



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, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2022)**

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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, 2023 and 2022, 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, 2023, 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, 2023 and 2022, and its cash flows for the years then ended, and the changes in its net assets for the year ended June 30, 2023, 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, effective July 1, 2022, the Company adopted ASU No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 21, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 February 28, 2024, 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.

A handwritten signature in blue ink that reads "Keegan Finocchia & Associates, PC".

Tucson, Arizona
February 28, 2024

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 15,247,761	\$ 18,481,249
Grants and accounts receivable, net	691,874	1,217,477
Contributions receivable	430,721	567,803
Investments	16,283,678	13,321,063
Investments - other	626,855	544,270
Food and commodities inventory	3,714,072	5,616,522
Prepaid expenses and other current assets	344,032	188,540
Total current assets	37,338,993	39,936,924
Contributions receivable, net	319,059	473,674
Investments, non-current	3,048,271	3,261,481
Investments - other, non-current	1,534,414	59,041
Property and equipment, net	14,085,840	12,465,918
Total assets	\$ 56,326,577	\$ 56,197,038
Liabilities		
Current liabilities		
Accounts payable	\$ 935,408	\$ 595,271
Accrued expenses	1,034,800	1,166,226
Deferred revenue	2,496,174	4,403,092
Gift annuities	197,324	197,151
Finance lease liability, current	96,331	40,832
Current portion of long-term debt	-	49,137
Total current liabilities	4,760,037	6,451,709
Finance lease liability, non-current	311,775	157,742
Total liabilities	5,071,812	6,609,451
Net Assets		
Without donor restrictions		
Undesignated	21,742,567	23,384,989
Board-designated	10,980,109	9,633,250
Investments in property and equipment	14,085,840	12,465,918
	46,808,516	45,484,157
With donor restrictions		
Total net assets	4,446,250	4,103,430
Total net assets	51,254,766	49,587,587
Total liabilities and net assets	\$ 56,326,577	\$ 56,197,038

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	Without Donor Restrictions	With Donor Restrictions	Total 2023	Summarized Total 2022
Revenues and Other Support				
Donated food	\$ 56,069,641	\$ -	\$ 56,069,641	\$ 99,312,153
Contributions of cash and other financial assets	13,122,958	3,009,947	16,132,905	17,250,525
Government grants	3,019,629	-	3,019,629	5,138,750
Bequests	1,692,172	-	1,692,172	3,322,864
Earned revenues	2,285,544	-	2,285,544	2,232,204
In-kind contributions	206,916	-	206,916	236,235
Special events	167,897	-	167,897	258,926
Miscellaneous	90,299	-	90,299	82,960
Investment gain (loss), net	2,444,644	88,524	2,533,168	(2,940,943)
Gain on disposal of property and equipment	330,060	-	330,060	4,405
Net assets released from restriction	2,755,651	(2,755,651)	-	-
Total revenues and other support	<u>82,185,411</u>	<u>342,820</u>	<u>82,528,231</u>	<u>124,898,079</u>
Expenses				
Program services				
Health and food	69,479,073	-	69,479,073	114,757,068
Community development	3,275,916	-	3,275,916	1,059,293
Education	1,737,450	-	1,737,450	3,597,852
Total program services	<u>74,492,439</u>	<u>-</u>	<u>74,492,439</u>	<u>119,414,213</u>
Supporting services				
Fundraising	2,681,916	-	2,681,916	2,437,635
Management and general	3,686,697	-	3,686,697	2,742,702
Total expenses	<u>80,861,052</u>	<u>-</u>	<u>80,861,052</u>	<u>124,594,550</u>
Change in net assets	1,324,359	342,820	1,667,179	303,529
Net assets, beginning of year	45,484,157	4,103,430	49,587,587	49,284,058
Net assets, end of year	<u>\$ 46,808,516</u>	<u>\$ 4,446,250</u>	<u>\$ 51,254,766</u>	<u>\$ 49,587,587</u>

