Keegan Linscott & Associates, PC

Certified Public Accountants
Certified Fraud Examiners
Certified Insolvency & Restructuring Advisors

COMMUNITY FOOD BANK, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2022
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2021)

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Community Food Bank, Inc. (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, the related consolidated statements of cash flows and expenses by function and nature for the years then ended, and the related consolidated statement of activities for the year ended June 30, 2022, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2022 and 2021, and its cash flows for the years then ended, and the changes in its net assets for the year ended June 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 3 to the consolidated financial statements, in 2022, the Organization adopted ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 5, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued (or within one year after the date that the consolidated financial statements are available to be issued, when applicable).

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Keegan Linscott & Associates, PC

Tucson, Arizona
October 21, 2022

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2022	2021
Assets		
Current assets		
Cash and cash equivalents	$ 18,481,249	$ 9,529,729
Grants and accounts receivable, net	1,217,477	697,516
Contributions receivable	567,803	501,038
Investments	13,321,063	23,037,023
Investments - other	544,270	351,127
Food and commodities inventory	5,616,522	5,837,653
Prepaid expenses and other current assets	188,540	476,603
Total current assets	39,936,924	40,430,689
Contributions receivable, net	473,674	771,905
Investments, non-current	3,261,481	1,605,042
Investments - other, non-current	59,041	620,940
Property and equipment, net	12,465,918	12,758,522
Total assets	$ 56,197,038	$ 56,187,098
Liabilities		
Current liabilities		
Accounts payable	$ 595,271	$ 910,439
Accrued expenses	1,166,226	1,123,202
Deferred revenue	4,403,092	4,316,974
Gift annuities	197,151	207,747
Current portion of capital lease obligations	40,832	39,520
Current portion of long-term debt	49,137	62,500
Total current liabilities	6,451,709	6,660,382
Capital lease obligations	157,742	198,574
Long-term debt	-	44,084
Total liabilities	6,609,451	6,903,040
Net Assets		
Without donor restrictions		
Undesignated	23,384,989	20,892,120
Board-designated	9,633,250	11,122,774
Investments in property and equipment	12,465,918	12,758,522
	45,484,157	44,773,416
With donor restrictions	4,103,430	4,510,642
Total net assets	49,587,587	49,284,058
Total liabilities and net assets	$ 56,197,038	$ 56,187,098

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2021)

	Without Donor Restrictions	With Donor Restrictions	Total 2022	Summarized Total 2021
Revenues and Other Support				
Donated food	$ 99,312,153	$ -	$ 99,312,153	$ 135,515,286
Contributions of cash and other financial assets	14,444,803	2,805,722	17,250,525	25,553,568
Government grants	5,138,750	-	5,138,750	8,694,871
Bequests	2,952,872	369,992	3,322,864	1,237,617
Earned revenues	2,232,204	-	2,232,204	2,450,758
In-kind contributions	236,235	-	236,235	248,924
Special events	258,926	-	258,926	274,566
Miscellaneous	82,960	-	82,960	22,640
Investment (loss) gain, net	(2,804,672)	(136,271)	(2,940,943)	2,366,071
Gain on disposal of property and equipment	4,405	-	4,405	-
PPP promissory note forgiveness	-	-	-	1,552,057
Net assets released from restriction	3,446,655	(3,446,655)	-	-
Total revenues and other support	125,305,291	(407,212)	124,898,079	177,916,358
Expenses				
Program services				
Health and food	114,757,068	-	114,757,068	150,163,608
Community development	1,059,293	-	1,059,293	892,751
Education	3,597,852	-	3,597,852	4,822,593
Total program services	119,414,213	-	119,414,213	155,878,952
Supporting services				
Fundraising	2,437,635	-	2,437,635	2,400,992
Management and general	2,742,702	-	2,742,702	2,644,861
Total expenses	124,594,550	-	124,594,550	160,924,805
Change in net assets	710,741	(407,212)	303,529	16,991,553
Net assets, beginning of year	44,773,416	4,510,642	49,284,058	32,292,505
Net assets, end of year	$ 45,484,157	$ 4,103,430	$ 49,587,587	$ 49,284,058

