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Certified Fraud Examiners
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COMMUNITY FOOD BANK, INC.

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2018)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Food Bank, Inc.
Tucson, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Community Food Bank, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of cash flows and expenses by function and nature for the years then ended, and the related statement of activities for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Food Bank, Inc. as of June 30, 2019 and 2018, and its cash flows for the years then ended and the changes in its net assets for the year ended June 30, 2019, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2019 on our consideration of the Organization'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 solely 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 effectiveness of the Organization's 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 Organization's internal control over financial reporting and compliance.

Keegan, Linscott & Kenon, PC

Tucson, Arizona
October 26, 2019

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 4,189,795	$ 3,605,876
Grants and accounts receivable, net	901,459	1,122,333
Pledges receivable	237,741	15,500
Investments	5,505,001	5,164,309
Investments - other	340,153	37,870
Food and commodities inventory	5,426,260	4,058,874
Prepaid expenses and other current assets	80,816	93,136
Total current assets	16,681,225	14,097,898
Pledges receivable, net	411,631	314,038
Investments, non-current	2,381,793	2,618,267
Investments - other, non-current	236,303	262,787
Property and equipment, net	9,072,558	8,728,625
Total assets	$ 28,783,510	$ 26,021,615
Liabilities		
Current liabilities		
Accounts payable	$ 589,522	$ 496,110
Accrued expenses	565,030	505,129
Deferred revenue	4,324,368	2,742,882
Gift annuities	97,503	102,110
Current portion of capital lease obligations	37,022	35,832
Total current liabilities	5,613,445	3,882,063
Capital lease obligations	276,345	313,367
Long-term debt	150,000	150,000
Total liabilities	6,039,790	4,345,430
Net Assets		
Without donor restrictions		
Undesignated	2,907,630	2,883,195
Board-designated	8,473,463	8,149,119
Investments in property and equipment	9,072,558	8,728,625
	20,453,651	19,760,939
With donor restrictions	2,290,069	1,915,246
Total net assets	22,743,720	21,676,185
Total liabilities and net assets	$ 28,783,510	$ 26,021,615

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Summarized Total 2018
Revenues and Other Support				
Donated food	$ 110,424,302	$ -	$ 110,424,302	$ 108,295,657
Contributions	6,959,229	4,603,644	11,562,873	10,969,511
Government grants	3,860,543	-	3,860,543	3,408,225
Bequests	393,685	-	393,685	725,623
Earned revenues	1,704,646	-	1,704,646	1,071,486
In-kind contributions	262,734	-	262,734	173,808
Special events, net	162,832	-	162,832	137,554
Miscellaneous	50,810	-	50,810	56,389
Rent income	11,563	-	11,563	20,478
(Loss) gain on disposal of property and equipment	(7,083)	-	(7,083)	13,740
Investment gain, net	354,043	26,807	380,850	320,758
Net assets released from restriction	4,255,628	(4,255,628)	-	-
Total revenues and other support	128,432,932	374,823	128,807,755	125,193,229
Expenses				
Program services				
Health and food	121,406,763	-	121,406,763	118,093,317
Community development	646,227	-	646,227	585,907
Education	1,962,476	-	1,962,476	1,561,509
Total program services	124,015,466	-	124,015,466	120,240,733
Supporting services				
Fundraising	1,953,311	-	1,953,311	1,897,508
Management and general	1,771,443	-	1,771,443	1,572,940
Total expenses	127,740,220	-	127,740,220	123,711,181
Change in net assets	692,712	374,823	1,067,535	1,482,048
Net assets, beginning of year	19,760,939	1,915,246	21,676,185	20,194,137
Net assets, end of year	$ 20,453,651	$ 2,290,069	$ 22,743,720	$ 21,676,185

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2019

	Health and Food	Community Development	Education	Total Program Services	Supporting Services: Fundraising	Supporting Services: Management and General	Total
Salaries	$ 3,695,631	$ 283,439	$ 779,434	$ 4,758,504	$ 737,993	$ 955,523	$ 6,452,020
Payroll taxes	297,527	22,182	62,699	382,408	58,476	69,904	510,788
Employee benefits	607,473	42,944	129,382	779,799	107,641	157,603	1,045,043
Temporary contracted services and fees	247,935	117	25,337	273,389	18,144	348	291,881
Total personnel	4,848,566	348,682	996,852	6,194,100	922,254	1,183,378	8,299,732
Donated commodities and food distributed	110,645,195	1,045	6,085	110,652,325	19,572	39,364	110,711,261
Cost of purchased goods	1,668,062	129,801	15,181	1,813,044	-	-	1,813,044
Professional & outside services	637,138	46,252	116,311	799,701	185,578	146,853	1,132,132
Insurance	115,129	5,554	40,877	161,560	10,286	19,420	191,266
Vehicle & fuel expense	447,407	1,201	9,239	457,847	665	160	458,672
Maintenance & repair	417,350	1,469	6,098	424,917	5,615	4,595	435,127
Occupancy	171,384	3,200	139,296	313,880	100	-	313,980
Utilities	366,802	14,437	58,039	439,278	31,413	32,552	503,243
Supplies	505,867	17,158	79,910	602,935	37,336	24,881	665,152
Small & leased equipment	504,605	3,556	21,676	529,837	14,073	14,216	558,126
Postage, printing & promotion	109,311	22,041	29,568	160,920	528,367	2,375	691,662
Travel	50,015	7,841	30,262	88,118	16,472	19,340	123,930
Staff, board, donor & volunteer expense	60,140	15,390	81,307	156,837	73,301	99,397	329,535
Dues & fees	68,962	12,623	6,299	87,884	84,794	23,968	196,646
Agency & partner expenses	32,737	329	287,481	320,547	2,180	95,606	418,333
Miscellaneous	2,751	2	23	2,776	32	43,234	46,042
Total expenses before interest and depreciation	120,651,421	630,581	1,924,504	123,206,506	1,932,038	1,749,339	126,887,883
Interest expense	10,885	-	-	10,885	5,091	4,931	20,907
Depreciation	744,457	15,646	37,972	798,075	16,182	17,173	831,430
Total expenses	$ 121,406,763	$ 646,227	$ 1,962,476	$ 124,015,466	$ 1,953,311	$ 1,771,443	$ 127,740,220

STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2018

	Health and Food	Community Development	Education	Total Program Services	Supporting Services: Fundraising	Supporting Services: Management and General	Total
Salaries	$ 3,403,664	$ 182,938	$ 747,979	$ 4,334,581	$ 804,191	$ 962,872	$ 6,101,644
Payroll taxes	273,761	15,193	58,688	347,642	63,857	68,457	479,956
Employee benefits	576,024	31,503	133,857	741,384	98,990	138,771	979,145
Temporary contracted services and fees	255,562	-	5,004	260,566	11,867	1	272,434
Total personnel	4,509,011	229,634	945,528	5,684,173	978,905	1,170,101	7,833,179
Donated commodities and food distributed	108,196,917	-	9,849	108,206,766	7,536	1,150	108,215,452
Cost of purchased goods	1,742,654	175,077	19,747	1,937,478	60	63	1,937,601
Professional & outside services	652,091	83,979	91,009	827,079	120,969	107,931	1,055,979
Insurance	112,671	4,971	40,977	158,619	8,207	20,347	187,173
Vehicle & fuel expense	327,586	1,198	8,815	337,599	1,151	294	339,044
Maintenance & repair	336,704	1,125	6,743	344,572	4,778	3,369	352,719
Occupancy	60,090	2,700	36,300	99,090	-	-	99,090
Utilities	338,919	8,614	64,614	412,147	33,999	27,624	473,770
Supplies	421,335	19,751	94,619	535,705	33,745	19,802	589,252
Small & leased equipment	247,205	664	3,566	251,435	4,649	2,359	258,443
Postage, printing & promotion	200,982	21,480	14,218	236,680	559,816	1,670	798,166
Travel	40,932	4,891	20,501	66,324	5,011	17,564	88,899
Staff, board, donor & volunteer expense	49,894	6,357	36,057	92,308	38,179	91,613	222,100
Dues & fees	120,547	4,833	5,667	131,047	76,730	19,599	227,376
Agency & partner expenses	53,785	5,228	125,166	184,179	571	68,114	252,864
Miscellaneous	4,061	112	16	4,189	26	7,962	12,177
Total expenses before interest and depreciation	117,415,384	570,614	1,523,392	119,509,390	1,874,332	1,559,562	122,943,284
Interest expense	6,903	-	-	6,903	7,383	2,537	16,823
Depreciation	671,030	15,293	38,117	724,440	15,793	10,841	751,074
Total expenses	$ 118,093,317	$ 585,907	$ 1,561,509	$ 120,240,733	$ 1,897,508	$ 1,572,940	$ 123,711,181

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ 1,067,535	$ 1,482,048
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	831,430	751,074
Amortization of discount on pledges receivable	28,944	(11,413)
Net realized and unrealized gain on investments	(222,047)	(182,057)
Loss (gain) on disposal of property and equipment	7,083	(13,740)
Property and equipment disposed under short-term financing arrangement	-	25,000
Contributions restricted for long term purposes	(706,346)	(100,776)
Contributions restricted for permanent investment	(3,000)	(3,000)
Changes in operating assets and liabilities		
Grants and accounts receivable, net	220,874	(680,960)
Food and commodities inventory	(1,367,386)	(446,745)
Prepaid expenses and other current assets	12,320	31,116
Accounts payable	93,412	(311,971)
Accrued expenses	59,901	70,125
Deferred revenue	1,581,486	375,288
Net cash provided by operating activities	1,604,206	983,989
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,182,446)	(1,120,267)
Proceeds from the disposal of property and equipment	-	1,865
Purchase of investments and investments - other	(2,633,559)	(3,026,078)
Proceeds from sale of investments and investments - other	2,475,589	2,611,333
Net cash used in investing activities	(1,340,416)	(1,533,147)
Cash Flows from Financing Activities		
Collection on contributions restricted for long-term purposes	357,568	405,126
Collection of contributions restricted for investment in endowment	3,000	3,000
(Payment of) increase in annuity obligations	(4,607)	10,016
Proceeds from long-term debt	-	150,000
Payments on capital lease obligation	(35,832)	(20,266)
Net cash provided by financing activities	320,129	547,876
Net change in cash and cash equivalents	583,919	(1,282)
Cash and cash equivalents, beginning of year	3,605,876	3,607,158
Cash and cash equivalents, end of year	$ 4,189,795	$ 3,605,876
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 20,907	$ 16,823
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Property and equipment acquired under capital lease obligation	$ -	$ 369,465
Property and equipment disposed under short-term financing arrangement	$ -	$ 25,000

NOTES TO FINANCIAL STATEMENTS

1. Organization

Community Food Bank, Inc. dba Community Food Bank of Southern Arizona (the "Organization") is a private non-profit organization. The Organization's mission is to change lives in the communities served by feeding the hungry today and building a healthy, hunger-free tomorrow.