**CONSOLIDATED STATEMENT OF EXPENSES BY FUNCTION AND NATURE
FOR THE YEAR ENDED JUNE 30, 2023**

	Health and Food	Community Development	Education	Total Program Services	Supporting Services		Total
					Fundraising	Management and General	
Salaries	\$ 4,627,187	\$ 580,640	\$ 748,235	\$ 5,956,062	\$ 927,574	\$ 2,257,500	\$ 9,141,136
Payroll taxes	347,218	44,110	55,694	447,022	67,567	162,529	677,118
Employee benefits	801,667	82,502	121,796	1,005,965	129,175	213,976	1,349,116
Temporary contracted services and fees	2,044	-	-	2,044	6,506	13,613	22,163
Total personnel	5,778,116	707,252	925,725	7,411,093	1,130,822	2,647,618	11,189,533
Donated commodities and food distributed	56,217,892	373	6,304	56,224,569	29,872	66	56,254,507
Cost of purchased goods	3,599,366	112,812	4,400	3,716,578	-	2,490	3,719,067
Professional & outside services	294,537	98,007	160,690	553,234	714,650	493,620	1,761,504
Insurance	178,169	7,081	40,018	225,268	12,094	40,280	277,642
Vehicle & fuel expense	388,233	252	1,294	389,779	85	59	389,923
Maintenance & repair	489,516	14,735	10,905	515,156	14,592	19,106	548,854
Occupancy	62,903	2,300	138,996	204,199	-	-	204,199
Utilities	390,572	22,322	59,913	472,807	33,564	50,330	556,701
Supplies	705,756	27,939	180,910	914,605	35,548	87,587	1,037,740
Small & leased equipment	102,557	5,195	4,230	111,982	5,092	19,324	136,398
Postage, printing & promotion	95,992	28,896	12,457	137,345	354,043	5,689	497,077
Travel	39,379	7,518	16,828	63,725	13,883	16,311	93,919
Staff, board, donor & volunteer expense	106,173	10,223	18,048	134,444	52,844	196,090	383,378
Dues & fees	30,013	2,620	3,883	36,516	231,715	27,325	295,556
Agency & partner expenses	4,158	2,204,553	120,916	2,329,627	3,265	1,000	2,333,892
Miscellaneous	616	109	-	725	57	11,246	12,028
Total expenses before interest and depreciation	68,483,948	3,252,187	1,705,517	73,441,652	2,632,125	3,618,141	79,691,919
Interest expense	6,117	-	-	6,117	22,013	5,721	33,851
Depreciation	989,008	23,729	31,933	1,044,670	27,777	62,835	1,135,282
Total expenses	\$ 69,479,073	\$ 3,275,916	\$ 1,737,450	\$ 74,492,439	\$ 2,681,916	\$ 3,686,697	\$ 80,861,052

**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		Total
					Fundraising	Management and General	
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 STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ 1,667,179	\$ 303,529
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,135,282	1,066,775
Amortization of discount on contributions receivable	(12,052)	(24,580)
Net realized and unrealized (gain) loss on investments	(1,850,013)	3,182,213
Gain on disposal of property and equipment	(330,060)	(4,405)
Contributions restricted for long term purposes	(219,200)	-
Contributions restricted for charitable gift annuities	(14,606)	-
Changes in operating assets and liabilities		
Grants and accounts receivable, net	525,603	(519,961)
Contributions receivable	332,182	(322,449)
Food and commodities inventory	1,902,450	221,131
Prepaid expenses and other current assets	(155,492)	288,063
Accounts payable	340,136	(315,168)
Accrued expenses	(131,426)	43,024
Deferred revenue	(1,906,918)	86,118
Net cash provided by operating activities	1,283,065	4,004,290
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,697,005)	(777,098)
Proceeds from the disposal of property and equipment	551,277	7,332
Purchase of investments and investments - other	(7,289,622)	(7,770,319)
Proceeds from sale of investments and investments - other	4,832,272	13,016,383
Net cash (used in) provided by investing activities	(4,603,078)	4,476,298
Cash Flows from Financing Activities		
Collection on contributions restricted for long-term purposes	190,767	578,495
Collection of cash restricted for charitable gift annuities	25,000	-
Payment of annuity obligations	(10,221)	(10,596)
Proceeds from long-term debt	-	-
Payment of long-term debt	(49,137)	(57,447)
Payments on finance lease liability	(69,884)	(39,520)
Net cash provided by financing activities	86,525	470,932
Net change in cash and cash equivalents	(3,233,488)	8,951,520
Cash and cash equivalents, beginning of year	18,481,249	9,529,729
Cash and cash equivalents, end of year	\$ 15,247,761	\$ 18,481,249
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 33,851	\$ 49,216
Cash paid for amounts included in measurement of lease liabilities		
Operating cash outflows - interest payments on finance lease	\$ 11,079	\$ -
Right-of-use assets obtained in exchange for new lease obligations		
Finance lease	\$ 279,416	\$ -

