



Keegan, Linscott & Kenon, PC

Certified Public Accountants

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3443 N Campbell Ave • Suite 115 • Tucson, AZ 85719

(520) 884-0176 • www.KLKCPA.com

COMMUNITY FOOD BANK, INC.

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2017)

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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, 2018 and 2017, 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, 2018, 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.



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, 2018 and 2017, and its cash flows for the years then ended and the changes in its net assets for the year ended June 30, 2018, 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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 27, 2018 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 27, 2018

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 3,605,876	\$ 3,607,158
Grants and accounts receivable, net	1,122,333	441,373
Pledges receivable	15,500	310,000
Investments	5,164,309	4,380,965
Investments - other	37,870	186,258
Food and commodities inventory	4,058,874	3,612,129
Prepaid expenses and other current assets	93,136	124,252
Total current assets	14,097,898	12,662,135
Pledges receivable, net	314,038	312,475
Investments, non-current	2,618,267	2,703,864
Investments - other, non-current	262,787	215,344
Property and equipment, net	8,728,625	8,003,092
Total assets	\$ 26,021,615	\$ 23,896,910
Liabilities		
Current liabilities		
Accounts payable	\$ 496,110	\$ 808,081
Accrued expenses	505,129	435,004
Deferred revenue	2,742,882	2,367,594
Gift annuities	102,110	92,094
Current portion of capital lease obligations	35,832	-
Total current liabilities	3,882,063	3,702,773
Capital lease obligations	313,367	-
Long-term debt	150,000	-
Total liabilities	4,345,430	3,702,773
Net Assets		
Unrestricted		
Undesignated	2,883,195	1,918,595
Board-designated	8,149,119	8,528,787
Investments in property and equipment	8,728,625	8,003,092
Total unrestricted net assets	19,760,939	18,450,474
Temporarily restricted net assets	1,612,336	1,443,753
Permanently restricted net assets	302,910	299,910
Total net assets	21,676,185	20,194,137
Total liabilities and net assets	\$ 26,021,615	\$ 23,896,910

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Summarized Total 2017
Revenues and Other Support					
Donated food	\$ 108,295,657	\$ -	\$ -	\$ 108,295,657	\$ 96,904,336
Contributions	8,020,657	2,945,854	3,000	10,969,511	10,553,037
Government grants	3,408,225	-	-	3,408,225	2,581,166
Bequests	725,623	-	-	725,623	511,525
Earned revenues	1,071,486	-	-	1,071,486	254,211
In-kind contributions	173,808	-	-	173,808	196,316
Special events, net	137,554	-	-	137,554	149,859
Miscellaneous	56,389	-	-	56,389	33,782
Rent income	20,478	-	-	20,478	27,262
Gain on disposal of property and equipment	13,740	-	-	13,740	12,109
Investment gain, net	299,767	20,991	-	320,758	375,464
Net assets released from restriction	2,798,262	(2,798,262)	-	-	-
Total revenues and other support	<u>125,021,646</u>	<u>168,583</u>	<u>3,000</u>	<u>125,193,229</u>	<u>111,599,067</u>
Expenses					
Program services					
Health & food	118,093,317	-	-	118,093,317	104,986,407
Community development	585,907	-	-	585,907	636,875
Education	1,561,509	-	-	1,561,509	1,420,732
Total program services	<u>120,240,733</u>	<u>-</u>	<u>-</u>	<u>120,240,733</u>	<u>107,044,014</u>
Supporting services					
Fundraising	1,897,508	-	-	1,897,508	2,491,501
Management and general	1,572,940	-	-	1,572,940	1,559,116
Total expenses	<u>123,711,181</u>	<u>-</u>	<u>-</u>	<u>123,711,181</u>	<u>111,094,631</u>
Change in net assets	1,310,465	168,583	3,000	1,482,048	504,436
Net assets, beginning of year	<u>18,450,474</u>	<u>1,443,753</u>	<u>299,910</u>	<u>20,194,137</u>	<u>19,689,701</u>
Net assets, end of year	<u>\$ 19,760,939</u>	<u>\$ 1,612,336</u>	<u>\$ 302,910</u>	<u>\$ 21,676,185</u>	<u>\$ 20,194,137</u>