The Organization's primary programs are described below:

Health and Food – Through its hunger relief programs, the Organization provides emergency food boxes, consisting of federal commodities, donated and purchased food items, to households consisting of children, families, and seniors in need throughout the Cochise, Graham, Greenlee, Pima and Santa Cruz counties. The Organization is focused on providing more nutritious food, such as produce, to each person in need. The Organization is creating a network of health providers, agency partners, donors, and others to collaborate around the importance of a healthier society.

Community Development – Community development helps battle poverty by unlocking the voices and power of historically oppressed and impoverished community members. In addition to traditional community organizing efforts, the Organization expands initiatives that increase community access to resources, training, and capital to increase economic opportunity.

Education – There are several programs within Education that assist in creating sustainable solutions to food security issues. The Partnership and Community Impact team have been working to build a solid agency partner network to scale the Organization's work across the five-county service area by developing partner hubs that can provide in-network leadership. Through the Las Milpitas de Cottonwood Urban Farm and the Home Garden programs; clients learn to grow their own food utilizing environmentally favorable methods. The Farm-to-Child program partners with dozens of schools to provide educators and students hands-on training on environmentally sustainable food production. Students are able to grow and consume their own food addressing both food security and nutritional education needs. Finally, the Caridad Culinary Training program provides opportunities for motivated individuals to learn new skills, gain confidence, and succeed in new careers—all while providing meals for the hungry in the community.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("U.S. GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to U.S. GAAP issued by the FASB are to the FASB Accounting Standards Codification ("ASC").

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with the provisions of ASC 958, *Not-for-Profit Entities*. Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)
In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. All contributions are considered to be available for use without restriction unless specifically restricted by the donor.

- **With Donor Restrictions** – Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time. Net assets with donor restritions also includes net assets that are subject to donor-imposed stipulations such that assets must be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decreases in net assets without donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as increases in net assets without donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Cash and Cash Equivalents
For financial statement reporting purposes, the Organization considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates their fair values. The Organization places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit (see Note 17). The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such accounts are monitored by management to mitigate risk.

Grants and Accounts Receivable
Grants receivable consist principally of uncollateralized amounts due from state and local governments under contractual agreements. Accounts receivable consist principally of uncollateralized amounts due from other not-for-profit organizations under contractual agreements. The carrying amount of grants and accounts receivable are reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific accounts and the aging of the receivable. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. As of June 30, 2019 and 2018, management estimated an allowance for doubtful accounts of $25,210 and $5,000, respectively.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Pledges Receivable

The Organization accounts for pledges receivable to be made in future years as unconditional promises to give in the year the promise is made. Pledges to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. The fair value amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All pledges deemed to be uncollectible are written off. As of June 30, 2019 and 2018, management considered all pledges receivable to be collectible, therefore, no allowance for uncollectible promises has been provided.

Investments

Debt and Equity Securities – Investments are accounted for in accordance with ASC 958-320, *Investments - Debt and Equity Securities*. Investments in debt and equity securities are valued at their fair values in the accompanying statements of financial position. Investment income, gains and losses are reported net of related investment fees in the statement of activities as increases or decreases in net assets. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the gains and income are recognized. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade-date basis. Donated investments are recorded at fair value.

The Organization invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Organization employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, and the intent and ability to hold the investment. The Organization also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established. Through June 30, 2019, the Organization has not experienced other-than-temporary impairment losses on its investments.

Investments - Other

Certificates of deposit held for investment that are not debt securities are included in other investments. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as short-term, and certificates of deposit with remaining maturities greater than one year are classified as long-term.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Food and Commodities Inventory and Deferred Revenue
Purchased inventory and purchased food are stated at the lower of cost or net realizable value with cost determined on a first-in, first-out (FIFO) basis. Inventory of food contributed by donors and remaining non-food commodities inventory are valued at the approximate wholesale value, which is determined annually by Feeding America, the national food bank network. It is standard industry practice to use the Feeding America estimated value per pound, which is subject to agreed-upon testing procedures by independent certified public accountants.

For the year ended June 30, 2019, Feeding America provided an estimated wholesale value per pound for food and non-food commodities overall (as provided in prior years), an estimated wholesale value per pound for food donations only, excluding non-food commodities, and additionally an estimated wholesale value per pound for non-food commodities donations only, excluding food, in order to provide a more accurate representation of the value of non-food commodities. Consequently, as of July 1, 2018, the Organization revised its valuation of food and non-food commodities to value food inventories using the food donations rate of $1.57 per pound, and non-food commodities inventories using the non-food donations rate of $6.15 per pound.