CONSOLIDATED STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2022

	Health and Food	Community Development	Education	Total Program Services	Supporting Services: Fundraising	Supporting Services: Management and General	Total
Salaries	$ 5,265,354	$ 427,392	$ 766,704	$ 6,459,450	$ 879,961	$ 1,361,994	$ 8,701,405
Payroll taxes	395,880	32,722	56,907	485,509	65,000	104,297	654,806
Employee benefits	881,785	52,561	132,039	1,066,385	122,565	490,136	1,679,086
Temporary contracted services and fees	588,235	52	28,466	616,753	3,414	23,361	643,528
Total personnel	7,131,254	512,727	984,116	8,628,097	1,070,940	1,979,788	11,678,825
Donated commodities and food distributed	99,521,428	163	2,422	99,524,013	73,699	285	99,597,997
Cost of purchased goods	3,129,135	132,048	1,171	3,262,354	-	-	3,262,354
Professional & outside services	589,353	277,575	177,615	1,044,543	606,864	315,760	1,967,167
Insurance	170,290	5,769	41,094	217,153	9,033	32,865	259,051
Vehicle & fuel expense	564,876	856	3,083	568,815	217	1,773	570,805
Maintenance & repair	383,382	1,631	7,689	392,702	5,072	4,632	402,406
Occupancy	154,623	2,818	138,996	296,437	-	-	296,437
Utilities	393,706	18,720	56,302	468,728	32,774	42,348	543,850
Supplies	863,189	31,996	199,374	1,094,559	32,522	71,317	1,198,398
Small & leased equipment	560,711	3,621	9,734	574,066	7,142	11,361	592,569
Postage, printing & promotion	78,694	17,385	27,613	123,692	296,376	1,620	421,688
Travel	45,971	6,027	4,512	56,510	4,374	6,712	67,596
Staff, board, donor & volunteer expense	103,104	13,625	9,889	126,618	44,290	114,412	285,320
Dues & fees	56,271	4,448	5,418	66,137	227,793	18,586	312,516
Agency & partner expenses	17,329	22,254	1,892,275	1,931,858	866	109,471	2,042,195
Miscellaneous	309	37	-	346	-	8,826	9,172
Total expenses before interest and depreciation	113,763,625	1,051,700	3,561,303	118,376,628	2,411,962	2,719,756	123,508,346
Interest expense	7,197	-	-	7,197	10,077	2,155	19,429
Depreciation	986,246	7,593	36,549	1,030,388	15,596	20,791	1,066,775
Total expenses	$ 114,757,068	$ 1,059,293	$ 3,597,852	$ 119,414,213	$ 2,437,635	$ 2,742,702	$ 124,594,550

CONSOLIDATED STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2021

	Health and Food	Community Development	Education	Total Program Services	Supporting Services: Fundraising	Supporting Services: Management and General	Total
Salaries	$ 5,749,178	$ 275,538	$ 964,289	$ 6,989,005	$ 815,130	$ 1,607,648	$ 9,411,783
Payroll taxes	447,833	21,736	74,645	544,214	63,906	82,319	690,439
Employee benefits	804,955	33,976	152,376	991,307	103,467	237,716	1,332,490
Temporary contracted services and fees	935,970	245	38,451	974,666	13,885	21,286	1,009,837
Total personnel	7,937,936	331,495	1,229,761	9,499,192	996,388	1,948,969	12,444,549
Donated commodities and food distributed	134,723,553	210	2,554	134,726,317	44,702	4,099	134,775,118
Cost of purchased goods	2,395,548	161,602	-	2,557,150	-	-	2,557,150
Professional & outside services	361,292	251,861	617,157	1,230,310	751,796	258,776	2,240,882
Insurance	175,955	4,733	34,729	215,417	8,736	30,770	254,923
Vehicle & fuel expense	496,542	592	4,782	501,916	180	1,697	503,793
Maintenance & repair	411,686	1,125	9,095	421,906	3,494	4,476	429,876
Occupancy	162,514	2,750	138,996	304,260	-	-	304,260
Utilities	386,675	16,266	65,137	468,078	39,519	41,405	549,002
Supplies	952,346	17,154	91,943	1,061,443	20,532	51,015	1,132,990
Small & leased equipment	966,078	2,515	14,377	982,970	12,515	17,943	1,013,428
Postage, printing & promotion	68,350	16,211	31,051	115,612	257,911	843	374,366
Travel	18,842	-	1,496	20,338	570	1,558	22,466
Staff, board, donor & volunteer expense	64,141	12,260	13,672	90,073	46,799	62,508	199,380
Dues & fees	41,331	4,508	4,942	50,781	201,475	23,105	275,361
Agency & partner expenses	69,109	54,661	2,524,162	2,647,932	-	163,816	2,811,748
Miscellaneous	197	-	-	197	-	1,166	1,363
Total expenses before interest and depreciation	149,232,095	877,943	4,783,854	154,893,892	2,384,617	2,612,146	159,890,655
Interest expense	25,699	116	629	26,444	5,326	17,446	49,216
Depreciation	905,814	14,692	38,110	958,616	11,049	15,269	984,934
Total expenses	$ 150,163,608	$ 892,751	$ 4,822,593	$ 155,878,952	$ 2,400,992	$ 2,644,861	$ 160,924,805

