also distributed annually.

Community Services – Loaves and Fishes Family Kitchen provides a variety of community services in connection with its regular daily feeding programs. Many of these are focused on children, such as supplying infant care products, arts & crafts supplies, and seasonal gifts at Halloween, Thanksgiving, Christmas and Easter. Other special events include a seniors' brunch, special holiday "shopping days" for parents, "adopt-a-family" programs and other youth-related activities. Arrangements are made for the provision of basic medical services during certain meal days at both the InnVision and St. Maria Goretti Church kitchen locations.

Volunteer – Loaves and Fishes Family Kitchen utilizes volunteers for all of its programs. They are essential participants in helping to accomplish the Organization's mission. Both individuals and small groups from businesses and other organizations are welcome as volunteers. A staff coordinator schedules all volunteer activities.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of Loaves and Fishes Family Kitchen have been prepared on the accrual basis of accounting.

Basis of Presentation – The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. The Organization is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations including those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund, a reserve that is designated by the Board for specific purposes, and a property and equipment fund.

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be permanently maintained by the Organization.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition – The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as “exchange transactions” are recognized as revenue in the period in which the service is provided.

Promises to Give – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in 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 or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Cash and Cash Equivalents – Cash equivalents include highly liquid investments and investments with an initial maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Organization had no cash equivalents as of June 30, 2011 and 2010. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits of \$250,000 for 2011 and 2010. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Property and Equipment – Property and equipment are recorded at cost or estimated fair value for donated items. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 7 years. Equipment purchases over \$100 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is allocated based on the number of staff members in each activity. Amounts expended for maintenance and repairs are charged to operations as incurred.

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Indirect Functional Expenses – Indirect expense allocations are based on the number of staff members in each activity and on space utilized.

Income Taxes – Loaves and Fishes Family Kitchen is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

The Organization has adopted accounting rules that prescribe a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the years ended June 30, 2011 and 2010, the Organization does not believe it has any unrelated business taxable income and, as such, does not have any uncertain tax positions that impact the Organization’s financial position or statements of activities and change in net assets.

Investments – Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position.

NOTE 4 – INVESTMENTS

The Organization held \$0 and \$257,896 at June 30, 2011 and 2010, respectively, in certificates of deposit with original maturity dates of greater than three months. Short-term investments are stated at fair value.

NOTE 5 – PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of the property and equipment at June 30, consisted of the following:

	2011	2010
Vehicles	\$ 41,522	\$ 41,522
Kitchen Furniture, Machinery and Equipment	85,203	48,863
Office Furniture and Equipment	8,442	6,297
	135,167	96,682
Accumulated Depreciation	(77,159)	(63,769)
Property and Equipment, Net	\$ 58,008	\$ 32,913

Depreciation expense for the years ended June 30, 2011 and 2010 totaled \$13,390 and \$7,061, respectively.

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 6 – GRANTS RECEIVABLE

The Organization considers all grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

NOTE 7 - INVENTORY

Inventory consists of donated and purchased food.

Donated food for the year ended June 30, 2011 and 2010 was valued at either the published United States Department of Agriculture fair market values, bargain store pricing, or actual face value if available. For lunch bag donations, the Organization uses \$2.25 per lunch based on UCLA's research on the average price of a school lunch statewide. Purchased food is valued at the latest purchase price.

NOTE 8 – ACCRUED VACATION

Accrued vacation represents vacation earned, but not taken as of June 30, and is included under accrued liabilities in the statement of financial position. The accrued vacation balance as of June 30, 2011 and 2010 totaled \$6,417 and \$7,480, respectively.

NOTE 9 – BOARD DESIGNATED OPERATING RESERVE

The Board of Directors has established a designated operating reserve fund for purposes of funding future shortfalls in budgeted support and revenue, seasonal cash flow requirements, and emergency and unanticipated needs. This amount has been included in unrestricted net assets, as it is a Board of Directors imposed designation and not a donor imposed restriction.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

The Organization's temporarily restricted net assets as of June 30 were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Helping Families	\$ 2,000	\$ 25
Food	-	7,600
Facility Move	-	5,000
New Facility Kitchen Equipment	-	346
	<u>          </u>	<u>          </u>
Total Temporarily Restricted Net Assets	<u>\$ 2,000</u>	<u>\$ 12,971</u>

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 11 – CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, rent, and professional services received are recorded as contributions. See Note 7 for the methodology used in valuing donated food. For the years ended June 30, 2011 and 2010, contributed rent and professional services which require a specialized skill and which the Organization would have paid for if not donated are recorded at their estimated fair value at the time received. During the years ended June 30, the following contributions in-kind were received by the Organization:

	2011	2010
Food		
Second Harvest Food Bank	\$ 110,771	\$ 55,382
Costco and Others	151,734	124,457
Race Street Foods	13,102	6,250
Total In-Kind Food	275,607	186,089
Rent	-	17,160
Professional Services	1,667	5,001
Total Contributions In-Kind	\$ 277,274	\$ 208,250

The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. During the years ended June 30, 2011 and 2010, the Organization received approximately 22,609 and 10,700 hours, respectively, of volunteer time. The estimated value of these services for the years ended June 30, 2011 and 2010 amounted to \$180,872 and \$85,600, respectively. The value of these services does not meet the criteria for recognition as contributed services and is not reflected in the financial statements.

