



**Keegan Linscott & Associates, PC**

Certified Public Accountants  
Certified Fraud Examiners  
Certified Insolvency & Restructuring Advisors

**COMMUNITY FOOD BANK, INC.**

FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020  
(WITH SUMMARIZED COMPARATIVE TOTALS  
FOR THE YEAR ENDED JUNE 30, 2019)

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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, 2020 and 2019, 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, 2020, and the related notes to the financial statements (collectively, the financial statements).

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

**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, 2020 and 2019, and its cash flows for the years then ended and the changes in its net assets for the year ended June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 3 to the financial statements, in 2020, the Organization adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

**Report on Summarized Comparative Information**

We have previously audited the Organization's June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 24, 2020, 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 Finocchia

Tucson, Arizona  
October 24, 2020

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30,

	2020	2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 11,493,990	\$ 4,189,795
Grants and accounts receivable, net	1,490,986	866,459
Contributions receivable	689,220	272,741
Investments	6,525,932	5,505,001
Investments - other	2,042,237	340,153
Food and commodities inventory	6,849,416	5,426,260
Prepaid expenses and other current assets	78,759	80,816
Total current assets	29,170,540	16,681,225
Contributions receivable, net	289,117	411,631
Investments, non-current	1,845,582	2,381,793
Investments - other, non-current	544,587	236,303
Property and equipment, net	10,231,705	9,072,558
Total assets	\$ 42,081,531	\$ 28,783,510
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 653,485	\$ 589,522
Accrued expenses	895,945	565,030
Deferred revenue	6,193,202	4,324,368
Gift annuities	92,992	97,503
Current portion of capital lease obligations	38,251	37,022
Current portion of long-term debt	10,417	-
Total current liabilities	7,884,292	5,613,445
Capital lease obligations	238,094	276,345
Long-term debt	1,666,640	150,000
Total liabilities	9,789,026	6,039,790
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	9,250,335	2,907,630
Board-designated	8,930,167	8,473,463
Investments in property and equipment	10,231,705	9,072,558
	28,412,207	20,453,651
With donor restrictions	3,880,298	2,290,069
Total net assets	32,292,505	22,743,720
Total liabilities and net assets	\$ 42,081,531	\$ 28,783,510

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020  
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 2020	Summarized Total 2019
Revenues and Other Support				
Donated food	\$ 100,345,649	\$ -	\$ 100,345,649	\$ 110,424,302
Contributions	14,263,029	5,184,339	19,447,368	11,538,690
Government grants	5,371,659	-	5,371,659	3,860,543
Bequests	984,111	285,152	1,269,263	393,685
Earned revenues	1,942,202	-	1,942,202	1,728,826
In-kind contributions	259,170	-	259,170	262,734
Special events	273,293	-	273,293	335,043
Miscellaneous	24,100	-	24,100	50,810
Rent income	-	-	-	11,563
Loss on disposal of property and equipment	(125,015)	-	(125,015)	(7,083)
Investment gain, net	492,551	30,797	523,348	380,850
Net assets released from restriction	3,910,059	(3,910,059)	-	-
Total revenues and other support	<u>127,740,808</u>	<u>1,590,229</u>	<u>129,331,037</u>	<u>128,979,963</u>
Expenses				
Program services				
Health and food	112,803,057	-	112,803,057	121,432,048
Community development	658,111	-	658,111	646,227
Education	2,114,224	-	2,114,224	1,962,475
Total program services	<u>115,575,392</u>	<u>-</u>	<u>115,575,392</u>	<u>124,040,750</u>
Supporting services				
Fundraising	2,175,253	-	2,175,253	2,100,237
Management and general	2,031,607	-	2,031,607	1,771,441
Total expenses	<u>119,782,252</u>	<u>-</u>	<u>119,782,252</u>	<u>127,912,428</u>
Change in net assets	7,958,556	1,590,229	9,548,785	1,067,535
Net assets, beginning of year	<u>20,453,651</u>	<u>2,290,069</u>	<u>22,743,720</u>	<u>21,676,185</u>
Net assets, end of year	<u>\$ 28,412,207</u>	<u>\$ 3,880,298</u>	<u>\$ 32,292,505</u>	<u>\$ 22,743,720</u>