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 restrictions also includes net assets that are subject to donor-imposed stipulations such that assets must be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

Expenses are generally reported as decreases in net assets without donor restrictions. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the 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 17). The Organization has not experienced any losses and does not believe it is exposed to any significant credit risk on cash balances. All such accounts are monitored by management to mitigate risk.

Grants and Accounts Receivable

Grants receivable consist principally of uncollateralized amounts due from state and local governments under contractual agreements. Accounts receivable consist principally of uncollateralized amounts due from other not-for-profit organizations under contractual agreements. The carrying amount of grants and accounts receivable are reduced by a valuation allowance that reflects management's best estimate of amounts that

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)***Grants and Accounts Receivable (continued)***

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, 2023 and 2022, management estimated an allowance for doubtful accounts of \$28,156 and \$10,933, 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, 2023 and 2022, 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, 2023, 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 (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, 2023 and 2022, 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, 2023 and 2022, the estimated wholesale value per pound for food donations only was \$1.53 and \$1.70 per pound, respectively, and for non-food commodities donations only was \$9.80 and \$5.09 per pound, respectively.

Commodities received from the U.S. Department of Agriculture but not distributed as of June 30, 2023 and 2022, totaled \$2,468,819 and \$4,337,065, 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, 2023, the Organization had not experienced impairment losses on its long-lived assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases

In February 2016, the FASB issued ASC Topic 842, *Leases*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their balance sheets as a right-of-use (“ROU”) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Company has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization’s historical accounting treatment under ASC Topic 840, *Leases*.

The Organization elected the “package of practical expedients” under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on July 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Leases (continued)

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

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, 2023 and 2022, the payment rates ranged between 8.9% and 5.8%. 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, 2023 and 2022, the Organization had eight and seven charitable gift annuities, respectively, with an estimated benefit liability of \$197,324 and \$197,151, respectively. Investments as of June 30, 2023 and 2022, include \$286,322 and \$262,946, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Endowment Funds (continued)

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities and equities. To satisfy its long-term objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) while assuming a moderate level of investment risk. The Organization targets a diversified asset allocation with a blend of cash, fixed income securities and equities to achieve its long-term return objectives within prudent risk constraints.

The Organization's policy is to distribute the funds in accordance with the instructions of the endowment; in the absence of any specific instructions, all distributions require approval from the board of directors. One endowment allows for annual distributions, as long as these distributions do not result in an endowment balance less than the cumulative amount of the donations. The other endowments control any distributions 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, 2023 and 2022.

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, 2023 and 2022.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

- **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.

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, 2023 and 2022, volunteers worked approximately 93,486 and 98,634 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, 2023 and 2022.

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 unbilled receivables 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, 2023 and 2022, 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, 2022, from which the summarized information was derived.

3. Recent Accounting Pronouncements***Adopted as of June 30, 2023***

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 statement of activities. In July 2019, the FASB voted to delay the effective date one year for private companies; consequently, the new standard is effective for fiscal years beginning after December 15, 2021, 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 No. 2018-11 provides a new transition method and a practical expedient for separating components of a contract. The amendments ASU No. 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 net assets 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 GAAP in Topic 840, *Leases*. The amendments in ASU No. 2018-11 also provide lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease 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 No. 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. Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recent Accounting Pronouncements (continued)***Adopted as of June 30, 2023 (continued)***

Organization's finance leases of \$8,832 at July 1, 2022. The adoption of the new lease standard resulted in significant new disclosures about the Organization's leasing activities and did not materially impact change in net assets or cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Not Adopted as of June 30, 2022

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.