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	$ 303,529	$ 16,991,553
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,066,775	984,934
Amortization of discount on contributions receivable	(24,580)	22,050
Net realized and unrealized loss (gain) on investments	3,182,213	(2,239,588)
Gain on disposal of property and equipment	(4,405)	-
Contributions restricted for long term purposes	-	(1,324,605)
Contributions restricted for charitable gift annuities	-	(51,343)
Forgiveness of Paycheck Protection Program Promissory Note	-	(1,552,057)
Changes in operating assets and liabilities		
Grants and accounts receivable, net	(519,961)	793,470
Contributions receivable	(322,449)	237,609
Food and commodities inventory	221,131	1,011,763
Prepaid expenses and other current assets	288,063	(397,844)
Accounts payable	(315,168)	256,954
Accrued expenses	43,024	227,257
Deferred revenue	86,118	(1,876,228)
Net cash provided by operating activities	4,004,290	13,083,925
Cash Flows from Investing Activities		
Purchase of property and equipment	(777,098)	(3,511,751)
Proceeds from the disposal of property and equipment	7,332	-
Purchase of investments and investments - other	(7,770,319)	(28,431,212)
Proceeds from sale of investments and investments - other	13,016,383	16,015,006
Net cash provided by (used in) investing activities	4,476,298	(15,927,957)
Cash Flows from Financing Activities		
Collection on contributions restricted for long-term purposes	578,495	770,340
Collection of cash restricted for charitable gift annuities	-	171,500
Payment of annuity obligations	(10,596)	(5,402)
Proceeds from long-term debt	-	904,717
Payment of long-term debt	(57,447)	(923,133)
Payments on capital lease obligation	(39,520)	(38,251)
Net cash provided by financing activities	470,932	879,771
Net change in cash and cash equivalents	8,951,520	(1,964,261)
Cash and cash equivalents, beginning of year	9,529,729	11,493,990
Cash and cash equivalents, end of year	$ 18,481,249	$ 9,529,729
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 19,429	$ 49,216
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Forgiveness of Paycheck Protection Program Promissory Note	$ -	$ 1,552,057

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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

The Organization's primary programs are described below:

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

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

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Community Food Bank, Inc. ("CFB") and Avanzando, LLC ("AVZ"). CFB formed AVZ, a single member LLC, on August 28, 2020, primarily to serve as a fiscal sponsor of mutual aid organizations and other non-profit organizations. Except where the context otherwise indicates or requires, all references to the "Organization" in these notes means CFB and AVZ. All intercompany accounts and transactions have been eliminated in consolidation.

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").

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)
The Organization's consolidated 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 consolidated 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 consolidated financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

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

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

Expenses are generally reported as decreases in net assets without donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as increases in net assets without donor restrictions.

Cash and Cash Equivalents
For financial statement reporting purposes, the Organization considers all highly liquid instruments purchased with original maturities of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates their fair values. The Organization places its cash and cash equivalents with high credit quality institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit (see Note 19). The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such accounts are monitored by management to mitigate risk.

Grants and Accounts Receivable
Grants receivable consist principally of uncollateralized amounts due from state and local governments under contractual agreements. Accounts receivable consist principally of uncollateralized amounts due from other not-for-profit organizations under contractual agreements. The carrying amount of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Grants and Accounts Receivable (continued)

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, 2022 and 2021, management estimated an allowance for doubtful accounts of $10,933 and $11,694, respectively.

Contributions Receivable

The Organization accounts for contributions receivable to be made in future years as unconditional promises to give in the year the promise is made. Contributions to be received after one year are presented at their discounted present value at a risk-adjusted rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contributions. The fair value amount of contributions receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. All contributions deemed to be uncollectible are written off. As of June 30, 2022 and 2021, management considered all contributions receivable to be collectible, therefore, no allowance for uncollectible promises has been provided.

Investments

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

The Organization invests in professionally managed portfolios that contain equity and fixed income securities. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated 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, 2022, the Organization has not experienced other-than-temporary impairment losses on its investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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

For the years ended June 30, 2022 and 2021, Feeding America provided an estimated wholesale value per pound for food and non-food commodities overall, an estimated wholesale value per pound for food donations only, excluding non-food commodities, and an estimated wholesale value per pound for non-food commodities donations only, excluding food. For the years ended June 30, 2022 and 2021, the estimated wholesale value per pound for food donations only was $1.70 and $1.49 per pound, respectively, and for non-food commodities donations only was $5.09 and $11.71 per pound, respectively.

