Keegan, Linscott & Kenon, PC
Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors
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COMMUNITY FOOD BANK, INC.

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2016)

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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, 2017 and 2016, the related statements of cash flows and functional expenses for the years then ended, and the related statement of activities for the year ended June 30, 2017, 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, 2017 and 2016, and its cash flows for the years then ended and the changes in its net assets for the year ended June 30, 2017, 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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 28, 2017 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 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 28, 2017

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 3,607,158	$ 3,821,723
Grants and accounts receivable	441,373	537,858
Pledges receivable	310,000	300,000
Investments	4,380,965	3,118,630
Investments - other	186,258	226,717
Food and commodities inventory	3,612,129	3,871,075
Prepaid expenses and other current assets	124,252	99,709
Total current assets	12,662,135	11,975,712
Pledges receivable, net	312,475	843,477
Investments, non-current	2,703,864	2,680,192
Investments - other, non-current	215,344	404,174
Property and equipment, net	8,003,092	6,700,093
Total assets	$ 23,896,910	$ 22,603,648
Liabilities		
Current liabilities		
Accounts payable	$ 808,081	$ 200,498
Accrued expenses	435,004	351,075
Deferred revenue	2,367,594	2,266,214
Gift annuities	92,094	96,160
Total current liabilities	3,702,773	2,913,947
Total liabilities	3,702,773	2,913,947
Net Assets		
Unrestricted		
Undesignated	1,918,595	2,994,925
Board-designated	8,528,787	8,160,018
Investments in property and equipment	8,003,092	6,700,093
Total unrestricted net assets	18,450,474	17,855,036
Temporarily restricted net assets	1,443,753	1,537,755
Permanently restricted net assets	299,910	296,910
Total net asssets	20,194,137	19,689,701
Total liabilities and net assets	$ 23,896,910	$ 22,603,648

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Summarized Total 2016
Revenues and Other Support					
Donated food	$ 96,904,336	$ -	$ -	$ 96,904,336	$ 56,741,622
Contributions	7,554,880	2,935,443	3,000	10,493,323	10,673,872
Government grants	2,581,166	-	-	2,581,166	2,518,382
Bequests	511,525	-	-	511,525	1,155,284
Earned revenues	254,211	-	-	254,211	232,258
United Way	59,714	-	-	59,714	67,058
In-kind contributions	196,316	-	-	196,316	122,925
Special events, net	104,486	45,373	-	149,859	142,496
Miscellaneous	33,782	-	-	33,782	18,476
Rent income	27,262	-	-	27,262	25,099
Gain on disposal of property and equipment	12,109	-	-	12,109	1,500
Investment gain (loss), net	348,483	26,981	-	375,464	(175,409)
Net assets released from restriction	3,101,799	(3,101,799)	-	-	-
Total revenues and other support	111,690,069	(94,002)	3,000	111,599,067	71,523,563
Expenses					
Program services					
TEFAP	43,298,724	-	-	43,298,724	34,068,569
Agency partnerships	47,013,240	-	-	47,013,240	24,650,200
CSFP	13,250,983	-	-	13,250,983	4,256,164
Community food resource center	2,129,837	-	-	2,129,837	1,764,082
Caridad community kitchen	750,822	-	-	750,822	881,281
Child nutrition program	1,014,803	-	-	1,014,803	843,335
Multi-service center program	-	-	-	-	20,703
Total program services	107,458,409	-	-	107,458,409	66,484,334
Supporting services					
Fundraising	1,973,641	-	-	1,973,641	2,153,426
Management and general	1,662,581	-	-	1,662,581	706,851
Total expenses	111,094,631	-	-	111,094,631	69,344,611
Change in net assets	595,438	(94,002)	3,000	504,436	2,178,952
Net assets, beginning of year	17,855,036	1,537,755	296,910	19,689,701	17,510,749
Net assets, end of year	$ 18,450,474	$ 1,443,753	$ 299,910	$ 20,194,137	$ 19,689,701