STATEMENT OF EXPENSES BY FUNCTION AND NATURE  
FOR THE YEAR ENDED JUNE 30, 2020

	Health and Food	Community Development	Education	Total Program Services	Supporting Services		Total
					Fundraising	Management and General	
Salaries	\$ 4,382,345	\$ 291,605	\$ 898,029	\$ 5,571,979	\$ 752,702	\$ 1,214,872	\$ 7,539,553
Payroll taxes	345,156	22,689	70,799	438,644	58,712	81,514	578,870
Employee benefits	615,860	35,226	144,193	795,279	97,810	190,176	1,083,265
Temporary contracted services and fees	341,864	72	231	342,167	4,492	239	346,898
<b>Total personnel</b>	<b>5,685,225</b>	<b>349,592</b>	<b>1,113,252</b>	<b>7,148,069</b>	<b>913,716</b>	<b>1,486,801</b>	<b>9,548,586</b>
Donated commodities and food distributed	100,833,429	500	2,463	100,836,392	91,509	32,743	100,960,644
Cost of purchased goods	1,851,119	162,206	9,926	2,023,251	-	-	2,023,251
Professional & outside services	715,426	25,318	111,162	851,906	525,429	164,235	1,541,570
Insurance	148,345	3,349	36,436	188,130	6,460	22,107	216,697
Vehicle & fuel expense	402,963	634	5,120	408,717	677	88	409,482
Maintenance & repair	444,253	1,671	6,316	452,240	6,622	12,230	471,092
Occupancy	214,762	3,483	139,103	357,348	130	110	357,588
Utilities	372,122	14,446	62,058	448,626	29,144	31,312	509,082
Supplies	573,496	14,077	63,896	651,469	40,584	34,128	726,181
Small & leased equipment	492,975	4,274	9,568	506,817	12,700	19,326	538,843
Postage, printing & promotion	86,577	19,215	19,614	125,406	348,968	1,599	475,973
Travel	38,946	11,201	15,395	65,542	7,539	9,305	82,386
Staff, board, donor & volunteer expense	62,125	11,501	23,165	96,791	29,354	87,038	213,183
Dues & fees	42,431	8,642	6,707	57,780	140,198	20,780	218,758
Agency & partner expenses	24,953	12,822	453,088	490,863	5,315	79,006	575,184
Miscellaneous	360	-	-	360	8	942	1,310
<b>Total expenses before interest and depreciation</b>	<b>111,989,507</b>	<b>642,931</b>	<b>2,077,269</b>	<b>114,709,707</b>	<b>2,158,353</b>	<b>2,001,750</b>	<b>118,869,810</b>
Interest expense	9,696	-	-	9,696	2,761	13,507	25,964
Depreciation	803,854	15,180	36,955	855,989	14,139	16,350	886,478
<b>Total expenses</b>	<b>\$ 112,803,057</b>	<b>\$ 658,111</b>	<b>\$ 2,114,224</b>	<b>\$ 115,575,392</b>	<b>\$ 2,175,253</b>	<b>\$ 2,031,607</b>	<b>\$ 119,782,252</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS



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		Total
					Fundraising	Management and General	
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
<b>Total personnel</b>	<b>4,848,566</b>	<b>348,682</b>	<b>996,852</b>	<b>6,194,100</b>	<b>922,254</b>	<b>1,183,378</b>	<b>8,299,732</b>
Donated commodities and food distributed	110,670,480	1,045	6,085	110,677,610	100,638	39,364	110,817,612
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	203,917	146,853	1,150,471
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	5,735	4,595	435,247
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	49,949	24,881	677,765
Small & leased equipment	504,605	3,556	21,676	529,837	19,707	14,216	563,760
Postage, printing & promotion	109,311	22,041	29,568	160,920	543,748	2,375	707,043
Travel	50,015	7,841	30,262	88,118	16,579	19,339	124,036
Staff, board, donor & volunteer expense	52,928	8,250	27,241	88,419	86,692	99,000	274,111
Dues & fees	68,962	12,623	6,299	87,884	85,069	23,968	196,921
Agency & partner expenses	39,949	7,469	341,546	388,964	2,180	96,005	487,149
Miscellaneous	2,751	2	23	2,776	32	43,231	46,039
<b>Total expenses before interest and depreciation</b>	<b>120,676,706</b>	<b>630,581</b>	<b>1,924,503</b>	<b>123,231,790</b>	<b>2,078,964</b>	<b>1,749,337</b>	<b>127,060,091</b>
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
<b>Total expenses</b>	<b>\$ 121,432,048</b>	<b>\$ 646,227</b>	<b>\$ 1,962,475</b>	<b>\$ 124,040,750</b>	<b>\$ 2,100,237</b>	<b>\$ 1,771,441</b>	<b>\$ 127,912,428</b>