For the year ended June 30, 2018, Feeding America provided an estimated wholesale value per pound for food and non-food commodities overall (as provided in prior years) and additionally an estimated wholesale value per pound for food donations only, excluding non-food commodities, in order to comply with revised U.S. Department of Agriculture reporting requirements. Consequently, as of July 1, 2017, the Organization revised its valuation of food and non-food commodities to value food inventories using the food donations rate of $1.52 per pound, and non-food commodities inventories using the overall rate of $1.73 per pound.

Commodities received from the U.S. Department of Agriculture but not distributed as of June 30, 2019 and 2018, totaled $4,298,845 and $2,723,858, respectively, and are included in deferred revenue in the accompanying statements of financial position.

Property and Equipment, Net
Property and equipment are stated at cost if purchased, or fair value if donated. Depreciation is calculated using the straight-line method over the estimated useful life of the assets as follows:

Buildings and improvements	3 – 39 years
Furniture, fixtures and equipment	5 – 10 years
Vehicles	3 – 7 years

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements and is included in depreciation expense. Acquisitions of property and equipment and repairs or betterments that materially prolong the useful lives of assets in excess of $5,000 are capitalized. Repairs and maintenance for normal upkeep are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is recognized.

In accordance with ASC 360-10, *Property, Plant and Equipment*, the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such a review. Through June 30, 2019, the Organization had not experienced impairment losses on its long-lived assets.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Gift Annuities

The Organization has received several charitable gift annuities, whereby a donor gives assets to the Organization in return for the Organization's promise to pay a fixed amount for the life of the annuitant. The gift is recorded as a contribution when received. The assets are included with investments held by a third-party asset manager and designated for payment of the benefits until the death of the annuitant, at which time any remaining assets will be available for general use. The present value of the expected benefits to be paid are recalculated at each year end and recorded as a liability. Payment rates vary depending on the age of the annuitant at the time of the agreement. During the years ended June 30, 2019 and 2018, the payment rates ranged between 5.8% and 7.0%.

As of June 30, 2019, and 2018, the Organization had six charitable gift annuities, with an estimated benefit liability of $97,503 and $102,110, respectively. Investments as of June 30, 2019 and 2018 include $140,225 and $136,215, respectively, designated for payment of these benefits.

Endowment Funds

The Organization's endowments were established to support, further and enhance the mission of the Organization.

The Organization has interpreted the "Management of Charitable Funds Act" (Arizona's version of the Uniform Prudent Management of Institutional Funds Act or "UPMIFA"), which underlies the Organization's net asset classification of donor-restricted endowment funds, as requiring the preservation of the fair value of the original gift. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law, at which time those amounts will be reported as net assets without donor restrictions.

Accordingly, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund.
- The purposes of the Organization and the donor-restricted endowment fund.
- General economic conditions.
- The expected total return from income and the appreciation of investments.
- Other resources of the Organization.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities and equities. To satisfy its long-term objectives, the Organization relies on a total return strategy in

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)

which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) while assuming a moderate level of investment risk. The Organization targets a diversified asset allocation with a blend of cash, fixed income securities and equities to achieve its long-term return objectives within prudent risk constraints.

The Organization's policy is to distribute the funds in accordance with the instructions of the endowment; in the absence of any specific instructions, all distributions require approval from the board of directors. One endowment allows for annual distributions, as long as these distributions do not result in an endowment balance less than the cumulative amount of the donations. The other endowments control any distributions to maintain the endowment's buying power.

The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless precluded by donor intent or relevant laws and regulations. The Organization did not spend from underwater endowment funds during the year.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2019 and 2018.

Revenue Recognition

The Organization accounts for its government funded grant and contract revenues as exchange transactions. Revenue under cost reimbursement grants and contracts are recognized when costs are incurred or agreed-upon work is performed in accordance with the applicable agreements. A receivable is recorded to the extent revenue recognized exceeds payment received; conversely, advances in excess of costs incurred or work performed under government funded grants and contracts are deferred and recognized as revenue when the related cost is incurred.

Foundation grants are accounted for as either exchange transactions or as contributions depending on the nature of the grant. Contributions are recorded upon the Organization receiving notification of an unconditional promise to give.

Donated Goods, Property and Services

Contributions of donated non-cash assets including goods, space, advertising and property are recorded at their fair values on the date the asset is donated. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized in the financial statements at their fair value. Donated services are recognized when the services are received and (a) create or enhance non-financial 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. The Organization utilizes the services of many outside volunteers to perform a variety of tasks that assist the Organization. During the years ended June 30, 2019 and 2018, volunteers worked approximately 198,625 and 201,614 hours, respectively. The fair value of these services is not reflected in the accompanying financial statements because the above criteria were not met.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Insurance is allocated based on square footage and full-time equivalent ("FTE"), utilities and some membership dues and supplies are allocated based on FTE, and vehicle costs are allocated based on vehicle function. Some depreciation on organization wide assets are allocated based on square footage, FTE, and vehicle function. The facilities department is allocated based on total expense and the marketing department and some costs of the information technology department are allocated based on total expense excluding food. Personnel and other direct costs are specifically identified by their programmatic or administrative function.