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	TEFAP	Agency Partnerships	CSFP	Community Food Resource Center	Caridad Community Kitchen	Child Nutrition Programs	Multi-Service Center Program	Total Program Services	Fundraising	Management and General	Total
Expenses											
Salaries	$ 1,667,309	$ 404,585	$ 231,185	$ 852,988	$ 296,089	$ 112,124	$ -	$ 3,564,280	$ 985,491	$ 917,393	$ 5,467,164
Payroll taxes	148,138	35,893	33,268	74,130	25,179	12,385	-	328,993	88,505	76,469	493,967
Employee benefits	211,840	69,820	113,493	104,610	37,723	38,002	-	575,488	119,727	78,788	774,003
Temporary contracted services and fees	130,504	19,054	36,584	4,406	1,665	19,066	-	211,279	27,901	40,394	279,574
Total personnel	2,157,791	529,352	414,530	1,036,134	360,656	181,577	-	4,680,040	1,221,624	1,113,044	7,014,708
Donated commodities and food distributed	38,871,737	45,752,456	12,449,954	-	21,894	202,838	-	97,298,879	-	-	97,298,879
Cost of purchased goods	621,380	638	4,594	154,717	109,707	503,555	-	1,394,591	1,466	-	1,396,057
Printing and promotion	214,496	54,361	43,946	172,012	36,413	17,374	-	538,602	285,903	103,366	927,871
Supplies and minor equipment	219,598	33,878	70,899	112,857	58,981	13,150	-	509,363	33,983	38,439	581,785
Outside and professional services	60,822	23,261	25,087	286,912	9,555	7,813	-	413,450	173,558	78,643	665,651
Auto and truck expense	225,367	73,736	30,467	13,953	8,911	3,358	-	355,792	1,833	1,191	358,816
Utilities	139,961	35,809	34,458	27,852	22,436	13,125	-	273,641	10,754	16,327	300,722
Maintenance and repair	133,848	39,175	35,312	13,111	22,137	13,536	-	257,119	4,962	7,174	269,255
Miscellaneous	29,964	8,740	4,222	22,826	12,024	2,548	-	80,324	89,191	84,770	254,285
Insurance	81,314	15,475	28,639	17,571	9,112	8,188	-	160,299	12,284	9,363	181,946
Dues and subscriptions	16,508	4,295	3,032	6,347	2,995	2,635	-	35,812	13,396	10,266	59,474
Telephone	43,643	11,515	5,480	17,803	12,884	2,727	-	94,052	12,931	19,499	126,482
Occupancy and lease expense	67,066	2,188	2,923	59,828	9,409	649	-	142,063	18,041	9,522	169,626
Freight	38,166	41,908	4,065	-	399	2,679	-	87,217	-	-	87,217
Travel	31,949	11,542	8,389	20,610	6,528	6,458	-	85,476	30,709	18,317	134,502
Staff education	4,718	4,769	759	17,887	3,012	3,274	-	34,419	21,887	40,991	97,297
Agency grants and expense	48,912	265,346	607	50,799	165	137	-	365,966	13,018	83,917	462,901
Postage	2,013	282	222	7,489	82	19	-	10,107	5,360	158	15,625
Total expenses before interest and depreciation	43,009,253	46,908,726	13,167,585	2,038,708	707,300	985,640	-	106,817,212	1,950,900	1,634,987	110,403,099
Interest expense	-	-	-	-	-	-	-	-	4,098	3,422	7,520
Depreciation	289,471	104,514	83,398	91,129	43,522	29,163	-	641,197	18,643	24,172	684,012
Total expenses	$ 43,298,724	$ 47,013,240	$ 13,250,983	$ 2,129,837	$ 750,822	$ 1,014,803	$ -	$ 107,458,409	$ 1,973,641	$ 1,662,581	$ 111,094,631