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

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

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

	Health & Food	Community Development	Education	Total Program Services	Fundraising	Management and General	Total
Expenses							
Salaries	\$ 2,856,818	\$ 201,906	\$ 505,554	\$ 3,564,278	\$ 985,491	\$ 917,395	\$ 5,467,164
Payroll taxes	224,668	16,180	40,384	281,232	79,116	71,398	431,746
Employee benefits	549,172	21,625	71,013	641,810	132,889	86,642	861,341
Temporary contracted services and fees	190,135	340	2,229	192,704	24,128	37,625	254,457
Total personnel	3,820,793	240,051	619,180	4,680,024	1,221,624	1,113,060	7,014,708
Donated commodities and food distributed	97,298,162	-	17,158	97,315,320	14,123	-	97,329,443
Cost of purchased goods	1,296,456	172,085	17,667	1,486,208	1,466	-	1,487,674
Professional & outside services	261,663	61,990	89,693	413,346	173,624	78,681	665,651
Insurance	136,666	4,047	19,517	160,230	12,284	9,363	181,877
Vehicle & fuel expense	261,388	1,941	15,468	278,797	1,833	1,190	281,820
Maintenance & repair	210,577	5,913	40,629	257,119	4,962	7,174	269,255
Occupancy	61,668	3,750	38,572	103,990	500	615	105,105
Utilities	325,303	6,215	36,176	367,694	23,685	35,825	427,204
Supplies	329,513	23,276	90,521	443,310	34,651	31,323	509,284
Small & leased equipment	150,863	3,665	5,200	159,728	11,756	15,734	187,218
Postage, printing & promotion	46,827	71,041	14,360	132,228	740,936	3,556	876,720
Travel	66,010	4,614	14,852	85,476	30,709	18,317	134,502
Staff, board, donor & volunteer expense	75,382	10,330	27,649	113,361	47,042	119,122	279,525
Dues & fees	30,830	4,154	3,529	38,513	88,921	11,682	139,116
Agency & partner expenses	94,518	87	271,361	365,966	13,016	83,914	462,896
Miscellaneous	932	305	272	1,509	47,628	1,964	51,101
Total expenses before interest and depreciation	104,467,551	613,464	1,321,804	106,402,819	2,468,760	1,531,520	110,403,099
Interest expense	-	-	-	-	4,098	3,422	7,520
Depreciation	518,856	23,411	98,928	641,195	18,643	24,174	684,012
Total expenses	\$ 104,986,407	\$ 636,875	\$ 1,420,732	\$ 107,044,014	\$ 2,491,501	\$ 1,559,116	\$ 111,094,631

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 1,482,048	\$ 504,436
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	751,074	684,012
Amortization of discount on pledges receivable	(11,413)	(39,348)
Net realized and unrealized gain on investments	(182,057)	(248,418)
Gain on disposal of property and equipment	(13,740)	(12,109)
Property and equipment disposed under short-term financing arrangement	25,000	-
Contributions restricted for long term purposes	(100,776)	-
Contributions restricted for permanent investment	(3,000)	(3,000)
Changes in operating assets and liabilities		
Grants and accounts receivable, net	(680,960)	96,485
Food and commodities inventory	(446,745)	258,946
Prepaid expenses and other current assets	31,116	(24,543)
Accounts payable	(311,971)	607,583
Accrued expenses	70,125	83,929
Deferred revenue	375,288	101,380
Net cash provided by operating activities	983,989	2,009,353
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,120,267)	(1,987,671)
Proceeds from the disposal of property and equipment	1,865	12,769
Purchase of investments and investments - other	(3,026,078)	(2,667,199)
Proceeds from sale of investments and investments - other	2,611,333	1,858,899
Net cash used in investing activities	(1,533,147)	(2,783,202)
Cash Flows from Financing Activities		
Collection on contributions restricted for long-term purposes	405,126	560,350
Collection of contributions restricted for investment in endowment	3,000	3,000
Increase in (payment of) annuity obligations	10,016	(4,066)
Proceeds from long-term debt	150,000	-
Payments on capital lease obligation	(20,266)	-
Net cash provided by financing activities	547,876	559,284
Net change in cash and cash equivalents	(1,282)	(214,565)
Cash and cash equivalents, beginning of year	3,607,158	3,821,723
Cash and cash equivalents, end of year	\$ 3,605,876	\$ 3,607,158
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 16,823	\$ 7,520
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Property and equipment acquired under capital lease obligation	\$ 369,465	\$ -
Property and equipment disposed under short-term financing arrangement	\$ 25,000	\$ -