Commodities received from the U.S. Department of Agriculture but not distributed as of June 30, 2022 and 2021, totaled $4,337,065 and $4,299,623, respectively, and are included in deferred revenue in the accompanying consolidated 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, 2022, the Organization had not experienced impairment losses on its long-lived assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Gift Annuities
The Organization has received several charitable gift annuities, whereby a donor gives assets to the Organization in return for the Organization's promise to pay a fixed amount for the life of the annuitant. The 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, 2022 and 2021, the payment rates ranged between 5.8% and 7.0%. When a new gift is received, a contribution is recorded for the difference between the assets received and the related liability.

As of June 30, 2022 and 2021, the Organization had seven charitable gift annuities, respectively, with an estimated benefit liability of $197,151 and $207,747, respectively. Investments as of June 30, 2022 and 2021, include $262,946 and $335,457, respectively, designated for payment of these benefits.

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Organization to retain for a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no such deficiencies as of June 30, 2022 and 2021.

Revenue Recognition
Contributions
Government Grants – The Organization accounts for its government grants by first determining whether the transaction is an exchange transaction or a contribution. If the transaction is one in which each party to the transaction directly receives commensurate value, then the transaction is considered an exchange transaction and the Organization recognizes revenue in accordance with ASC 606. Government grants revenues from exchange transactions are recognized as performance obligations are satisfied, which in most cases are as related costs are incurred or services are provided. If the transaction is considered a contribution, then the Organization recognizes revenue in accordance with ASC 958-605. None of the Organization's government grants revenues were considered exchange transactions for the years ended June 30, 2022 and 2021.

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

- **Conditional** – Includes all contributions with donor-imposed conditions or stipulations representing a barrier that must be overcome before the recipient is entitled to the assets being transferred or promised. A failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or the ability to rescind an obligation to transfer.

- **Unconditional** – Includes all contributions that do not contain a barrier to use and therefore are recorded as revenue once cash or a contribution is received. Donor imposed restrictions for time and/or purpose are not considered a significant barrier and thus these contributions are recorded as unconditional.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

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

Donated Goods, Property and Services – Contributions of donated non-cash assets including goods, space, advertising and property are recorded at their fair values on the date the asset is donated. Absent explicit donor stipulations, contributions of long-lived assets or cash or other assets to be used to acquire or construct long-lived assets are reported as net assets without donor restrictions when placed in service. Donated services are recognized in the consolidated financial statements at their fair value. Donated services are recognized when the services are received and (a) create or enhance non-financial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization utilizes the services of many outside volunteers to perform a variety of tasks that assist the Organization. During the years ended June 30, 2022 and 2021, volunteers worked approximately 98,634 and 126,482 hours, respectively. The fair value of these services is not reflected in the accompanying consolidated financial statements because the above criteria were not met.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)
The transaction price is the amount of consideration the Organization expects to be entitled. Revenues are based primarily on payment terms involving predetermined rates per service (fee-for-service), and/or other similar contractual arrangements. The consideration promised in a contract with a customer may include both fixed and variable amounts to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Organization estimates the amount of variable consideration at the most likely amount to which the Organization expects to be entitled. The estimates of variable consideration are based on the Organization's assessment of legal enforceability, anticipated performance and any other information (e.g. historical, current or forecasted) that is reasonably available to the Organization. The payers are billed periodically as services are provided and the payers have verified the services provided (if applicable). Management does not believe any adjustments are necessary to amounts recorded as revenues for the years ended June 30, 2022 and 2021.

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

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

Income Tax
CFB 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). CFB also qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(a). AVZ is a single-member limited liability company which is a disregarded entity for income tax purposes.

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 consolidated financial statements. During the years ended June 30, 2022 and 2021, the Organization did not recognize any interest and penalties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Use of Estimates
The preparation of consolidated 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 consolidated 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 consolidated 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, 2021, from which the summarized information was derived.

3. Recent Accounting Pronouncements

Adopted as of June 30, 2022
In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. Examples of contributed nonfinancial assets include fixed assets such as land, buildings, and equipment; the use of fixed assets or utilities; materials and supplies, such as food, clothing, or pharmaceuticals; intangible assets; and recognized contributed services. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the consolidated statement of activities, apart from contributions of cash or other financial assets. It also requires a not-for-profit to disclose: 1) contributed nonfinancial assets recognized within the consolidated statement of activities disaggregated by category that depicts the type of contributed nonfinancial assets; and 2) for each category of contributed nonfinancial assets recognized: i) qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a description of the programs or other activities in which those assets were used; ii) the not-for-profit's policy (if any) about monetizing rather than utilizing contributed nonfinancial assets; iii) a description of any donor-imposed restrictions associated with the contributed nonfinancial assets; iv) the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, *Fair Value Measurement*, at initial recognition; and v) the principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit organization is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021, and interim periods with annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The adoption of this ASU did not have a significant impact on the consolidated financial statements and primarily affected the Organization's presentation of in-kind contributions in the accompanying consolidated statements of activities and related disclosures (see Note 17).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)