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	TEFAP	Agency Partnerships	CSFP	Community Food Resource Center	Caridad Community Kitchen	Child Nutrition Programs	Multi-Service Center Program	Total Program Services	Fundraising	Management and General	Total
Expenses											
Salaries	$ 1,834,397	$ 761,350	$ 221,176	$ 757,218	$ 291,703	$ 169,664	$ 3,347	$ 4,038,855	$ 651,647	$ 264,500	$ 4,955,002
Payroll taxes	156,772	67,016	18,834	67,206	26,346	15,013	293	351,480	55,812	22,655	429,947
Employee benefits	292,699	134,886	31,792	144,907	53,823	29,765	719	688,591	77,359	39,523	805,473
Temporary contracted services and fees	60,276	10,347	24,571	5,094	3,088	11,362	22	114,760	4,043	2,494	121,297
Total personnel	2,344,144	973,599	296,373	974,425	374,960	225,804	4,381	5,193,686	788,861	329,172	6,311,719
Donated commodities and food distributed	29,715,353	23,132,543	3,678,966	-	150,467	37,535	-	56,714,864	-	-	56,714,864
Cost of purchased goods	637,421	10,208	-	140,959	114,963	447,223	-	1,350,774	-	-	1,350,774
Printing and promotion	40,452	14,376	5,480	32,669	4,355	2,239	20	99,591	888,466	4,801	992,858
Supplies and minor equipment	216,523	51,156	65,410	99,864	66,039	22,428	2,463	523,883	28,475	43,096	595,454
Outside and professional services	51,862	25,921	5,800	174,011	15,884	4,870	397	278,745	189,871	79,210	547,826
Auto and truck expense	171,446	58,116	15,751	15,805	10,907	1,002	431	273,458	797	325	274,580
Utilities	152,226	28,473	29,882	27,094	26,915	9,295	266	274,151	8,292	9,939	292,382
Maintenance and repair	119,911	31,712	34,021	11,083	22,609	15,223	3,954	238,513	4,748	8,137	251,398
Miscellaneous	42,641	8,374	3,820	13,206	5,887	1,242	156	75,326	81,942	80,598	237,866
Insurance	59,826	20,034	6,722	28,286	11,125	4,743	129	130,865	19,283	21,584	171,732
Dues and subscriptions	22,347	7,050	2,384	13,814	4,371	5,292	81	55,339	25,057	24,581	104,977
Telephone	43,703	9,996	4,610	17,844	18,208	2,205	98	96,664	10,691	13,785	121,140
Occupancy and lease expense	60,131	2,498	3,032	40,397	799	640	111	107,608	2,029	1,629	111,266
Freight	8,228	28,848	295	-	555	182	-	38,108	-	-	38,108
Travel	30,821	17,594	3,117	24,789	4,404	5,492	13	86,230	15,909	20,802	122,941
Staff education	7,011	4,723	502	13,264	5,307	2,129	33	32,969	6,498	43,537	83,004
Agency grants and expense	1,496	126,253	142	26,210	177	17,507	2	171,787	7,802	4,679	184,268
Postage	3,433	1,334	1,380	265	207	60	5	6,684	56,393	1,433	64,510
Total expenses before interest and depreciation	33,728,975	24,552,808	4,157,687	1,653,985	838,139	805,111	12,540	65,749,245	2,135,114	687,308	68,571,667
Interest expense	-	-	-	-	-	-	-	-	4,051	1,159	5,210
Depreciation	339,594	97,392	98,477	110,097	43,142	38,224	8,163	735,089	14,261	18,384	767,734
Total expenses	$ 34,068,569	$ 24,650,200	$ 4,256,164	$ 1,764,082	$ 881,281	$ 843,335	$ 20,703	$ 66,484,334	$ 2,153,426	$ 706,851	$ 69,344,611

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	$ 504,436	$ 2,178,952
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	684,012	767,734
Amortization of discount on pledges receivable	(39,348)	-
Net realized and unrealized (gain) loss on investments	(248,418)	299,931
Gain on disposal of property and equipment	(12,109)	(1,500)
Contributions restricted for long term purposes	-	(1,243,477)
Contributions restricted for permanent investment	(3,000)	(3,000)
Changes in operating assets and liabilities		
Grants and accounts receivable	96,485	(242,822)
Food and commodities inventory	258,946	578,469
Prepaid expenses and other current assets	(24,543)	19,946
Accounts payable	607,583	(118,260)
Accrued expenses	83,929	(145,016)
Deferred revenue	101,380	(647,223)
Net cash provided by operating activities	2,009,353	1,443,734
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,987,671)	(739,193)
Proceeds from the disposal of property and equipment	12,769	1,500
Purchase of investments and investments - other	(2,667,199)	(4,531,746)
Proceeds from sale of investments and investments - other	1,858,899	3,511,911
Net cash used in investing activities	(2,783,202)	(1,757,528)
Cash Flows from Financing Activities		
Collection on contributions restricted for long-term purposes	560,350	100,000
Collection of contributions restricted for investment in endowment	3,000	3,000
Payments on annuity obligations	(4,066)	(4,115)
Net cash provided by financing activities	559,284	98,885
Net change in cash and cash equivalents	(214,565)	(214,909)
Cash and cash equivalents, beginning of year	3,821,723	4,036,632
Cash and cash equivalents, end of year	$ 3,607,158	$ 3,821,723
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 7,520	$ 5,210

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:

The Emergency Food Assistance Program ("TEFAP") – Through its TEFAP program the Organization provides emergency food boxes, consisting of federal commodities, donated and purchased food items, to households in need throughout the Cochise, Graham, Greenlee, Pima and Santa Cruz counties.