NOTES TO FINANCIAL STATEMENTS

1. Organization

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

The Organization's primary programs are described below:

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

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

Education – There are several programs within Education that assist in creating sustainable solutions to food security issues. The Partnership and Community Impact team have been working to build a solid agency partner network to scale the Organization's work across the five-county service area by developing partner hubs that can provide in-network leadership. Through the Las Milpitas de Cottonwood Urban Farm and the Home Garden programs, clients learn to grow their own food utilizing environmentally favorable methods. The Farmer's Market program allows clients and other local food producers to sell their fresh, local foods at affordable prices. 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:

- **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. 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.

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 16). 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.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Grants and Accounts Receivable (continued)

Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. As of June 30, 2018, and 2017, management estimated an allowance for doubtful accounts of \$5,000 and \$0, respectively.

Pledges Receivable

The Organization accounts for pledges receivable to be made in future years as unconditional promises to give in the year the promise is made. Pledges to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. The fair value amount of pledges receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All pledges deemed to be uncollectible are written off. As of June 30, 2018 and 2017, 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.

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, 2018, 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

NOTES TO FINANCIAL STATEMENTS
Summary of Significant Accounting Policies (continued)***Investments – Other (continued)***

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 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 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 \$1.52 and \$1.67 as of June 30, 2018 and 2017, 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, 2018, 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, 2018 and 2017, totaled \$2,723,858 and \$2,362,594, 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, 2018, 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

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Gift Annuities (continued)

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, 2018 and 2017, the payment rates ranged between 5.8% and 7.0%.

As of June 30, 2018 and 2017, the Organization had six and four charitable gift annuities, respectively, with an estimated benefit liability of \$102,110 and \$92,094, respectively. Investments as of June 30, 2018 and 2017 include \$136,215 and \$107,366, 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 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 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

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)

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.

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, 2018 and 2017.

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.

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, 2018 and 2017, volunteers worked approximately 201,614 and 182,544 hours, respectively. The fair value of these services is not reflected in the accompanying financial statements because the above criteria were not met.

NOTES TO FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

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 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, 2018 and 2017, 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, 2017, 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.

3. Recent Accounting Pronouncements

Not Adopted as of June 30, 2018

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

NOTES TO FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)***Not Adopted as of June 30, 2018 (continued)***

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

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 No. 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 No. 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 the financial statements and disclosures.

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,

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)

Not Adopted as of June 30, 2018 (continued)

including interim periods within those fiscal years. 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 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, 2019). 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.

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

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.

NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncements (continued)***Not Adopted as of June 30, 2018 (continued)***

The Organization is currently evaluating the effect that the standard will have on the 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:

	2018	2017
Receivables (less than one year)	\$ 15,500	\$ 310,000
Receivables (one to five years)	319,800	329,650
	<u>335,300</u>	<u>639,650</u>
Less discount to net present value	(5,762)	(17,175)
Pledges receivable, net	<u>\$ 329,538</u>	<u>\$ 622,475</u>