NOTE 12 – FAIR VALUE MEASUREMENTS

Fair value of assets measured on a recurring basis at June 30, 2011 and 2010 are as follows:

	Level 1
<u>June 30, 2011</u>	
Investments	\$ -
 <u>June 30, 2010</u>	
Investments	\$ 257,896

Fair value of investments for Level 1 is determined by reference to quoted market prices and other relevant information generated by market transactions.

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 13 – GOVERNMENT GRANTS

Government grants for the year ended June 30, 2011 consisted of:

	<u>Grant Period</u>	<u>Grants Awarded</u>	<u>Grant Expenditures</u>
City of San Jose Housing Trust Fund Grant	7/01/10 – 6/30/11	\$ 50,000	\$ 50,000
City of San Jose Housing Trust Fund Grant	4/01/09 – 12/31/10	75,000	61,937
County of Santa Clara	7/01/10 – 6/30/11	<u>43,287</u>	<u>43,287</u>
<b>Total Government Grants</b>		<b><u>\$ 168,287</u></b>	<b><u>\$ 155,224</u></b>

Government grants for the year ended June 30, 2010 consisted of:

	<u>Grant Period</u>	<u>Grants Awarded</u>	<u>Grant Expenditures</u>
City of San Jose Housing Trust Fund Grant	7/01/09 – 6/30/10	\$ 50,000	\$ 50,000
City of San Jose Housing Trust Fund Grant	4/01/09 – 12/31/10	75,000	11,377
County of Santa Clara	7/01/09 – 6/30/10	43,287	43,287
Emergency Food and Shelter Program	10/01/09 – 9/30/10	<u>15,200</u>	<u>22,800</u> *
<b>Total Government Grants</b>		<b><u>\$ 183,487</u></b>	<b><u>\$ 127,464</u></b>

\* Expenditures include amounts from grant awarded during the year ended June 30, 2009.

NOTE 14 – RETIREMENT PLAN

The Organization participates in a defined contribution Section 403(b) pension plan to which the Organization may contribute up to 7% of the covered employees' salaries. Employees become eligible on the first of the month following one full year of employment. Organization contributions for the years ended June 30, 2011 and 2010 totaled \$0 and \$147, respectively.

NOTE 15 – OPERATING LEASE COMMITMENTS

The Organization leases kitchen and dining space from the Roman Catholic Bishop of San Jose on the St. Maria Goretti Church facility on a month-to-month basis. The monthly lease payment increased in January 2011 from \$900 to \$1,100.

The Organization leases kitchen and dining space at 358 North Montgomery Street in San Jose from InnVision. The monthly lease payment is \$2,100. The lease term ended January 31, 2010. The Organization currently leases the facility on a month-to-month basis.

As of September 2010, the Organization began leasing kitchen and dining space at 2150 Alum Rock Avenue in San Jose from Catholic Charities of Santa Clara County. The monthly lease payment is \$3,800 with annual increases of 5%. The lease term is five years ending September 2015.

LOAVES AND FISHES FAMILY KITCHEN  
(A California Nonprofit Public Benefit Organization)  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 15 – OPERATING LEASE COMMITMENTS (CONTINUED)

In February 2005, the Organization moved its administrative office into an office space located at 508 Valley Way in Milpitas with an annual lease of \$1. The term of the lease was five years and it ended November 30, 2009. The annual fair value of the lease was \$25,740 and was considered a contribution in-kind (see Note 11).

In March 2010, the Organization moved its administrative office into an office located on North First Street in San Jose. The monthly lease payment is \$1,512. The term of the lease is two years ending February 2012.

Rent expense for the years ended June 30, 2011 and 2010 was \$88,664 and \$65,365 (of which \$17,160 was contributed), respectively.

The minimum payments required for each of the next five years and in the aggregate are:

2012	\$ 59,501
2013	49,780
2014	52,266
2015	54,878
2016	<u>11,548</u>
	<u>\$ 227,973</u>

NOTE 16 – CONTINGENCIES

Grants and contracts awarded to Loaves and Fishes Family Kitchen are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

NOTE 17 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 29, 2011, the date which the financial statements were available to be issued.

# BOITANO, SARGENT & LILLY, LLP

*Certified Public Accountants*

1760 THE ALAMEDA  
SAN JOSE, CALIFORNIA 95126  
TELEPHONE (408) 287-2123

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Loaves and Fishes Family Kitchen  
(A California Nonprofit Public Benefit Organization)

We have audited the financial statements of Loaves and Fishes Family Kitchen (a California nonprofit public benefit organization) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 29, 2011. 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.

### Internal Control over Financial Reporting

In planning and performing our audits, we considered Loaves and Fishes Family Kitchen's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Loaves and Fishes Family Kitchen's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Loaves and Fishes Family Kitchen's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee and management, and is not intended to be and should not be used by anyone other than these specified parties.



BOITANO, SARGENT & LILLY, LLP

San Jose, California

September 29, 2011