Agency Partnerships – Through its Agency Partnerships program, the Organization provides donated food and non-food items to other non-profits throughout Southern Arizona. The Organization also provides financial grants to community partners whose services correspond to the Organization's mission.

The Commodities Supplemental Food Program ("CSFP") – The CSFP program also provides food boxes to households in the five county service area. This program serves senior community members including those with mobility constraints.

Community Food Resource Center ("CFRC") – The CFRC program includes six programs that assist clients in creating sustainable solutions to food security issues. 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 Farmer's Market program allows clients and other local food producers to sell their fresh, local foods at affordable prices. The three weekly markets accept a variety of federally subsidized payment methods, further addressing food security and food desert issues. Additionally, sellers at the market can receive business development training and education to support their entrepreneurial endeavors. 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. The Gabrielle Giffords Family Assistance Center offers additional resources to clients along with other advocacy and outreach activities. Additionally, clients can receive assistance obtaining Supplemental Nutritional Assistance Program (SNAP) and other social service benefits.

Caridad Community Kitchen – The Caridad Community Kitchen features a feeding program at congregate meal sites, a 10-week culinary training program for unemployed and underemployed individuals, and a full catering service. Caridad is built on the principle that hunger in our community can be solved in many ways.

Child Nutrition Programs ("CNP") – The Backpack, Kids Club and School Pantry programs of CNP respectively provide take-home food packages, after-school meals and food pantries located on school grounds for more convenient family access. These programs specifically address the epidemic of childhood hunger while offering crucial nutritional education to the children and their families.

Multi-Service Center ("MSC") – The MSC program is located at the Organization's main facility and provides low-cost office space to other non-profit organizations that provide social services, thereby facilitating a "one-stop" experience for the underserved clients in the community.

NOTES TO FINANCIAL STATEMENTS

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. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

- **Unrestricted** – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets 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 unrestricted use unless specifically restricted by the donor.

- **Temporarily Restricted** – 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.

- **Permanently Restricted** – 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 unrestricted net assets. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets 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 unrestricted. Contributions of long-lived assets not having donor-imposed purpose or time restrictions are reported as unrestricted contributions in amounts equal to the fair value of the contributed assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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 and is classified as Level 1 inputs in the fair value hierarchy. 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 15). 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, 2017 and 2016, management considered all grants and accounts receivable to be collectible, therefore, no allowance for doubtful accounts has been provided.

Pledges Receivable, Net
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, 2017 and 2016, 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 in the statements of activities as increases or decreases in net assets. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Investment expenses are recorded as a reduction in investment earnings. Purchases and sales of securities are recorded on a trade-date basis. Donated investments are recorded at fair value at the date of donation.

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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Investments (continued)
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, 2017, 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.

Food and Commodities Inventory and Deferred Revenue
Purchased inventory and certain commodities 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 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. The value per pound was $1.67 and $1.70 as of June 30, 2017 and 2016, respectively.

For the year ended June 30, 2018, Feeding America provided an estimated value per pound for food and commodities overall (as provided in previous years) and for food only, excluding non-food items, 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 commodities inventory to value food only at $1.52 per pound and non-food items at $1.73 per pound.

Commodities received from the U.S. Department of Agriculture but not distributed as of June 30, 2017 and 2016, totaled $2,362,594 and $2,257,659, 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 – 5 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

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Property and Equipment, Net (continued)

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, 2017, the Organization had not experienced impairment losses on its long-lived assets.

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, 2017 and 2016, the payment rates ranged between 6.5% and 5.8%. At June 30, 2017 and 2016, the Organization had four charitable gift annuities with an estimated benefit liability of $92,094 and $96,160, respectively. Investments at June 30, 2017 and 2016 include $107,365 and $111,979, 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 permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent 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 that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the law.

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

- 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)
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 while seeking to maintain the original value of any contributions to the endowment assets. 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 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 in an attempt to maintain the endowment's buying power.

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 unrestricted net assets. There were no such deficiencies as of June 30, 2017 and 2016.