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:

	2023	2022
Cash and cash equivalents	\$ 15,247,761	\$ 18,481,249
Grants and accounts receivable, net	691,874	1,217,477
Contributions receivable	749,780	1,041,477
Investments (debt, equity, and other)	21,493,218	17,185,855
Total financial assets	38,182,633	37,980,058

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Liquidity and Availability of Resources (continued)

Less amounts unavailable for general expenditure within one year, due to:

Contributions receivable scheduled to be collected in more than one year	319,059	473,674
Contractual or donor-imposed restrictions		
Endowment funds	470,893	470,893
Other donor restrictions	3,656,298	3,158,863
Board designations		
Gift annuity reserve	286,322	262,946
Operating reserve	10,693,787	9,370,304
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,756,274</u>	<u>\$ 24,189,378</u>

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.

The Organization's current financial assets available to meet cash needs for general expenditures represent 354 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, 2023 and 2022, capital expenditures amounted to \$2,697,005 and \$777,098, respectively.

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%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contributions Receivable, Net (continued)

As of June 30, the amounts of the receivables to be collected as a result of these promises are as follows:

	<u>2023</u>	<u>2022</u>
Receivables (less than one year)	\$ 430,721	\$ 567,803
Receivables (one to five years)	343,898	510,565
	<u>774,619</u>	<u>1,078,368</u>
Less discount to net present value	(24,839)	(36,891)
Contributions receivable, net	<u>\$ 749,780</u>	<u>\$ 1,041,477</u>

6. Investments

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

	<u>2023</u>	<u>2022</u>
Equity securities	\$ 12,773,015	\$ 11,672,651
Fixed income	5,271,514	4,022,477
Mutual funds	728,029	332,521
Community Foundation for Southern Arizona	59,391	54,895
Food Conspiracy Cooperative preferred shares	500,000	500,000
Total Investments	<u>\$ 19,331,949</u>	<u>\$ 16,582,544</u>

Other investments consist of the following as of June 30:

	<u>2023</u>	<u>2022</u>
Certificates of deposit	\$ 2,161,269	\$ 603,311

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

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 766,738	\$ 334,470
Realized and unrealized gain (loss) on investments, net	1,850,013	(3,182,213)
Investment fees	(83,583)	(93,200)
Total investment gain (loss), net	<u>\$ 2,533,168</u>	<u>\$ (2,940,943)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Fair Value Measurements

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

- Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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

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

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

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, 2023 and June 30, 2022, respectively.

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, 2023:

Description	Fair Value	Level 1	Level 2	Level 3
Equity securities (a)	\$ 12,773,015	\$ 12,773,015	\$ -	\$ -
Fixed income				
Corporate bonds	2,115,471	2,115,471	-	-
Foreign bonds	484,086	484,086	-	-
Government bonds	2,671,957	2,437,703	234,254	-
	5,271,514	5,037,260	234,254	-
Mutual funds				
Large-cap blend/growth/value	661,362	661,362	-	-
Bond funds	28,361	28,361	-	-
Small to Mid-cap growth/value	29,096	29,096	-	-
Foreign	3,765	3,765	-	-
Natural resources	5,455	5,455	-	-
	728,029	728,029	-	-
Community Foundation for Southern Arizona	59,391	-	-	59,391
Food Conspiracy Cooperative preferred shares	500,000	-	-	500,000
Total Investments	\$ 19,331,949	\$ 18,538,304	\$ 234,254	\$ 559,391

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, 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	-
	<u>4,022,477</u>	<u>3,787,144</u>	<u>235,333</u>	<u>-</u>
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	-	-
	<u>332,521</u>	<u>332,521</u>	<u>-</u>	<u>-</u>
Community Foundation for Southern Arizona	54,895	-	-	54,895
Food Conspiracy Cooperative preferred shares	500,000	-	-	500,000
Total Investments	<u>\$ 16,582,544</u>	<u>\$ 15,792,316</u>	<u>\$ 235,333</u>	<u>\$ 554,895</u>

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

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

	2023	2022
Balance, beginning of year	\$ 554,895	\$ 63,083
Additions	-	500,000
Total investment income earned (loss)	5,198	(7,420)
Distributions and fees	(702)	(768)
Balance, end of year	<u>\$ 559,391</u>	<u>\$ 554,895</u>

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, 2023:

Description	<u>6/30/2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Revenue For the Year Ended 6/30/2023</u>
Initially-recognized Contributions receivable, net	\$ <u>219,200</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>219,200</u>	\$ <u>340,442</u>
	\$ <u>219,200</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>219,200</u>	\$ <u>340,442</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, 2022:

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

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

NOTES TO 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:

	<u>2023</u>	<u>2022</u>
Initially recognized contributions receivable, net	\$ 219,200	\$ 332,182
Contributions receivable, net recognized in prior years	<u>530,580</u>	<u>709,295</u>
Total	<u>\$ 749,780</u>	<u>\$ 1,041,477</u>

8. Food and Commodities Inventory

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

	<u>2023</u>	<u>2022</u>
Commodities received from the U.S. Department of Agriculture	\$ 2,468,819	\$ 4,337,065
Donated food	1,052,505	1,195,365
Purchased food	<u>192,748</u>	<u>84,092</u>
Total food and commodities inventory	<u>\$ 3,714,072</u>	<u>\$ 5,616,522</u>

9. Property and Equipment, Net

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

	<u>2023</u>	<u>2022</u>
Land	\$ 790,413	\$ 790,413
Buildings and improvements	20,547,321	18,479,989
Furniture, fixtures and equipment	3,316,168	2,739,367
Vehicles	3,029,920	3,626,927
Construction in progress	<u>402,603</u>	<u>312,883</u>
Total property and equipment, at cost or donated value	28,086,425	25,949,579
Less accumulated depreciation and amortization	<u>(14,000,585)</u>	<u>(13,483,661)</u>
Property and equipment, net	<u>\$ 14,085,840</u>	<u>\$ 12,465,918</u>

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 February 2023, the line of credit was renewed through February 2024. Under the most recent renewal, the line of credit requires monthly interest only payments with interest at the Daily SOFR rate plus 2.23% (7.32% at June 30, 2023). Under the previous renewal, the line of credit required monthly interest only payments with interest at the Daily SOFR rate plus 2% (3.50% at June 30, 2022). The line of credit is collateralized by a security interest and lien upon all monies, securities, securities accounts, brokerage accounts, deposit

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Line of Credit Agreement (continued)

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, 2023 and 2022, respectively.

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 allowed for the Organization to draw down advances on the loan over a 36-month period. The advances were 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 required monthly interest payments at 2.85% per annum on each portion of the disbursed amount. The loan agreement matured in April 2023 and did 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 \$0 and \$49,137 as of June 30, 2023 and 2022, respectively.

The loan agreement contained 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 paid off the remaining balance in April of 2023.

12. Leases

The Organization leases certain commercial vehicles and equipment under noncancellable finance lease agreements with terms ranging from 2 to 7 years and interest rates ranging from 2.84% to 3.99%. The Organization's finance leases generally do not contain any material restrictive covenants. Some leases may include one or more options to renew, generally at the Organization's sole discretion. In addition, certain leases may contain termination options, where the rights to terminate are held by either the Organization, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Organization will exercise that option. All leases of the Organization's commercial vehicle leases require the Organization to guarantee minimum residual values. As of June 30, 2023, the Organization estimates that the expected amount payable under the residual guarantees is \$112,333. Lease expense for finance leases consists of the amortization of the right-of-use asset on a straight-line basis over the lease term and interest expense determined on an amortized cost basis. The lease payments are allocated between a reduction of the lease liability and interest expense.

The components of lease expense are as follows for the year ended June 30, 2023:

Finance lease cost – amortization of ROU assets	\$	70,110
Finance lease cost – interest on lease liabilities		11,079
Short-term lease cost		74,648
Variable lease costs		3,653
Total lease cost	\$	<u>159,490</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases (continued)

Supplemental balance sheet information related to leases is as follows as of June 30, 2023:

Finance lease:	
Furniture, fixtures, and equipment	\$ 279,416
Vehicles	369,465
Accumulated amortization	<u>(247,077)</u>
Finance lease, right-of-use assets, net	<u>\$ 401,804</u>
Finance lease liability, current	\$ 96,331
Finance lease liability, non-current	<u>311,775</u>
Total finance lease liability	<u>\$ 408,106</u>
Weighted-average remaining lease term:	
Finance lease	3.15 years
Weighted-average discount rate:	
Finance lease	3.71%

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of June 30, 2023:

<u>Year Ending June 30,</u>	<u>Finance Leases</u>
2024	\$ 109,723
2025	64,752
2026	59,784
2027	59,784
2028	<u>29,892</u>
Total lease payments	323,935
Plus, residual value guarantees	112,333
Less, imputed interest	<u>(28,162)</u>
Total present value of lease liabilities	408,106
Less, finance lease liability, current	<u>(96,331)</u>
Finance lease liability, net of current maturities	<u>\$ 311,775</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Leases (continued)