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30,

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 9,548,785	\$ 1,067,535
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	886,478	831,430
Amortization of discount on contributions receivable	4,715	28,944
Net realized and unrealized gain on investments	(336,677)	(222,047)
Loss on disposal of property and equipment	125,015	7,083
Contributions restricted for long term purposes	(400,269)	(706,346)
Contributions restricted for permanent investment	(73,123)	(3,000)
Changes in operating assets and liabilities		
Grants and accounts receivable, net	(624,527)	245,874
Contributions receivable	(250,152)	(25,000)
Food and commodities inventory	(1,423,156)	(1,367,386)
Prepaid expenses and other current assets	2,057	12,320
Accounts payable	63,963	93,412
Accrued expenses	330,915	59,901
Deferred revenue	1,868,834	1,581,486
Net cash provided by operating activities	9,722,858	1,604,206
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(2,171,140)	(1,182,446)
Proceeds from the disposal of property and equipment	500	-
Purchase of investments and investments - other	(4,071,803)	(2,633,559)
Proceeds from sale of investments and investments - other	1,913,392	2,475,589
Net cash used in investing activities	(4,329,051)	(1,340,416)
<b>Cash Flows from Financing Activities</b>		
Collection on contributions restricted for long-term purposes	351,741	357,568
Collection of contributions restricted for investment in endowment	73,123	3,000
Payment of annuity obligations	(4,511)	(4,607)
Proceeds from borrowings on line of credit	500,000	-
Payment of line of credit	(500,000)	-
Payment of long-term debt	(25,000)	-
Proceeds from long-term debt	1,552,057	-
Payments on capital lease obligation	(37,022)	(35,832)
Net cash provided by financing activities	1,910,388	320,129
Net change in cash and cash equivalents	7,304,195	583,919
Cash and cash equivalents, beginning of year	4,189,795	3,605,876
Cash and cash equivalents, end of year	\$ 11,493,990	\$ 4,189,795
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 25,964	\$ 20,907

## 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 restrictions 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.

#### *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 19). 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, 2020, and 2019, management estimated an allowance for doubtful accounts of \$12,357 and \$25,210, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### *Contributions Receivable*

The Organization accounts for contributions receivable to be made in future years as unconditional promises to give in the year the promise is made. Contributions 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 contributions receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All contributions deemed to be uncollectible are written off. As of June 30, 2020 and 2019, management considered all contributions 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, 2020, 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 years ended June 30, 2020 and 2019, Feeding America provided an estimated wholesale value per pound for food and non-food commodities overall, an estimated wholesale value per pound for food donations only, excluding non-food commodities, and an estimated wholesale value per pound for non-food commodities donations only, excluding food. Consequently, as of July 1, 2019 and 2018, the Organization revised its valuation of food and non-food commodities to value food inventories using the food donations rate of \$1.52 and \$1.57 per pound, respectively, and non-food commodities inventories using the non-food donations rate of \$5.59 and \$6.15 per pound, respectively.

Commodities received from the U.S. Department of Agriculture but not distributed as of June 30, 2020 and 2019, totaled \$6,138,248 and \$4,298,845, 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, 2020, 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, 2020 and 2019, the payment rates ranged between 5.8% and 7.0%.

As of June 30, 2020, and 2019, the Organization had six charitable gift annuities, with an estimated benefit liability of \$92,992 and \$97,503, respectively. Investments as of June 30, 2020 and 2019 include \$135,808 and \$140,225, 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, 2020 and 2019.

#### *Revenue Recognition* **Contributions**

*Government Grants* – The Organization accounts for its government grants by first determining whether the transaction is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and the Organization recognizes revenue in accordance with ASC 606. Government grants revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred or services are provided. If the transaction is considered a contribution, then the Organization recognizes revenue in accordance with ASC 958-605. None of the Organization's government grants revenues were considered exchange transactions for the year ended June 30, 2020.