5. Investments

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

	2018	2017
Equity securities	\$ 4,789,303	\$ 3,879,714
Fixed income	2,748,351	3,069,266
Mutual funds	215,602	108,205
Community Foundation for Southern Arizona	29,320	27,644
Total Investments	<u>\$ 7,782,576</u>	<u>\$ 7,084,829</u>

Other investments consist of the following as of June 30:

	2018	2017
Certificates of deposit	<u>\$ 300,657</u>	<u>\$ 401,602</u>

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

	2018	2017
Interest and dividend income	\$ 196,624	\$ 185,509
Realized and unrealized gain on investments, net	182,057	248,418
Investment fees	(57,923)	(58,463)
Total investment gain, net	<u>\$ 320,758</u>	<u>\$ 375,464</u>

NOTES TO FINANCIAL STATEMENTS

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, 2018:

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

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	Fair Value	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	-
	<u>3,069,266</u>	<u>2,924,857</u>	<u>144,409</u>	<u>-</u>
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	-	-
	<u>108,205</u>	<u>108,205</u>	<u>-</u>	<u>-</u>
Community Foundation for Southern Arizona	27,644	-	-	27,644
Total Investments	<u>\$ 7,084,829</u>	<u>\$ 6,912,776</u>	<u>\$ 144,409</u>	<u>\$ 27,644</u>

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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

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

Community Foundation for Southern Arizona	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 27,644	\$ 24,811
Total investment income earned	2,043	3,164
Distributions and fees	<u>(367)</u>	<u>(331)</u>
Balance, end of year	<u>\$ 29,320</u>	<u>\$ 27,644</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, 2018:

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

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.

NOTES TO FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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:

	<u>2018</u>	<u>2017</u>
Initially recognized pledges receivable, net	\$ 5,500	\$ -
Pledges receivable, net recognized in prior years	<u>324,038</u>	<u>622,475</u>
Total	<u>\$ 329,538</u>	<u>\$ 622,475</u>

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

7. Food and Commodities Inventory

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

	<u>2018</u>	<u>2017</u>
Commodities received from the U.S. Department of Agriculture	\$ 2,723,858	\$ 2,362,594
Donated food	1,296,970	1,147,793
Purchased food	<u>38,046</u>	<u>101,742</u>
Total food and commodities inventory	<u>\$ 4,058,874</u>	<u>\$ 3,612,129</u>

8. Property and Equipment, Net

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

	<u>2018</u>	<u>2017</u>
Land	\$ 790,413	\$ 790,413
Buildings and improvements	13,267,896	10,979,929
Furniture, fixtures and equipment	2,272,425	2,100,784
Vehicles	2,624,632	2,326,026
Construction in progress	<u>53,419</u>	<u>1,610,347</u>
Total property and equipment, at cost or donated value	19,008,785	17,807,499
Less accumulated depreciation and amortization	<u>(10,280,160)</u>	<u>(9,804,407)</u>
Property and equipment, net	<u>\$ 8,728,625</u>	<u>\$ 8,003,092</u>

Construction in progress as of June 30, 2018, consists primarily of deposits on certain property and equipment. Construction in progress as of June 30, 2017, consisted 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.

NOTES TO FINANCIAL STATEMENTS

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 March 2017, the line of credit was renewed through March 2018 and in March 2018, the line of credit was renewed through March 2019. The line of credit requires monthly interest only payments with interest at LIBOR (2.092% and 1.171% at June 30, 2018 and 2017, 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, 2018, and 2017, 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, 2018 and 2017, respectively.

10. 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 and \$0 as of June 30, 2018 and 2017, respectively. Related accumulated depreciation totaled \$22,428 and \$0 as of June 30, 2018 and 2017, 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, 2018, are as follows:

Year Ending June 30,	Amount
2019	\$ 46,717
2020	46,717
2021	46,717
2022	46,717
2023	46,717
Thereafter	<u>50,361</u>
Total present value of future minimum lease payments	283,946
Plus, guaranteed residual value	112,333
Less, reduction of minimum lease payments to present value (interest expense)	(47,080)
Total	<u>349,199</u>
Less, current portion of capital lease obligation	(35,832)
Long-term capital lease obligation	<u><u>\$ 313,367</u></u>

NOTES TO FINANCIAL STATEMENTS
11. 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, 2018 and 2017, respectively, the Organization had drawn \$150,000 and \$0, 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, 2018, and 2017, respectively.