Income Tax

The Organization is exempt from federal and state income taxes under the Federal Internal Revenue Code ("IRC") Section 501(c)(3) and Arizona income tax laws and is classified as other than a private foundation under IRC Section 509(a)(1). The Organization also qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a).

Management has considered its tax positions in accordance with the accounting standard for uncertainty in income taxes and believes that all positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. In addition, Management is not aware of any matters which would cause the Organization to lose its tax-exempt status. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Should the Organization ever be subject to interest and penalties related to unrecognized tax benefits, they would be classified in management and general expenses in its accompanying financial statements. During the years ended June 30, 2019 and 2018, the Organization did not recognize any interest and penalties.

Use of Estimates

The preparation of financial statements in conformity 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Year Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

3. Recent Accounting Pronouncements

Adopted as of June 30, 2019

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Adopted as of June 30, 2019 (continued)
resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: Net Asset Classes; Investment Return; Expenses; Liquidity and Availability of Resources; and Presentation of Operating Cash Flows. ASU 2016-14 is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization adopted ASU 2016-14 during fiscal year 2019. The adoption of this ASU primarily affected the grouping and presentation of the Organization's net assets as either with or without donor restrictions, disclosure of policies and related activity for the Organization's net assets with donor restrictions, including donor-restricted endowment funds, disclosure of liquidity and availability of financial assets, and disclosure of an analysis of expenses by function and nature as well as the Organization's related policy in allocating expenses among program and supporting services.

Not Yet Required to be Adopted as of June 30, 2019
In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance, and creates Topic 606 *Revenue from Contracts with Customers*. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either the full retrospective or retrospective with cumulative effect transition method. Subsequent amendments have been issued for technical corrections (ASU No. 2016-20); narrow scope improvements and practical expedients (ASU No. 2016-12); identifying performance obligations and licensing arrangements (ASU No. 2016-10); and gross versus net revenue reporting (ASU No. 2016-08). ASU No. 2014-09 (and subsequent amendments) is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted with certain restrictions. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements and disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on the financial statements and disclosures.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Yet Required to be Adopted as of June 30, 2019 (continued)

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. In July 2019, the FASB voted to delay the effective date one year for private companies; consequently, the new standard is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required (see ASU 2018-11 for optional transition method) 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.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. This ASU is intended to reduce costs and ease implementation of the leases standard for financial statement preparers. ASU 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU 2018-11 provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current U.S. GAAP in Topic 840, *Leases*. The amendments in ASU 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606). The effective date and transition requirements for the amendments in this update related to separating components of a contract are the same as the effective date and transition requirements in ASU 2016-02 (i.e., fiscal years beginning after December 15, 2020). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Organization is currently evaluating the effect these standards will have on the financial statements and disclosures.

In August 2018, the FASB has issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU applies the provisions of recently released Chapter 8, "*Notes to Financial Statements*," of the FASB's *Conceptual Framework for Financial Reporting*, resulting in the removal, modification and addition of certain disclosure requirements. The ASU also clarifies that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on the financial statements and disclosures.

NOTES TO FINANCIAL STATEMENTS

4. Liquidity and Availability of Resources

The following table shows a determination of the Organization’s financial assets that are available to meet cash needs for general expenditures within one year as of June 30:

	2019	2018
Cash and cash equivalents	$ 4,189,795	$ 3,605,876
Grants and accounts receivable, net	901,459	1,122,333
Pledges receivable	649,372	329,538
Investments (debt, equity, and other)	8,463,250	8,083,233
Total financial assets	14,203,876	13,140,980
Less amounts unavailable for general expenditure within one year, due to:		
Receivables scheduled to be collected in more than one year	411,631	314,038
Contractual or donor-imposed restrictions		
Endowment funds	305,910	302,910
Other donor restrictions	1,984,159	1,612,336
Board designations		
Gift annuity reserve	140,225	136,215
Operating reserve	8,333,238	8,012,904
Financial assets available to meet cash needs for general expenditures within one year	$ 3,028,713	$ 2,762,577

The Organization’s amounts not available for general use include funds set aside for long term investing in the operating reserve that could be drawn upon if the finance committee approves that action. The Organization's financial working capital and cash flows have seasonal variations during the year attributable primarily to the timing of cash receipts and a concentration of contributions received near calendar year-end. To manage liquidity, the Organization maintains a line of credit of $1 million with a bank that is drawn upon as needed during the year to manage cash flow and is repaid in full as soon as possible.

Additionally, amounts set aside in investment accounts are either restricted by donors in endowment funds or designated by the governing board as an operating reserve. The Organization's minimum requirement for this reserve is three months operating expenses. With approval from the finance committee, the Organization can use the amounts set aside in the investment accounts for unanticipated liquidity needs.

The Organization's current financial assets available to meet cash needs for general expenditures represent about 70 days of cash on hand. Additionally, the Organization operates eight facilities in southern Arizona that require continued capital investment. The Organization may pull from available operating funds, the operating reserve, or establish additional financing to meet these needs. For the fiscal years ending June 30, 2019 and 2018, capital expenditures amounted to $1,182,446 and $1,120,267, respectively.