*Contributions* - Contributions are classified based on the existence or absence of donor-imposed restrictions as either conditional or unconditional as follows:

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.
- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a contribution is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.



## NOTES TO FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### *Revenue Recognition (continued)*

Contribution revenue is recorded when the unconditional promise to give is received. Under this method, the recognition of support for financial statement purposes bears no relation to the period in which the expenses are incurred. Revenue related to conditional contributions is recognized once the relevant barriers of each contribution are met. If the funds are received from the donor before the relevant barriers are met, deferred revenue is recorded on the statement of financial position for the amount of funds provided by the donor. Consequently, government funded grants revenue which are considered contributions are recognized when the related barriers to provide services are delivered and/or expenditures are incurred.

*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, 2020 and 2019, volunteers worked approximately 171,594 and 198,625 hours, respectively. The fair value of these services is not reflected in the accompanying financial statements because the above criteria were not met.

#### **Exchange Transactions**

The Organization recognizes earned revenues in accordance with ASC 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

*Earned Revenues* – The Organization recognizes earned revenues, which primarily consist of fee-for-service or cost-reimbursement contracts, when services are rendered. Performance obligations are determined based on the nature of the services provided. The Organization recognizes revenues over time since the client simultaneously receives and consumes the benefits of the services provided in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those services. Management believes this method provides a faithful depiction of the transfer of services over the term of the performance obligations based on the inputs needed to satisfy the obligations.

The transaction price is the amount of consideration the Organization expects to be entitled. Revenues are based primarily on payment terms involving predetermined rates per service (fee-for-service), and/or other similar contractual arrangements. The consideration promised in a contract with a customer may include

## NOTES TO FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### *Revenue Recognition (continued)*

both fixed and variable amounts to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Organization estimates the amount of variable consideration at the most likely amount to which the Organization expects to be entitled. The estimates of variable consideration are based on the Organization's assessment of legal enforceability, anticipated performance and any other information (e.g. historical, current or forecasted) that is reasonably available to the Organization. The payers are billed periodically as services are provided and the payers have verified the services provided (if applicable). Management does not believe any adjustments are necessary to amounts recorded as revenues for the year ended June 30, 2020.

The timing of revenue recognition may not align with the right to invoice the customer. The Organization records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability, such as deferred revenue is also recorded. If revenue is recognized in advance of the right to invoice, a contract asset, such as accounts receivable is recorded.

#### *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, 2020 and 2019, the Organization did not recognize any interest and penalties.

## NOTES TO FINANCIAL STATEMENTS

### Summary of Significant Accounting Policies (continued)

#### *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.

#### *Reclassifications*

Certain amounts presented in the prior year have been reclassified to conform to the current year financial statement presentation. These reclassifications have no effect on previously reported net assets.

#### *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, 2019, from which the summarized information was derived.

### 3. Recent Accounting Pronouncements

#### *Adopted as of June 30, 2020*

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 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 adopted ASU 2014-09 on July 1, 2019 utilizing the modified retrospective method. As part of the adoption of the ASU, the Organization elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; (ii) to apply the standard only to contracts that are not completed at the initial date of application; (iii) to apply the new revenue standard to a portfolio of contracts (or performance obligations) with similar characteristics if it is reasonably expected that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio; and (iv) to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the

## NOTES TO FINANCIAL STATEMENTS

### Recent Accounting Pronouncements (continued)

#### ***Adopted as of June 30, 2020 (continued)***

asset that the entity otherwise would have recognized is one year or less. The Organization's modified retrospective adoption of the new revenue standard resulted in no impact to net assets, or to cash from or used in operating, financing or investing on the statement of cash flows. The impact of applying this ASU for the year ended June 30, 2020 resulted in no impact to the financial statements and primarily affected the Organization's disclosure of policies and related activity for earned revenues.

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 adopted ASU 2018-08 during fiscal year 2020 on a modified prospective basis. The adoption of this ASU primarily affected the Organization's disclosure of policies and related activity for the Organization's government grants which are considered conditional contributions. The adoption of this ASU did not have a material effect on the Organization's financial statements for the year ended June 30, 2020.

#### ***Not Yet Required to be Adopted as of June 30, 2020***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required (see ASU No. 2018-11 below 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

## NOTES TO FINANCIAL STATEMENTS

**Recent Accounting Pronouncements (continued)*****Not Yet Required to be Adopted as of June 30, 2020 (continued)***

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, 2021). 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 June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Organization does not intend to early adopt. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements and disclosures and does not expect the impact to be significant.