Future minimum lease commitments, as determined under Topic 840, *Leases* for all non-cancelable leases are as follows as of June 30, 2022:

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

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. Related accumulated depreciation totaled \$176,968 as of June 30, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Net Assets With Donor Restrictions

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

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose		
Community Food Bank of Southern Arizona Resource Centers	\$ 2,299,266	\$ 1,869,398
Child Nutrition Programs	303,272	246,002
Caridad Community Kitchen	39,729	144,065
Other	322,916	159,725
	<u>2,965,183</u>	<u>2,419,190</u>
Subject to passage of time		
For periods after June 30, 2023 and 2022, respectively	<u>749,780</u>	<u>1,041,477</u>
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	233,053
Punch Woods Endowment	191,022	191,022
Stocker Endowment Fund	46,818	46,818
	<u>470,893</u>	<u>470,893</u>
Accumulated investment earnings, which, once appropriated, are expendable	260,394	171,870
Total	<u>\$ 4,446,250</u>	<u>\$ 4,103,430</u>

14. Endowment Funds

Changes in endowment net assets for the year ended June 30, 2023:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2022	\$ 9,633,250	\$ 642,763	\$ 10,276,013
Investment return			
Investment income	129,934	25,090	155,024
Net appreciation	<u>1,216,925</u>	<u>63,434</u>	<u>1,280,359</u>
Total investment return	1,346,859	88,524	1,435,383
Contributions	-	-	-
Appropriation of funds for expenditure	-	-	-
Endowment net assets, June 30, 2023	<u>\$ 10,980,109</u>	<u>\$ 731,287</u>	<u>\$ 11,711,396</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Endowment Funds (continued)

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	<u>(1,582,320)</u>	<u>(149,207)</u>	<u>(1,731,527)</u>
Total investment return	(1,475,520)	(136,271)	(1,611,791)
Contributions	-	36,428	36,428
Appropriation of funds for expenditure	<u>(14,004)</u>	<u>-</u>	<u>(14,004)</u>
Endowment net assets, June 30, 2022	<u>\$ 9,633,250</u>	<u>\$ 642,763</u>	<u>\$ 10,276,013</u>

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

15. Contributions of Nonfinancial Assets

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

	2023	2022
Food and non-food inventory	\$ 56,069,641	\$ 99,312,153
Total donated food	<u>56,069,641</u>	<u>99,312,153</u>
Rent	183,996	183,996
Other	<u>22,920</u>	<u>52,239</u>
Total in-kind contributions	206,916	236,235
Total contributions of nonfinancial assets	<u>\$ 56,276,557</u>	<u>\$ 99,548,388</u>

For the years ended June 30, 2023 and 2022, the Organization recognized contributed nonfinancial assets within donated food and in-kind contributions revenue, 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.

16. Retirement Plans

Defined Contribution Plan

The Organization implemented a 401(k)-retirement plan on June 1, 1998. All employees 18 years of age or older can participate in the plan after completing one month of service. Employer matching is available for employees who have completed a minimum of 1,000 hours of service. During the years ended June 30, 2023 and 2022, the Organization's matching contributions to the plan amounted to \$252,664 and \$250,641, respectively. There were no discretionary contributions made for the years ending June 30, 2023 and 2022.

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 \$6,557 and \$6,818 for the years ended June 30, 2023 and 2022, respectively.

17. Concentrations of Credit Risk

Cash Deposits at Banks

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the FDIC up to \$250,000. As of June 30, 2023 and 2022, the Organization had \$13,672,167 and \$16,324,595 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, 2023 and 2022, the Organization's investment balances were not in excess of the Lloyd's of London insured limits.

18. Commitments and Contingencies

Program Audits by Funding Agencies

The Organization is subject to potential program audits by its funding agencies. There is a possibility that the Organization could be liable to these agencies for amounts determined by such future audits. The Organization's management believes that no such liabilities exist as of June 30, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

19. Subsequent Events

The Organization evaluated subsequent events through February 28, 2024, which represents the date the consolidated financial statements were available to be issued and, concluded that no additional disclosures are required.