Not Adopted as of June 30, 2022

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. A modified retrospective transition approach is required (see ASU No. 2018-11 below for optional transition method) for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated 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, 2021). All entities, including early adopters, that elect the practical expedient related to separating components of a contract in this ASU must apply the expedient, by class of underlying asset, to all existing lease transactions that qualify for the expedient at the date elected. The Organization is currently evaluating the effect these standards will have on the consolidated financial statements and disclosures.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Liquidity and Availability of Resources

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

	2022	2021
Cash and cash equivalents	$ 18,481,249	$ 9,529,729
Grants and accounts receivable, net	1,217,477	697,516
Contributions receivable	1,041,477	1,272,943
Investments (debt, equity, and other)	17,185,855	25,614,132
Total financial assets	37,926,058	37,114,320
Less amounts unavailable for general expenditure within one year, due to:		
Contributions receivable scheduled to be collected in more than one year	473,674	771,905
Contractual or donor-imposed restrictions		
Endowment funds	470,893	434,465
Other donor restrictions	3,158,863	3,304,272
Board designations		
Gift annuity reserve	262,946	335,457
Operating reserve	9,370,304	10,787,317
Financial assets available to meet cash needs for general expenditures within one year	$ 24,189,378	$ 21,480,904

The above reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor imposed restrictions or internal designations. Amounts not available include amounts set aside for long term investing in the operating reserve that could be drawn upon if the finance committee approves that action.

The Organization's financial working capital and cash flows have seasonal variations during the year attributable primarily to the timing of cash receipts and a concentration of contributions received near calendar year-end. To manage liquidity, the Organization maintains a line of credit of $1 million with a bank that is drawn upon as needed during the year to manage cash flow and is repaid in full as soon as possible.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Liquidity and Availability of Resources (continued)

The Organization's current financial assets available to meet cash needs for general expenditures represent 369 days of cash on hand. Additionally, the Organization operates eight facilities in southern Arizona that require continued capital investment. The Organization may pull from available operating funds, the operating reserve, or establish additional financing to meet these needs. For the fiscal years ending June 30, 2022 and 2021, capital expenditures amounted to $777,098 and $3,511,751, respectively.

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

5. Contributions Receivable, Net

Contributions receivable are recorded at their estimated fair value. Amounts due in more than one year are recorded at the present value of the estimated future cash flows discounted at an adjusted risk-free rate, applicable to the year in which the promises were received from 0.94% to 2.54%. As of June 30, the amounts of the receivables to be collected as a result of these promises are as follows:

	2022	2021
Receivables (less than one year)	$ 567,803	$ 501,038
Receivables (one to five years)	510,565	833,376
	1,078,368	1,334,414
Less discount to net present value	(36,891)	(61,471)
Contributions receivable, net	$ 1,041,477	$ 1,272,943

6. Investments

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

	2022	2021
Equity securities	$ 11,672,651	$ 12,938,829
Fixed income	4,022,477	11,266,213
Mutual funds	332,521	373,940
Community Foundation for Southern Arizona	54,895	63,083
Food Conspiracy Cooperative preferred shares	500,000	-
Total Investments	$ 16,582,544	$ 24,642,065

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investments (continued)

Other investments consist of the following as of June 30:

	2022	2021
Certificates of deposit	$ 603,311	$ 972,067

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

	2022	2021
Interest and dividend income	$ 334,470	$ 176,198
Realized and unrealized (loss) gain on investments, net	(3,182,213)	2,239,588
Investment fees	(93,200)	(49,715)
Total investment (loss) gain, net	$ (2,940,943)	$ 2,366,071

7. Fair Value Measurements

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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

The investment in the Food Conspiracy Cooperative is categorized as Level 3 given the lack of observable market inputs (i.e., the lack of a market in which the Organization's shares could be bought or sold). This investment is stated at cost, which approximates its fair value at June 30, 2022.