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.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and recognized contributed services. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. It also requires a not-for-profit to disclose: 1)

## NOTES TO FINANCIAL STATEMENTS

**Recent Accounting Pronouncements (continued)*****Not Yet Required to be Adopted as of June 30, 2020 (continued)***

contributed nonfinancial assets recognized within the statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets; and 2) for each category of contributed nonfinancial assets recognized: i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used; ii) the not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; iv) the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition; and v) the principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit organization is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The Organization is currently evaluating the effect that the standard will have on the financial statements and disclosures.

**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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 11,493,990	\$ 4,189,795
Grants and accounts receivable, net	1,490,986	866,459
Contributions receivable	978,337	684,372
Investments (debt, equity, and other)	<u>10,958,338</u>	<u>8,463,250</u>
Total financial assets	24,921,651	14,203,876
Less amounts unavailable for general expenditure within one year, due to:		
Contributions receivable scheduled to be collected in more than one year	289,117	411,631
Contractual or donor-imposed restrictions		
Endowment funds	379,033	305,910
Other donor restrictions	3,501,265	1,984,159
Board designations		
Gift annuity reserve	135,808	140,225
Operating reserve	<u>8,794,359</u>	<u>8,333,238</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 11,822,069</u>	<u>\$ 3,028,713</u>

## NOTES TO FINANCIAL STATEMENTS

**Liquidity and Availability of Resources (continued)**

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 250 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, 2020 and 2019, capital expenditures amounted to \$2,171,140 and \$1,182,446, respectively.

In the initial months of the COVID-19 pandemic, the community provided unprecedented support to the Organization. While future charitable giving may be uncertain during what many economists believe will become a longer term economic recovery following the emergence of the pandemic, the Organization plans to utilize the community's unprecedented support to not only meet the level of current need caused by the COVID-19 pandemic, but to also help ensure the Organization's sustainability during an uncertain economy.

**5. Contributions Receivable, Net**

Contributions 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:

	2020	2019
Receivables (less than one year)	\$ 689,220	\$ 272,741
Receivables (one to five years)	328,538	446,337
	<u>1,017,758</u>	<u>719,078</u>
Less discount to net present value	(39,421)	(34,706)
Contributions receivable, net	<u>\$ 978,337</u>	<u>\$ 684,372</u>

## NOTES TO FINANCIAL STATEMENTS

**6. Investments**

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

	<u>2020</u>	<u>2019</u>
Equity securities	\$ 5,339,745	\$ 4,635,024
Fixed income	2,706,600	2,984,373
Mutual funds	272,950	237,606
Community Foundation for Southern Arizona	52,219	29,791
Total Investments	<u>\$ 8,371,514</u>	<u>\$ 7,886,794</u>

Other investments consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Certificates of deposit	\$ 2,586,824	\$ 576,456

Investment gain, net consists of the following for the year ended June 30:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 226,001	\$ 210,489
Realized and unrealized gain on investments, net	336,677	222,047
Investment fees	(39,330)	(51,686)
Total investment gain, net	<u>\$ 523,348</u>	<u>\$ 380,850</u>

**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.



## NOTES TO FINANCIAL STATEMENTS

**Fair Value Measurements (continued)**

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.

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2020:

Description	Fair Value	Level 1	Level 2	Level 3
Equity securities (a)	\$ 5,339,745	\$ 5,339,745	\$ -	\$ -
Fixed income				
Corporate bonds	1,432,958	1,432,958	-	-
Foreign bonds	151,825	151,825	-	-
Government bonds	1,121,817	1,121,817	-	-
	<u>2,706,600</u>	<u>2,706,600</u>	-	-
Mutual funds				
Large-cap blend/growth/value	240,609	240,609	-	-
Bond funds	12,117	12,117	-	-
Small to Mid-cap growth/value	9,345	9,345	-	-
Foreign	7,070	7,070	-	-
Natural resources	3,809	3,809	-	-
	<u>272,950</u>	<u>272,950</u>	-	-
Community Foundation for Southern Arizona	52,219	-	-	52,219
Total Investments	<u>\$ 8,371,514</u>	<u>\$ 8,319,295</u>	<u>\$ -</u>	<u>\$ 52,219</u>