NOTES TO FINANCIAL STATEMENTS

5. Pledges Receivable, Net

Pledges receivable are recorded at their estimated fair value. Amounts due in more than one year are recorded at the present value of the estimated future cash flows discounted at an adjusted risk-free rate, applicable to the year in which the promises were received of 1.99%. As of June 30, the amounts of the receivables to be collected as a result of these promises are as follows:

	2019	2018
Receivables (less than one year)	$ 237,741	$ 15,500
Receivables (one to five years)	446,337	319,800
	684,078	335,300
Less discount to net present value	(34,706)	(5,762)
Pledges receivable, net	$ 649,372	$ 329,538

6. Investments

Investments are stated at fair value and consist of the following as of June 30:

	2019	2018
Equity securities	$ 4,635,024	$ 4,789,303
Fixed income	2,984,373	2,748,351
Mutual funds	237,606	215,602
Community Foundation for Southern Arizona	29,791	29,320
Total Investments	$ 7,886,794	$ 7,782,576

Other investments consist of the following as of June 30:

	2019	2018
Certificates of deposit	$ 576,456	$ 300,657

Investment gain, net consists of the following as of June 30:

	2019	2018
Interest and dividend income	$ 210,489	$ 196,624
Realized and unrealized gain on investments, net	222,047	182,057
Investment fees	(51,686)	(57,923)
Total investment gain, net	$ 380,850	$ 320,758

NOTES TO FINANCIAL STATEMENTS

7. Fair Value Measurements

The Organization utilizes the fair value hierarchy required by ASC 820, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Organization defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The Organization defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

The Organization's financial assets are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using readily determinable fair values or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on readily determinable fair values in active markets include the Organization's equity securities, mutual funds, and certain fixed income securities. Such instruments are classified within Level 1 of the fair value hierarchy. The types of instruments that trade in markets that are not considered to be active but are valued on alternative pricing sources with reasonable levels of price transparency include certain other of the Organization's fixed income securities. Such instruments are classified within Level 2 of the fair value hierarchy.

The investments held at the Community Foundation for Southern Arizona ("CFSA") are categorized as Level 3 due to the lack of a market in which the Organization's units of participation in CFSA's pooled investments could be bought or sold. The Organization measures the fair value of its beneficial interest by taking its proportionate share of the fair value of the underlying assets.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2019:

Description	Fair Value	Level 1	Level 2	Level 3
Equity securities (a)	$ 4,635,024	$ 4,635,024	$ -	$ -
Fixed income				
Corporate bonds	1,713,333	1,713,333	-	-
Foreign bonds	151,678	151,678	-	-
Government bonds	1,119,362	1,119,362	-	-
	2,984,373	2,984,373	-	-
Mutual funds				
Large-cap blend/growth/value	214,229	214,229	-	-
Bond funds	5,346	5,346	-	-
Small to Mid-cap growth/value	8,750	8,750	-	-
Foreign	5,390	5,390	-	-
Natural resources	3,891	3,891	-	-
	237,606	237,606	-	-
Community Foundation for Southern Arizona	29,791	-	-	29,791
Total Investments	$ 7,886,794	$ 7,857,003	$ -	$ 29,791

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2018:

Description	Fair Value	Level 1	Level 2	Level 3
Equity securities (a)	$ 4,789,303	$ 4,789,303	$ -	$ -
Fixed income				
Corporate bonds	1,807,419	1,807,419	-	-
Foreign bonds	116,184	49,257	66,927	-
Government bonds	824,748	824,748	-	-
	2,748,351	2,681,424	66,927	-
Mutual funds				
Large-cap blend/growth/value	201,705	201,705	-	-
Bond funds	-	-	-	-
Mid-cap growth/value	6,757	6,757	-	-
Foreign	3,468	3,468	-	-
Natural resources	3,672	3,672	-	-
	215,602	215,602	-	-
Community Foundation for Southern Arizona	29,320	$ -	$ -	$ 29,320
Total Investments	$ 7,782,576	$ 7,686,329	$ 66,927	$ 29,320

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

(a) On the basis of its analysis of the nature, characteristic, and risks of the investments, the Organization has determined that presenting them as a single class is appropriate.

The table below sets forth a summary of changes in the fair value of the Organization's level 3 assets measured at fair value on a recurring basis for the years ended June 30:

Community Foundation for Southern Arizona	2019	2018
Balance, beginning of year	$ 29,320	$ 27,644
Total investment income earned	834	2,043
Distributions and fees	(363)	(367)
Balance, end of year	$ 29,791	$ 29,320

The following table presents the Organization's financial assets and liabilities that are measured at fair value on a nonrecurring basis as of and for the year ended June 30, 2019:

Description	6/30/2019	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2019
Initially-recognized Pledges receivable, net	$ 41,068	$ -	$ -	$ 41,068	$ 706,346
	$ 41,068	$ -	$ -	$ 41,068	$ 706,346

The following table presents the Organization's financial assets and liabilities that are measured at fair value on a nonrecurring basis as of and for the year ended June 30, 2018:

Description	6/30/2018	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2018
Initially-recognized Pledges receivable, net	$ 5,500	$ -	$ -	$ 5,500	$ 100,776
	$ 5,500	$ -	$ -	$ 5,500	$ 100,776

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The Organization’s long-term pledges receivable are classified within Level 3 of the fair value hierarchy because the inputs are unobservable and are generated by the Organization itself, using the Organization's own data. The fair value of the pledges receivable is measured using the income approach valuation technique. The key inputs for the fair value measurements of the Organization’s pledges receivable are the schedule of expected future cash flows for each contribution and the discount rate used to convert the expected future cash flows associated with the contributions to a present value amount per the income approach. The determined discount rate is developed based on the notion of an exit price, the price that would be received to sell the asset in the most advantageous market. Only the current year’s additions to pledges receivable are included in the fair value hierarchy nonrecurring basis table because the Organization’s pledges receivable involved fair value measurement only upon initial recognition.