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.

In-Kind Contributions
Donated goods, space, and advertising time are valued at their fair value. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

In-Kind Contributions (continued)

Donated services are recognized as contributions at 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 (c) 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, 2017 and 2016, volunteers worked approximately 182,544 and 194,547 hours, respectively. The fair value of these services is not reflected in the accompanying financial statements because the above criteria were not met.

Functional Allocation of Expenses

Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods.

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 of the 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, 2017 and 2016, 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, 2016, from which the summarized information was derived.

Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation, with no effect on net assets.

NOTES TO FINANCIAL STATEMENTS

3. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 explicitly requires management to evaluate, at each annual or interim reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter, with early adoption permitted. The adoption of ASU 2014-15 did not have an effect on the Organization's financial statements or disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 does not apply to inventory that is measured using last-in, first-out ("LIFO") or the retail inventory method. ASU 2015-11 does apply to all other inventory, which includes inventory that is measured using first-in, first-out ("FIFO") or average cost. An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Organization early adopted this ASU for fiscal year ending June 30, 2016. The adoption of ASU 2015-11 did not have a material effect on the Organization's financial statements.

Not Adopted as of June 30, 2017

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606): An Amendment of the FASB Accounting Standards Codification*. The amendments in this ASU affect 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 a 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.

In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted with certain restrictions. The Organization has not yet selected a transition method and is currently evaluating the effect this standard will have on the financial statements.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Adopted as of June 30, 2017 (continued)
In March 2016, the FASB has issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The amendments relate to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 *Revenue from Contracts with Customers* requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent). The amendments amend certain existing illustrative examples and add additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In April 2016, the FASB has issued Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In May and December 2016, the FASB issued Accounting Standards Updates No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* and No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients. The effective dates and transition of these amendments is the same as the effective date and transition of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2016-01 primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The ASU requires the Organization to segregate in tabular form as of the balance sheet date, the aggregate related fair values of investments with unrealized losses, and the aggregate amount of unrealized losses by those investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for longer than 12 months. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within the fiscal years beginning after December 15, 2019. The adoption of ASU 2016-01 is not expected to have a material effect on the Organization's financial statement disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Organization is currently evaluating the effect this standard will have on the financial statements.

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Adopted as of June 30, 2017 (continued)
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 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 is currently evaluating the effect that implementation of the new standard will have on its financial statements and disclosures.

4. Pledges Receivable, Net

Pledges receivable are recorded at their estimated fair value. Amounts due 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:

	2017	2016
Receivables (less than one year)	$ 310,000	$ 300,000
Receivables (one to five years)	329,650	900,000
	639,650	1,200,000
Less discount to net present value	(17,175)	(56,523)
Pledges receivable, net	$ 622,475	$ 1,143,477

5. Investments

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

	2017	2016
Equity securities	$ 3,879,714	$ 2,281,471
Fixed income	3,069,266	3,297,173
Mutual funds	108,205	195,367
Community Foundation for Southern Arizona	27,644	24,811
Total Investments	$ 7,084,829	$ 5,798,822

Other investments consist of the following as of June 30:

	2017	2016
Certificates of deposit	$ 401,602	$ 630,891

NOTES TO FINANCIAL STATEMENTS

Investments (continued)

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

	2017	2016
Interest and dividend income	$ 185,509	$ 178,070
Realized and unrealized loss on investments, net	248,418	(299,931)
Investment fees	(58,463)	(53,548)
Total investment gain (loss), net	$ 375,464	$ (175,409)

6. 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, 2017:

Description	6/30/2017	Level 1	Level 2	Level 3
Equity securities (a)	$ 3,879,714	$ 3,879,714	$ -	$ -
Fixed income				
Corporate bonds	2,412,068	2,400,053	12,015	-
Foreign bonds	62,397	-	62,397	-
Government bonds	594,801	524,804	69,997	-
	3,069,266	2,924,857	144,409	-
Mutual funds				
Large-cap blend/growth/value	45,045	45,045	-	-
Bond funds	50,436	50,436	-	-
Mid-cap growth/value	9,233	9,233	-	-
Natural resources	3,491	3,491	-	-
	108,205	108,205	-	-
Community Foundation for Southern Arizona	27,644	-	-	27,644
Total Investments	$ 7,084,829	$ 6,912,776	$ 144,409	$ 27,644