The following table represents the Organization's financial assets that are measured at fair value on a recurring basis as of June 30, 2022:

Description	Fair Value	Level 1	Level 2	Level 3
Equity securities (a)	$ 11,672,651	$ 11,672,651	$ -	$ -
Fixed income				
Corporate bonds	2,877,233	2,877,233	-	-
Foreign bonds	357,489	357,489	-	-
Government bonds	787,755	552,422	235,333	-
	4,022,477	3,787,144	235,333	-
Mutual funds				
Large-cap blend/growth/value	273,741	273,741	-	-
Bond funds	23,590	23,590	-	-
Small to Mid-cap growth/value	27,265	27,265	-	-
Foreign	3,315	3,315	-	-
Natural resources	4,609	4,609	-	-
	332,521	332,521	-	-
Community Foundation for Southern Arizona	54,895	-	-	54,895
Food Conspiracy Cooperative preferred shares	500,000	-	-	500,000
Total Investments	$ 16,582,544	$ 15,792,316	$ 235,333	$ 554,895

NOTES TO CONSOLIDATED 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, 2021:

Description	Fair Value	Level 1	Level 2	Level 3
Equity securities (a)	$ 12,938,829	$ 12,938,829	$ -	$ -
Fixed income				
Corporate bonds	1,339,580	1,339,580	-	-
Foreign bonds	50,542	50,542	-	-
Government bonds	9,876,091	9,622,713	253,378	-
	11,266,213	11,012,835	253,378	-
Mutual funds				
Large-cap blend/growth/value	308,573	308,573	-	-
Bond funds	19,400	19,400	-	-
Small to Mid-cap growth/value	35,890	35,890	-	-
Foreign	4,566	4,566	-	-
Natural resources	5,511	5,511	-	-
	373,940	373,940	-	-
Community Foundation for Southern Arizona	63,083	-	-	63,083
Total Investments	$ 24,642,065	$ 24,325,604	$ 253,378	$ 63,083

(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:

	2022	2021
Balance, beginning of year	$ 63,083	$ 52,219
Additions	500,000	-
Total investment (loss) income earned	(7,420)	11,593
Distributions and fees	(768)	(729)
Balance, end of year	$ 554,895	$ 63,083

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements (continued)

The following table presents the Organization’s financial assets and liabilities that are measured at fair value on a nonrecurring basis as of and for the year ended June 30, 2022:

Description	6/30/2022	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2022
Initially-recognized Contributions receivable, net	$ 332,182	$ -	$ -	$ 332,182	$ 1,602,921
	$ 332,182	$ -	$ -	$ 332,182	$ 1,602,921

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, 2021:

Description	6/30/2021	Level 1	Level 2	Level 3	Total Revenue For the Year Ended 6/30/2021
Initially-recognized Contributions receivable, net	$ 1,005,876	$ -	$ -	$ 1,005,876	$ 1,889,090
	$ 1,005,876	$ -	$ -	$ 1,005,876	$ 1,889,090

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements (continued)

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

	2022	2021
Initially recognized contributions receivable, net	$ 332,182	$ 1,005,876
Contributions receivable, net recognized in prior years	709,295	267,067
Total	$ 1,041,477	$ 1,272,943

8. Food and Commodities Inventory

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

	2022	2021
Commodities received from the U.S. Department of Agriculture	$ 4,337,065	$ 4,299,623
Donated food	1,195,365	1,391,266
Purchased food	84,092	146,764
Total food and commodities inventory	$ 5,616,522	$ 5,837,653

9. Property and Equipment, Net

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

	2022	2021
Land	$ 790,413	$ 790,413
Buildings and improvements	18,479,989	18,383,732
Furniture, fixtures and equipment	2,739,367	2,748,016
Vehicles	3,626,927	3,384,143
Construction in progress	312,883	8,500
Total property and equipment, at cost or donated value	25,949,579	25,314,804
Less accumulated depreciation and amortization	(13,483,661)	(12,556,282)
Property and equipment, net	$ 12,465,918	$ 12,758,522

10. Line of Credit Agreement

In March 2015, the Organization entered into a line of credit agreement with a financial institution for an original amount of $1,000,000. In March 2020, the line of credit was renewed through March 2021 and in November 2021, the line of credit was renewed through November 2022. Under the most recent renewal, the line of credit requires monthly interest only payments with interest at the Daily SOFR rate plus 2% (3.50% at June 30, 2022). Under the previous renewal, the line of credit required monthly interest only payments with interest at the Daily LIBOR rate plus 2% (2.10% at June 30, 2021). The line of credit is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Line of Credit Agreement (continued)

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, 2022 and 2021, respectively.

The line of credit agreement previously contained various restrictive covenants. These covenants were removed when the Series 2020 Bonds (see Note 11) were repaid in 2021. The most restrictive of which required the Organization to maintain a minimum level of liquidity, as defined in the line of credit agreement, of not less than $3,000,000, as measured on an annual basis. The Organization was in compliance with these restrictive covenants as of June 30, 2022 and 2021, respectively.