Reconciliation of initially recognized pledges receivable, which are included in fair value hierarchy, to total pledges receivable in the statements of financial position is as follows:

	2019	2018
Initially recognized pledges receivable, net	$ 41,068	$ 5,500
Pledges receivable, net recognized in prior years	608,304	324,038
Total	$ 649,372	$ 329,538

8. Food and Commodities Inventory

Inventories of food and U.S. Government commodities consist of the following as of June 30:

	2019	2018
Commodities received from the U.S. Department of Agriculture	$ 4,298,845	$ 2,723,858
Donated food	1,099,516	1,296,970
Purchased food	27,899	38,046
Total food and commodities inventory	$ 5,426,260	$ 4,058,874

NOTES TO FINANCIAL STATEMENTS

9. Property and Equipment, Net

Property and equipment, net consist of the following as of June 30:

	2019	2018
Land	$ 790,413	$ 790,413
Buildings and improvements	13,423,028	13,267,896
Furniture, fixtures and equipment	2,477,775	2,272,425
Vehicles	3,054,286	2,624,632
Construction in progress	404,591	53,419
Total property and equipment, at cost or donated value	20,150,093	19,008,785
Less accumulated depreciation and amortization	(11,077,535)	(10,280,160)
Property and equipment, net	$ 9,072,558	$ 8,728,625

10. Line of Credit Agreement

In March 2015, the Organization entered into a line of credit agreement with a financial institution for an original amount of $1,000,000. In March 2018, the line of credit was renewed through March 2019 and in March 2019, the line of credit was renewed through March 2020. The line of credit requires monthly interest only payments with interest at LIBOR (2.398% and 2.092% at June 30, 2019 and 2018, respectively) plus 2.0%. The line of credit is collateralized by a security interest and lien upon all monies, securities, securities accounts, brokerage accounts, deposit accounts and other property in the possession of or on deposit with the lender of their affiliate. The line of credit had no outstanding balance as of June 30, 2019, and 2018, respectively.

The line of credit agreement contains various restrictive covenants. The most restrictive of which requires the Organization to maintain a quick ratio, as defined in the line of credit agreement, of not less than 2.0 to 1.0, as measured on an annual basis. The Organization was in compliance with these restrictive covenants as of June 30, 2019 and 2018, respectively.

11. Capital Lease Obligation

During 2018, the Organization entered into a capital lease agreement for commercial vehicles. Assets recorded under capital leases is included in the statements of financial position as a component of property and equipment, which totaled $369,465 as of June 30, 2019 and 2018. Related accumulated depreciation totaled $61,063 and $22,428 as of June 30, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

Capital Lease Obligation (continued)

The future minimum lease payments required under the capital lease and the present value of the minimum future lease payments as of June 30, 2019, are as follows:

Year Ending June 30,	Amount
2020	$ 46,717
2021	46,717
2022	46,717
2023	46,717
2024	45,392
Thereafter	4,969
Total present value of future minimum lease payments	237,229
Plus, guaranteed residual value	112,333
Less, reduction of minimum lease payments to present value (interest expense)	(36,195)
Total	313,367
Less, current portion of capital lease obligation	(37,022)
Long-term capital lease obligation	$ 276,345

12. Loan Agreement with the Arizona Community Foundation

In April 2016, the Organization entered into a loan agreement with the Arizona Community Foundation for an original amount of $500,000. The loan agreement allows for the Organization to draw down advances on the loan over a 36-month period. The advances are to be used to provide financing and other financial accommodations to other not-for-profit, tax-exempt and charitable food providers throughout the state of Arizona. The loan requires monthly interest payments at 2.85% per annum on each portion of the disbursed amount. The loan agreement matures in April 2023 and does not require any principal payments until April 2021. After which, all amounts drawn must be repaid in 24 equal monthly installments. As of June 30, 2019 and 2018, the Organization had drawn $150,000 on the loan.