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, 2016:

Description	6/30/2016	Level 1	Level 2	Level 3
Equity securities (a)	$ 2,281,471	$ 2,281,471	$ -	$ -
Fixed income				
Corporate bonds	2,581,815	2,481,815	100,000	-
Foreign bonds	212,955	149,475	63,480	-
Government bonds	502,403	430,564	71,839	-
	3,297,173	3,061,854	235,319	-
Mutual funds				
Large-cap blend/growth/value	59,120	59,120	-	-
Bond funds	85,174	85,174	-	-
Mid-cap growth/value	15,241	15,241	-	-
Foreign large-cap blend/value	8,997	8,997	-	-
Commodities/diversified funds	7,699	7,699	-	-
Small-cap blend/growth/value	3,259	3,259	-	-
Long/short equity	3,956	3,956	-	-
Real Estate	3,551	3,551	-	-
Long/short credit	2,874	2,874	-	-
Multi-alternative	1,865	1,865	-	-
Managed futures	1,052	1,052	-	-
Bank loan	1,660	1,660	-	-
Market neutral	919	919	-	-
	195,367	195,367	-	-
Community Foundation for Southern Arizona	24,811	-	-	24,811
Total Investments	$ 5,798,822	$ 5,538,692	$ 235,319	$ 24,811

(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	2017	2016
Balance, beginning of year	$ 24,811	$ 27,988
Total investment income/(loss) earned/(incurred)	3,164	(734)
Distributions and fees	(331)	(2,443)
Balance, end of year	$ 27,644	$ 24,811

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

There were no financial assets or liabilities measured at fair value on a nonrecurring basis for the year ended June 30, 2017. 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, 2016:

Description	6/30/2016	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2016
Initially-recognized Pledges receivable, net	$ 1,143,477	$ -	$ -	$ 1,143,477	$ 1,243,477
	$ 1,143,477	$ -	$ -	$ 1,143,477	$ 1,243,477

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. There were no additions to pledges receivable in 2017.

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:

	2017	2016
Initially recognized pledges receivable, net	$ -	$ 1,143,477
Pledges receivable, net recognized in prior years	622,475	-
Total	$ 622,475	$ 1,143,477

NOTES TO FINANCIAL STATEMENTS

7. Food and Commodities Inventory

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

	2017	2016
Commodities received from the U.S. Department of Agriculture	$ 2,362,594	$ 2,257,659
Donated food	1,147,793	1,518,439
Purchased food	101,742	94,977
Total food and commodities inventory	$ 3,612,129	$ 3,871,075

8. Property and Equipment, Net

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

	2017	2016
Land	$ 790,413	$ 790,413
Buildings and improvements	10,979,929	10,802,441
Furniture, fixtures and equipment	2,100,784	2,515,718
Vehicles	2,326,026	2,134,275
Construction in progress	1,610,347	107,442
Total property and equipment, at cost or donated value	17,807,499	16,350,289
Less accumulated depreciation and amortization	(9,804,407)	(9,650,196)
Property and equipment, net	$ 8,003,092	$ 6,700,093

Construction in progress as of June 30, 2017, consists of expenditures for expansion and remodeling of the Caridad Community Kitchen and the warehouse in Marana; as well as, improvements to the parking lot of the warehouse in Green Valley and the exterior paint of the main warehouse in Tucson. Construction in progress as of June 30, 2016, consists of expenditures for expansion and remodeling of Caridad Community Kitchen, remodeling for the main warehouse in Tucson, and further development of the Las Milpitas de Cottonwood Farm.

9. 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 February 2016, the line of credit was renewed through February 2017 and in March 2017, the line of credit was renewed through March 2018. The line of credit requires monthly interest only payments with interest at LIBOR (1.171% and 0.453% at June 30, 2017 and 2016, 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, 2017, and 2016, 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, 2017 and 2016, respectively.