## 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	-	-
	<u>2,984,373</u>	<u>2,984,373</u>	-	-
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	-	-
	<u>237,606</u>	<u>237,606</u>	-	-
Community Foundation for Southern Arizona	29,791	-	-	29,791
Total Investments	<u>\$ 7,886,794</u>	<u>\$ 7,857,003</u>	<u>\$ -</u>	<u>\$ 29,791</u>

(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	2020	2019
Balance, beginning of year	\$ 29,791	\$ 29,320
Total investment income earned	1,195	834
Interfund grant transfer (addition)	21,718	-
Distributions and fees	(485)	(363)
Balance, end of year	<u>\$ 52,219</u>	<u>\$ 29,791</u>

## NOTES TO FINANCIAL STATEMENTS

**Fair Value Measurements (continued)**

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, 2020:

Description	<u>6/30/2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Revenue For the Year Ended 6/30/2020</u>
Initially-recognized Contributions receivable, net	\$ <u>533,769</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>533,769</u>	\$ <u>1,447,123</u>
	\$ <u>533,769</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>533,769</u>	\$ <u>1,447,123</u>

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	<u>6/30/2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Revenue For the Year Ended 6/30/2019</u>
Initially-recognized Contributions receivable, net	\$ <u>76,068</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>76,068</u>	\$ <u>912,114</u>
	\$ <u>76,068</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>76,068</u>	\$ <u>912,114</u>

The Organization's long-term contributions 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 contributions receivable is measured using the income approach valuation technique. The key inputs for the fair value measurements of the Organization's contributions 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 contributions receivable are included in the fair value hierarchy nonrecurring basis table because the Organization's contributions receivable involved fair value measurement only upon initial recognition.

## NOTES TO FINANCIAL STATEMENTS

**Fair Value Measurements (continued)**

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

	<u>2020</u>	<u>2019</u>
Initially recognized contributions receivable, net	\$ 533,769	\$ 76,068
Contributions receivable, net recognized in prior years	<u>444,568</u>	<u>608,304</u>
Total	<u>\$ 978,337</u>	<u>\$ 684,372</u>

**8. Food and Commodities Inventory**

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

	<u>2020</u>	<u>2019</u>
Commodities received from the U.S. Department of Agriculture	\$ 6,138,248	\$ 4,298,845
Donated food	606,862	1,099,516
Purchased food	<u>104,306</u>	<u>27,899</u>
Total food and commodities inventory	<u>\$ 6,849,416</u>	<u>\$ 5,426,260</u>

**9. Property and Equipment, Net**

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

	<u>2020</u>	<u>2019</u>
Land	\$ 790,413	\$ 790,413
Buildings and improvements	13,437,952	13,423,028
Furniture, fixtures and equipment	2,408,416	2,477,775
Vehicles	3,317,343	3,054,286
Construction in progress	<u>1,848,930</u>	<u>404,591</u>
Total property and equipment, at cost or donated value	21,803,054	20,150,093
Less accumulated depreciation and amortization	<u>(11,571,349)</u>	<u>(11,077,535)</u>
Property and equipment, net	<u>\$ 10,231,705</u>	<u>\$ 9,072,558</u>

## NOTES TO FINANCIAL STATEMENTS

### 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 2019, the line of credit was renewed through March 2020 and in March 2020, the line of credit was renewed through March 2021. The line of credit requires monthly interest only payments with interest at LIBOR plus 2% (2.16% and 2.40% at June 30, 2020 and 2019, respectively). 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, 2020, and 2019, respectively.

The line of credit agreement contains various restrictive covenants. The most restrictive of which requires the Organization to maintain a minimum level of liquidity, as defined in the line of credit agreement, of not less than \$3,000,000, as measured on an annual basis. The Organization was in compliance with these restrictive covenants as of June 30, 2020 and 2019, respectively.

### 11. Financing Agreement

#### *Series 2020 Bonds*

On June 1, 2020 the Industrial Development Authority of the County Of Pima ("Pima IDA") authorized the issuance of Revenue Bonds (Community Food Bank of Southern Arizona Project), Series 2020, in the principal amount of \$3,500,000 (the "Series 2020 Bonds"), for a capital project to be undertaken by the Organization. The Series 2020 Bonds were purchased in a private placement by Wells Fargo Bank, National Association ("WFBNA"), the proceeds of which will be loaned by WFBNA to the Organization and will be disbursed to the Organization as the project is completed. The Organization has until June 2023 to draw the funds. The Series 2020 Bonds will mature June 1, 2050 and require interest and principal payments on the dates and in the amounts in a schedule to be furnished by WFBNA to the Organization upon completion of the project.