12. Temporarily Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Accumulated earnings on endowments	\$ 113,870	\$ 92,879
Community Food Bank of Southern Arizona – Green Valley	533,036	213,786
Community Food Bank of Southern Arizona – Amado	45,034	40,596
Community Food Bank of Southern Arizona – Nogales	30,137	-
Child Nutrition Programs	321,543	186,984
Caridad Community Kitchen Expansion	324,038	622,475
Local Food Pathways	-	99,486
Gabrielle Giffords Resource Center	51,718	51,700
Produce Sourcing	178,231	33,742
Rural Capacity Building	-	78,682
Other	14,729	23,423
Total	<u>\$ 1,612,336</u>	<u>\$ 1,443,753</u>

NOTES TO FINANCIAL STATEMENTS

13. 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:

	<u>2018</u>	<u>2017</u>
Operating reserve	\$ 8,012,904	\$ 8,421,421
Gift annuity reserve	136,215	107,366
Total board-designated net assets	<u>\$ 8,149,119</u>	<u>\$ 8,528,787</u>

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

	<u>2018</u>	<u>2017</u>
Permanent Endowment	\$ 179,575	\$ 176,575
Punch Woods Endowment	98,235	98,235
Stocker Endowment Fund	25,100	25,100
Total	<u>\$ 302,910</u>	<u>\$ 299,910</u>

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board designated endowment funds	\$ 8,149,119	\$ -	\$ -	\$ 8,149,119
Donor-restricted endowment funds	-	113,870	302,910	416,780
Total funds	<u>\$ 8,149,119</u>	<u>\$ 113,870</u>	<u>\$ 302,910</u>	<u>\$ 8,565,899</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 8,528,787	\$ 92,879	\$ 299,910	\$ 8,921,576
Investment return				
Investment income	134,808	4,458	-	139,266
Net appreciation	176,895	5,162	-	182,057
Total investment return	311,703	9,620	-	321,323
Contributions	23,000	-	3,000	26,000
Appropriation of funds for expenditure	(703,000)	-	-	(703,000)
Transfer between funds	(11,371)	11,371	-	-
Endowment net assets, June 30, 2018	<u>\$ 8,149,119</u>	<u>\$ 113,870</u>	<u>\$ 302,910</u>	<u>\$ 8,565,899</u>

NOTES TO FINANCIAL STATEMENTS

Endowment Funds (continued)

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

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>231,060</u>	<u>19,003</u>	<u>-</u>	<u>250,063</u>
Total investment return	350,505	24,697	-	375,202
Contributions	18,264	-	3,000	21,264
Appropriation of funds for expenditure	-	-	-	-
Transfer between funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Endowment net assets, June 30, 2017	<u>\$ 8,528,787</u>	<u>\$ 92,879</u>	<u>\$ 299,910</u>	<u>\$ 8,921,576</u>

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.

14. 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:

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

NOTES TO FINANCIAL STATEMENTS

Special Events, Net (continued)

	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
	<u>\$ 297,112</u>	<u>\$ 147,253</u>	<u>\$ 149,859</u>

15. 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, 2018 and 2017, the Organization's matching contributions to the plan amounted to \$178,679 and \$174,705, respectively. There were no discretionary contributions made for the fiscal years ending June 30, 2018 and 2017.

16. 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, 2018, and 2017, the Organization had \$1,381,387 and \$1,265,629 in excess of FDIC insured limits, respectively.

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, 2018, and 2017, the Organization's investment balances were not in excess of the Lloyd's of London insured limits.

17. 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, 2018.

18. Subsequent Events

The Organization evaluated subsequent events through October 27, 2018, 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.