NOTES TO FINANCIAL STATEMENTS

10. 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 for the first 60 months of its term. After which, all amounts drawn must be repaid in 24 equal monthly installments. As of June 30, 2017, and 2016, respectively, the Organization had not made any draws from 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, 2017, and 2016, respectively.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30:

	2017	2016
Accumulated earnings on endowments	$ 92,879	$ 68,182
Community Food Bank of Southern Arizona – Green Valley	213,786	43,750
Community Food Bank of Southern Arizona – Amado	40,596	24,092
Child Nutrition Programs	186,984	30,336
Caridad Community Kitchen Expansion	622,475	1,243,477
Local Food Pathways	99,486	125,000
Gabrielle Giffords Resource Center	51,700	-
Produce Sourcing	33,742	-
Rural Capacity Building	78,682	-
Other	23,423	2,918
Total	$ 1,443,753	$ 1,537,755

NOTES TO FINANCIAL STATEMENTS

12. Endowment Funds

The Organization's endowment funds consist of board designated and permanently restricted net assets.

Board designated net assets consist of the following as of June 30:

	2017	2016
Operating reserve	$ 2,905,221	$ 2,663,147
Community Food Bank discretionary	5,014,504	4,779,612
Community Food Bank capital reserve	461,015	441,658
Green Valley discretionary	40,681	148,243
Gift annuity reserve	107,336	111,980
Green Valley capital reserve	-	15,378
Total board-designated net assets	$ 8,528,787	$ 8,160,018

Permanently restricted net assets consist of the following as of June 30:

	2017	2016
Bornstein Farm to Child Endowment	$ 100,000	$ 100,000
Punch Woods Endowment	98,235	98,235
Green Endowment Fund	30,000	30,000
Stocker Endowment Fund	25,100	25,100
Terri Valenzuela Endowment Fund	17,200	17,200
Young Foundation	21,175	18,175
Jacob Haber Children's Fund	8,200	8,200
Total	$ 299,910	$ 296,910

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 8,528,787	$ -	$ -	$ 8,528,787
Donor-restricted endowment funds	-	92,879	299,910	392,789
Total funds	$ 8,528,787	$ 92,879	$ 299,910	$ 8,921,576

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	$ 8,160,018	$ 68,182	$ 296,910	$ 8,525,110
Investment return				
Investment income	119,445	5,694	-	125,139
Net appreciation	231,060	19,003	-	250,063
Total investment return	350,505	24,697	-	373,202
Contributions	18,264	-	3,000	21,264
Appropriation of endowment funds for expenditure	-	-	-	-
Transfer between funds	-	-	-	-
Endowment net assets, June 30, 2017	$ 8,528,787	$ 92,879	$ 299,910	$ 8,921,576

Endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ 8,160,018	$ -	$ -	$ 8,160,018
Donor-restricted endowment funds	-	68,182	296,910	365,092
Total funds	$ 8,160,018	$ 68,182	$ 296,910	$ 8,525,110

Changes in endowment net assets for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$ 6,940,854	$ 81,174	$ 293,910	$ 7,315,938
Investment return				
Investment income	111,418	10,937	-	122,355
Net depreciation	(278,133)	(21,798)	-	(299,931)
Total investment return	(166,715)	(10,861)	-	(177,576)
Contributions	1,394,044	-	3,000	1,397,044
Appropriation of endowment funds for expenditure	(10,296)	-	-	(10,296)
Transfer between funds	2,131	(2,131)	-	-
Endowment net assets, June 30, 2016	$ 8,160,018	$ 68,182	$ 296,910	$ 8,525,110

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

The board-designated and permanently restricted net assets 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.

13. 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:

	2017		
	Revenue	Expenses	Net
Hunger Walk (includes in-kind donations of $70,604)	$ 199,738	$ 111,046	$ 88,692
Farm to Table (includes in-kind donations of $9,295)	97,374	36,207	61,167
	$ 297,112	$ 147,253	$ 149,859

	2016		
	Revenue	Expenses	Net
Good Vibrations (includes in-kind donations of $12,116)	$ 55,974	$ 27,687	$ 28,287
Hunger Walk (includes in-kind donations of $61,377)	184,285	90,072	94,213
Empty Bowls (includes in-kind donations of $10,895)	34,906	14,910	19,996
	$ 275,165	$ 132,669	$ 142,496

14. Retirement 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, 2017 and 2016, the Organization's matching contributions to the plan amounted to $174,705 and $132,143, respectively. There were no discretionary contributions made for the fiscal years ending June 30, 2017 and 2016.

15. 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, 2017 and 2016, the Organization had approximately $1,265,629 and $1,166,788 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, 2017 and 2016, the Organization's investment balances were not in excess of the Lloyd's of London insured limits.

16. 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, 2017.

17. Subsequent Events

The Organization evaluated subsequent events through October 28, 2017, 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.