The Series 2020 Bonds will bear interest at a fixed annual rate of 3.05% multiplied by a margin rate factor (which is tied to changes in the maximum federal corporate tax rate) and are secured by a perfected first priority lien on all of the Organization's revenues. The Series 2020 Bonds are also subject to prepayment fees as defined by the financing agreements. The Series 2020 Bonds had no outstanding balance as of June 30, 2020.

The Series 2020 Bonds financing agreements contain various financial covenants. The most restrictive of which require the Organization to maintain the following: a real estate debt coverage ratio no less than 1.25 to 1.00, a minimum level of liquidity of no less than \$3,000,000, a total liabilities to tangible net worth ratio not to exceed 0.5 to 1.00, and a positive net income after taxes no less than \$1.00, all on an annual basis. The Organization was in compliance with these covenants as of June 30, 2020.

## NOTES TO FINANCIAL STATEMENTS

**12. Paycheck Protection Program Promissory Note**

In May 2020, the Organization entered into a promissory note agreement with a financial institution for an original amount of \$1,552,057. The loan was made pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll and employee benefit expenses of the qualifying business. Per the loan agreement, the Organization was required to apply for loan forgiveness within a deferment period of 60-90 days of the funding of the loan; however, due to the lender's administrative delays, as of REPORT DATE, the Organization was not yet able to apply for loan forgiveness. The loans and accrued interest may be fully or partially forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its employment levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered payroll period. If the Small Business Association ("SBA") does not confirm forgiveness of the loan or only partly confirms forgiveness of the loan, it will be required to be repaid. In that event, the financial institution would set the terms of repayment on a monthly schedule with a deferral of payments for the first ten months, interest not to exceed 1.00% per annum, and a maturity date of two years from the funding date. Although the Organization expects that it will meet the conditions for forgiveness of the loan, as of October 24, 2020, the Organization cannot assure that the loan will be fully or partly forgiven.

**13. 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, 2020 and 2019, the Organization had drawn \$125,000 and \$150,000, respectively, 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, 2020, and 2019, respectively.

Future maturities of the loan agreement are as follows as of June 30, 2020:

2021	\$	10,417
2022		62,500
2023		<u>52,083</u>
Total	\$	<u>125,000</u>

## NOTES TO FINANCIAL STATEMENTS

**14. 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, 2020 and 2019. Related accumulated depreciation totaled \$99,698 and \$61,063 as of June 30, 2020 and 2019, respectively.

The future minimum lease payments required under the capital lease and the present value of the minimum future lease payments as of June 30, 2020, are as follows:

Year Ending June 30,	Amount
2021	\$ 46,717
2022	46,717
2023	46,717
2024	45,392
2025	4,969
Thereafter	-
Total present value of future minimum lease payments	190,512
Plus, guaranteed residual value	112,333
Less, reduction of minimum lease payments to present value (interest expense)	<u>(26,500)</u>
Total	276,345
Less, current portion of capital lease obligation	<u>(38,251)</u>
Long-term capital lease obligation	<u>\$ 238,094</u>

## NOTES TO FINANCIAL STATEMENTS

**15. Net Assets With Donor Restrictions**

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose		
Community Food Bank of Southern Arizona Resource Centers	\$ 902,320	\$ 811,324
Child Nutrition Programs	21,213	141,694
Caridad Community Kitchen	7,389	91,000
Produce Sourcing	9,257	64,238
Tucson Warehouse Expansion	1,493,119	275,000
Other	145,656	35,853
	<u>2,578,954</u>	<u>1,419,109</u>
Subject to passage of time		
For periods after June 30, 2020 and 2019, respectively	<u>770,837</u>	<u>444,373</u>
Subject to Community Food Bank spending policy and appropriation		
Original donor-restricted endowment gift amounts required to be maintained by donor		
Permanent Endowment	205,575	182,575
Punch Woods Endowment	126,640	98,235
Stocker Endowment Fund	46,818	25,100
	<u>379,033</u>	<u>305,910</u>
Accumulated investment earnings, which, once appropriated, are expendable	151,474	120,677
Total	<u>\$ 3,880,298</u>	<u>\$ 2,290,069</u>