11. Financing Agreement

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

The Series 2020 Bonds bore interest at a fixed annual rate of 3.05% multiplied by a margin rate factor (which was tied to changes in the maximum federal corporate tax rate) and were secured by a perfected first priority lien on all of the Organization's revenues. The Series 2020 Bonds were also subject to prepayment fees as defined by the financing agreements. Although the Organization drew funds from the Series 2020 Bonds during 2021, those funds were repaid in full during 2021 and the loan was closed. The Series 2020 Bonds had no outstanding balance as of June 30, 2022 and 2021.

The Series 2020 Bonds financing agreements contained various financial covenants. The most restrictive of which required the Organization to maintain the following: a real estate debt coverage ratio no less than 1.25 to 1.00, a minimum level of liquidity of no less than $3,000,000, a total liabilities to tangible net worth ratio not to exceed 0.5 to 1.00, and a positive net income after taxes no less than $1.00, all on an annual basis. The Organization was in compliance with these covenants as of June 30, 2022 and 2021, respectively.

12. Paycheck Protection Program Promissory Note

In May 2020, the Organization entered into a promissory note agreement with a financial institution for an original amount of $1,552,057. The loan was made pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll and employee benefit expenses of the qualifying business. The loans and accrued interest may be fully or partially forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its employment levels during the covered payroll period. The Organization received forgiveness of the loan in March 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Loan Agreement with the Arizona Community Foundation

In April 2016, the Organization entered into a loan agreement with the Arizona Community Foundation for an original amount of $500,000. The loan agreement allows for the Organization to draw down advances on the loan over a 36-month period. The advances are to be used to provide financing and other financial accommodations to other not-for-profit, tax-exempt and charitable food providers throughout the state of Arizona. The loan requires monthly interest payments at 2.85% per annum on each portion of the disbursed amount. The loan agreement matures in April 2023 and does not require any principal payments until April 2021. After which, all amounts drawn must be repaid in 24 equal monthly installments. The loan agreement had an outstanding balance of $49,137 and $106,584 as of June 30, 2022 and 2021, respectively.

The loan agreement contains several financial covenants which include maintaining: a ratio of outstanding indebtedness to net assets not to exceed 0.4 to 1.0 at all times, a quick ratio of not less than 2.0 to 1.0 on a quarterly basis, 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 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, 2022 and 2021, respectively.

Future maturities of the loan agreement are as follows as of June 30, 2022:

2023	$	49,137
Total	$	49,137

14. Capital Lease Obligation

During 2018, the Organization entered into a capital lease agreement for commercial vehicles. Assets recorded under capital leases are included in the consolidated statements of financial position as a component of property and equipment, totaled $369,465 as of June 30, 2022 and 2021. Related accumulated depreciation totaled $176,968 and $138,333 as of June 30, 2022 and 2021, 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, 2022, are as follows:

Year Ending June 30,		Amount
2023	$	46,717
2024		45,392
2025		4,969
Total present value of future minimum lease		97,078
Plus, guaranteed residual value		112,333
Less, reduction of minimum lease payments to present value (interest expense)		(10,837)
Total		198,574
Less, current portion of capital lease obligation		(40,832)
Long-term capital lease obligation	$	157,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Net Assets With Donor Restrictions

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

	2022	2021
Subject to expenditure for specified purpose		
Community Food Bank of Southern Arizona Resource Centers	$ 1,869,398	$ 1,561,798
Child Nutrition Programs	246,002	195,089
Caridad Community Kitchen	144,065	5,000
Produce Sourcing	-	657,062
Other	159,725	76,144
	2,419,190	2,495,093
Subject to passage of time		
For periods after June 30, 2022 and 2021, respectively	1,041,477	1,272,943
Subject to Community Food Bank spending policy and appropriation		
Original donor-restricted endowment gift amounts required to be maintained by donor		
Permanent Endowment	233,053	205,575
Punch Woods Endowment	191,022	182,072
Stocker Endowment Fund	46,818	46,818
	470,893	434,465
Accumulated investment earnings, which, once appropriated, are expendable	171,870	308,141
Total	$ 4,103,430	$ 4,510,642

16. Endowment Funds

Changes in endowment net assets for the year ended June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2021	$ 11,122,774	$ 742,606	$ 11,865,380
Investment return			
Investment income	106,800	12,936	119,736
Net depreciation	(1,582,320)	(149,207)	(1,731,527)
Total investment return	(1,475,520)	(136,271)	(1,611,791)
Contributions	-	36,428	36,428
Appropriation of funds for expenditure	(14,004)	-	(14,004)
Endowment net assets, June 30, 2022	$ 9,633,250	$ 642,763	$ 10,276,013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Endowment Funds (continued)