The loan agreement contains several financial covenants which include maintaining: 1) a ratio of outstanding indebtedness to net assets not to exceed 0.4 to 1.0 at all times, 2) a quick ratio of not less than 2.0 to 1.0 on a quarterly basis, 3) a ratio of unencumbered cash and liquid investments (as defined by the loan agreement) to outstanding indebtedness greater than 1.4 to 1.0 on a quarterly basis, and 4) a debt service coverage ratio of not less than 2.0 to 1.0 on a quarterly basis. The Organization was in compliance with these restrictive covenants as of June 30, 2019, and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

Loan Agreement with the Arizona Community Foundation (continued)

Future maturities of the loan agreement are as follows as of June 30, 2019:

2020	$ -
2021	12,500
2022	75,000
2023	62,500
Total	$ 150,000

13. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following purposes as of June 30:

	2019	2018
Subject to expenditure for specified purpose:		
Community Food Bank of Southern Arizona Resource Centers	$ 811,324	$ 659,925
Child Nutrition Programs	141,694	321,543
Caridad Community Kitchen	91,000	-
Produce Sourcing	64,238	178,231
Tucson Warehouse Expansion	275,000	-
Other	35,853	14,729
	1,419,109	1,174,428
Subject to passage of time:		
For periods after June 30, 2019	444,373	324,038
Subject to Community Food Bank spending policy and appropriation:		
Original donor-restricted endowment gift amounts required to be maintained by donor		
Permanent Endowment	182,575	179,575
Punch Woods Endowment	98,235	98,235
Stocker Endowment Fund	25,100	24,100
	305,910	302,910
Accumulated investment earnings, which, once appropriated, are expendable	120,677	113,870
Total	$ 2,290,069	$ 1,915,246

NOTES TO FINANCIAL STATEMENTS

14. Endowment Funds

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2018	$ 8,149,119	$ 416,780	$ 8,565,899
Investment return			
Investment income	120,481	9,295	129,776
Net appreciation	203,863	17,512	221,375
Total investment return	324,344	26,807	351,151
Contributions	-	3,000	3,000
Appropriation of funds for expenditure	-	(20,000)	(20,000)
Transfer between funds	-	-	-
Endowment net assets, June 30, 2019	$ 8,473,463	$ 426,587	$ 8,900,050

Changes in endowment net assets for the year ended June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2017	$ 8,528,787	$ 392,789	$ 8,921,576
Investment return			
Investment income	134,808	4,458	139,266
Net appreciation	176,895	5,162	182,057
Total investment return	311,703	9,620	321,323
Contributions	23,000	3,000	26,000
Appropriation of funds for Expenditure	(703,000)	-	(703,000)
Transfer between funds	(11,371)	11,371	-
Endowment net assets, June 30, 2018	$ 8,149,119	$ 416,780	$ 8,565,899

The board-designated and new assets with donor restrictions are included in cash and cash equivalents, investments, and investments – other which are maintained in professionally managed investment accounts at various institutions. Expenditures from the accounts must be approved by the Board of Directors.

NOTES TO FINANCIAL STATEMENTS

15. Special Events, Net

The Organization receives revenue from special events that it operates and from special events operated by other organizations that contribute the proceeds to the Organization. Proceeds contributed to the Organization from designated special events by other organizations are recorded as contributions revenue when received.

Special events activity consists of the following for the years ended June 30:

	2019		
	Revenue	Expenses	Net
Hunger Walk (includes in-kind donations of $87,891)	$ 234,087	$ 120,688	$ 113,399
Farm to Table (includes in-kind donations of $18,459)	100,956	51,523	49,433
	$ 335,043	$ 172,211	$ 162,832

	2018		
	Revenue	Expenses	Net
Hunger Walk (includes in-kind donations of $49,708)	$ 175,392	$ 80,809	$ 94,583
Farm to Table (includes in-kind donations of $7,519)	79,260	36,289	42,971
	$ 254,652	$ 117,098	$ 137,554

16. Retirement Plans

Defined Contribution Plan

The Organization implemented a 401(k)-retirement plan on June 1, 1998. All employees 18 years of age or older can participate in the plan after completing one month of service. Employer matching is available for employees who have completed a minimum of 1,000 hours of service. During the years ended June 30, 2019 and 2018, the Organization's matching contributions to the plan amounted to $173,685 and $178,679, respectively. There were no discretionary contributions made for the fiscal years ending June 30, 2019 and 2018.

Supplemental Plan

Effective November 30, 2018, the Organization established a supplemental 457(b) plan for the benefit of a select group of management or highly compensated employees as designated by the Organization. A nonelective contribution to the supplemental plan may be made annually at the discretion of the Organization. Contributions to the supplemental plan totaled $15,774 and $0 for the years ended June 30, 2019 and 2018, respectively.

17. Concentrations of Credit Risk

Cash Deposits at Banks

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to $250,000. As of June 30, 2019, and 2018, the Organization had $2,947,682 and $1,381,387 in excess of FDIC insured limits, respectively.

NOTES TO FINANCIAL STATEMENTS

Concentrations of Credit Risk (continued)

Investments
Investments held by other institutions are insured up to $500,000, including up to $250,000 for cash balances per institution, by the Securities Investor Protection Corporation ("SIPC"). The Organization's investments are also insured under additional brokerage insurance provided by Lloyd's of London up to $150,000,000. This additional protection becomes available in the event that SIPC limits are exhausted. As of June 30, 2019, and 2018, the Organization's investment balances were not in excess of the Lloyd's of London insured limits.

18. Commitments and Contingencies

Program Audits by Funding Agencies
The Organization is subject to potential program audits by its funding agencies. There is a possibility that the Organization could be liable to these agencies for amounts determined by such future audits. The Organization's management believes that no such liabilities exist as of June 30, 2019.

19. Subsequent Events

The Organization evaluated subsequent events through October 26, 2019, which represents the date the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.