## NOTES TO FINANCIAL STATEMENTS

**16. Endowment Funds**

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2019	\$ 8,473,463	\$ 426,587	\$ 8,900,050
Investment return			
Investment income	147,424	8,253	155,677
Net appreciation	318,977	22,544	341,521
Total investment return	466,401	30,797	497,198
Contributions	-	73,123	73,123
Appropriation of funds for expenditure	(9,697)	-	(9,697)
Endowment net assets, June 30, 2020	<u>\$ 8,930,167</u>	<u>\$ 530,507</u>	<u>\$ 9,460,674</u>

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)
Endowment net assets, June 30, 2019	<u>\$ 8,473,463</u>	<u>\$ 426,587</u>	<u>\$ 8,900,050</u>

The board-designated and net 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

**17. Special Events**

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:

	2020		
	Revenue	Expenses	Net
Hunger Walk (includes in-kind donations of \$89,242)	\$ 273,293	\$ 126,970	\$ 146,323
Farm to Table (includes in-kind donations of \$0)	-	-	-
	<u>\$ 273,293</u>	<u>\$ 126,970</u>	<u>\$ 146,323</u>
	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
	<u>\$ 335,043</u>	<u>\$ 172,211</u>	<u>\$ 162,832</u>

**18. 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, 2020 and 2019, the Organization's matching contributions to the plan amounted to \$232,172 and \$173,685, respectively. There were no discretionary contributions made for the fiscal years ending June 30, 2020 and 2019.

***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 \$17,556 and \$15,774 for the years ended June 30, 2020 and 2019, respectively.

**19. 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, 2020, and 2019, the Organization had \$9,801,736 and \$2,947,682 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 \$1 billion. This additional protection becomes available in the event that SIPC limits are exhausted. As of June 30, 2020, and 2019, the Organization's investment balances were not in excess of the Lloyd's of London insured limits.

### 20. Commitments and Contingencies

#### *Construction Services Agreement (WSM Architects)*

The Organization entered into an agreement with an architect for design and remodeling services for the Organization's main warehouse location in Tucson, Arizona. The fees for the construction services are \$258,231, as defined by the agreement. Through June 30, 2020, construction service fees incurred under the agreement totaled \$239,592 and are included in construction in progress within property and equipment in the accompanying statements of financial position.

#### *Construction Services Agreement (MW Morrissey)*

The Organization entered into an agreement with a construction company for external remodeling services. The guaranteed maximum price for the construction services are \$1,954,730, as defined by the agreement. Through June 30, 2020, related construction service fees incurred totaled \$743,553 and are included in construction in progress within property and equipment in the accompanying statements of financial position.

In connection with interior remodeling of the main warehouse location, the Organization also entered into an agreement for architectural and engineering design services. The guaranteed maximum price for the construction services are \$1,802,303, as defined by the agreement. Through June 30, 2020, related interior remodel construction service fees incurred totaled \$493,749 and are included in construction in progress within property and equipment in the accompanying statements of financial position.

#### *System Installation Agreement (Technicians for Sustainability)*

The Organization entered into an agreement with a construction company for the design, construction and installation of a photovoltaic system (the "System") on Community Food Bank's building site. The guaranteed maximum price for the construction services are \$168,564, as defined by the agreement. Through June 30, 2020, construction service fees incurred under the agreement totaled \$57,521 and are included in construction in progress within property and equipment in the accompanying statements of financial position.

#### *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, 2020.

### 21. Subsequent Events

The Organization evaluated subsequent events through October 24, 2020, which represents the date the financial statements were available to be issued and, with the exception of the matters discussed below, concluded that no additional disclosures are required.

## NOTES TO FINANCIAL STATEMENTS

### **Subsequent Events (continued)**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization.

On August 28, 2020, the Organization formed Avanzando, LLC, as its sole member. Avanzando, LLC's purpose is to primarily serve as a fiscal sponsor of mutual aid organizations and other non-profit organizations. Avanzando, LLC had no activity prior to its formation. All activity of Avanzando, LLC will be consolidated with the Organization beginning in the year ended June 30, 2021.