Changes in endowment net assets for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, June 30, 2020	$ 8,930,167	$ 530,507	$ 9,460,674
Investment return			
Investment income	113,789	8,499	122,288
Net appreciation	1,917,015	148,168	2,065,183
Total investment return	2,030,804	156,667	2,187,471
Contributions	171,500	55,432	226,932
Appropriation of funds for expenditure	(9,697)	-	(9,697)
Endowment net assets, June 30, 2021	$ 11,122,774	$ 742,606	$ 11,865,380

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

17. Contributions of Nonfinancial Assets

Contributions of nonfinancial assets consist of the following for the years ended June 30:

	2022	2021
Food and non-food inventory	$ 99,312,153	$ 135,515,286
Total donated food	99,312,153	135,515,286
Rent	183,996	183,996
Other	52,239	64,928
Total in-kind contributions	236,235	248,924
Total contributions of nonfinancial assets	$ 99,548,388	$ 135,764,210

For the years ended June 30, 2022 and 2021, the Organization recognized contributed nonfinancial assets within donated food and in-kind contribution revenues, including food, rent, and other donations. Unless otherwise noted, contributed nonfinancial assets were not monetized and did not have donor-imposed restrictions.

Food and Non-food Inventory – The Organization receives donated food, produce, bread and non-food inventory through its partnership with Federal agencies, other Food Banks and the community at large, which are then distributed to households as part of its Health and Food program. Donated food, produce, bread and non-food inventory are valued based on Feeding America's estimated wholesale value per pound for food and non-food commodities (see Note 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contributions of Nonfinancial Assets (continued)

Rent – The Organization occupies space in certain buildings at little to no cost per year in relation to its Health and Food and Education programs. In-kind rent is valued based on comparable market rates.

Other – The Organization receives donated non-food items, such as garden seeds, seedlings and services from its donors and community professionals and are generally used in its Community Development and Education programs. These other items are valued based on quantity of items received and the market price of the items, if they had been purchased.

18. Retirement Plans

Defined Contribution Plan

The Organization implemented a 401(k)-retirement plan on June 1, 1998. All employees 18 years of age or older can participate in the plan after completing one month of service. Employer matching is available for employees who have completed a minimum of 1,000 hours of service. During the years ended June 30, 2022 and 2021, the Organization's matching contributions to the plan amounted to $250,641 and $266,814, respectively. There were no discretionary contributions made for the years ending June 30, 2022 and 2021.

Supplemental Plan

Effective November 30, 2018, the Organization established a supplemental 457(b) plan for the benefit of a select group of management or highly compensated employees as designated by the Organization. A nonelective contribution to the supplemental plan may be made annually at the discretion of the Organization. Contributions to the supplemental plan totaled $6,818 and $16,875 for the years ended June 30, 2022 and 2021, respectively.

19. Concentrations of Credit Risk

Cash Deposits at Banks

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to $250,000. As of June 30, 2022 and 2021, the Organization had $16,324,595 and $7,384,977 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 $1 billion. This additional protection becomes available in the event that SIPC limits are exhausted. As of June 30, 2022 and 2021, the Organization's investment balances were not in excess of the Lloyd's of London insured limits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Commitments and Contingencies

Construction Services Agreement (WSM Architects)
The Organization entered into an agreement with an architect for design and remodeling services for the Organization's main warehouse location in Tucson, Arizona. Through June 30, 2021, total fees incurred and paid under the agreement were $273,715 and are included within property and equipment in the accompanying consolidated statements of financial position. As of June 30, 2021, all services and payments were complete under this agreement.

Construction Services Agreement (MW Morrissey)
The Organization entered into an agreement with a construction company for external and internal remodeling services. Through June 30, 2022, related construction service fees incurred totaled $3,899,501 and are included within property and equipment in the accompanying consolidated statements of financial position. As of June 30, 2021, all services were complete under this agreement and all payments were complete except for $133,574 which was included in accounts payables in the accompanying consolidated statement of financial position and was paid in full during 2022.

System Installation Agreement (Technicians for Sustainability)
The Organization entered into an agreement with a construction company for the design, construction and installation of a photovoltaic system (the "System") on Community Food Bank's building site. The guaranteed maximum price for the construction services are $168,564, as defined by the agreement. Through June 30, 2021, construction service fees incurred and paid under the agreement totaled $168,564 and are included within property and equipment in the accompanying consolidated statements of financial position. As of June 30, 2021, all services and payments were complete under this agreement.

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, 2022.

21. Subsequent Events

The Organization evaluated subsequent events through October 21, 2022, which represents the date the consolidated financial statements were available to be issued and, concluded that no additional disclosures are required.