

San Francisco Food Bank

dba SF-Marin Food Bank

Financial Statements

June 30, 2016

(With Comparative Totals for 2015)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Francisco Food Bank
dba SF-Marine Food Bank
San Francisco, California

We have audited the accompanying financial statements of San Francisco Food Bank (a California nonprofit corporation) (the "Food Bank"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Francisco Food Bank as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the U.S.

Report on Summarized Comparative Information

We have previously audited San Francisco Food Bank's 2015 financial statements, and our report dated October 21, 2015 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

October 24, 2016

San Francisco Food Bank
 dba SF-Marín Food Bank
 Statement of Financial Position
 June 30, 2016
 (With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,468,762	\$ 5,452,899
Investments in marketable securities	835,600	641,906
Accounts receivable from affiliated agencies, net	41,243	60,201
Government grants receivable	639,252	1,289,183
Pledges receivable	834,750	899,500
Inventory	3,238,031	3,767,365
Prepaid expenses and other assets	231,422	218,356
Total current assets	10,289,060	12,329,410
Property and equipment, net	7,419,002	7,715,775
Other assets		
Investments in marketable securities	5,000,000	5,000,000
Pledges receivable, net of current portion	350,000	-
Total other assets	5,350,000	5,000,000
Total assets	\$ 23,058,062	\$ 25,045,185
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 545,729	\$ 717,519
Accrued expenses	1,093,654	1,289,174
Deferred revenue	287,500	402,562
Total current liabilities	1,926,883	2,409,255
Net assets		
Unrestricted		
Undesignated	2,709,532	3,340,326
Inventory	3,238,031	3,767,365
Property and equipment	7,419,002	7,715,775
Board designated - operating reserve	1,000,000	1,000,000
Board designated - facilities reserve	5,000,000	5,000,000
Total unrestricted	19,366,565	20,823,466
Temporarily restricted	1,764,614	1,812,464
Total net assets	21,131,179	22,635,930
Total liabilities and net assets	\$ 23,058,062	\$ 25,045,185

The accompanying notes are an integral part of these financial statements.

San Francisco Food Bank
dba SF-Marín Food Bank
Statement of Activities
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and revenue				
Support				
Contributions in-kind	\$ 61,182,991	\$ -	\$ 61,182,991	\$ 61,053,919
Contributions	12,985,346	2,216,359	15,201,705	17,102,698
Special events (includes in-kind income of \$53,607 and \$14,700)	<u>1,017,830</u>	<u>-</u>	<u>1,017,830</u>	<u>757,660</u>
Total support	<u>75,186,167</u>	<u>2,216,359</u>	<u>77,402,526</u>	<u>78,914,277</u>
Revenue				
Governmental support - in-kind food	12,377,724	-	12,377,724	11,969,112
Governmental support - cash	3,114,091	-	3,114,091	3,028,540
Shared maintenance fees	228,962	-	228,962	254,120
Net investment income	31,171	-	31,171	118,636
Other income, net	<u>100,791</u>	<u>-</u>	<u>100,791</u>	<u>18,133</u>
Total revenue	<u>15,852,739</u>	<u>-</u>	<u>15,852,739</u>	<u>15,388,541</u>
Total support and revenue	91,038,906	2,216,359	93,255,265	94,302,818
Net assets released from restriction	<u>2,264,209</u>	<u>(2,264,209)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>93,303,115</u>	<u>(47,850)</u>	<u>93,255,265</u>	<u>94,302,818</u>
Functional expenses				
Program services				
Healthy children pantries	9,245,205	-	9,245,205	9,685,950
Brown bag pantries serving seniors	9,330,791	-	9,330,791	8,477,520
Neighborhood pantries	52,089,862	-	52,089,862	50,332,207
Supplemental food program for seniors	8,191,750	-	8,191,750	8,224,375
Agency distribution	9,890,626	-	9,890,626	10,827,042
Advocacy and education	<u>1,899,027</u>	<u>-</u>	<u>1,899,027</u>	<u>1,546,038</u>
Total program services	<u>90,647,261</u>	<u>-</u>	<u>90,647,261</u>	<u>89,093,132</u>
Support services				
Management and general	1,224,273	-	1,224,273	940,177
Fundraising	<u>2,888,482</u>	<u>-</u>	<u>2,888,482</u>	<u>2,614,787</u>
Total support services	<u>4,112,755</u>	<u>-</u>	<u>4,112,755</u>	<u>3,554,964</u>
Total functional expenses	<u>94,760,016</u>	<u>-</u>	<u>94,760,016</u>	<u>92,648,096</u>
Change in net assets	(1,456,901)	(47,850)	(1,504,751)	1,654,722
Net assets, beginning of year	<u>20,823,466</u>	<u>1,812,464</u>	<u>22,635,930</u>	<u>20,981,208</u>
Net assets, end of year	<u>\$ 19,366,565</u>	<u>\$ 1,764,614</u>	<u>\$ 21,131,179</u>	<u>\$ 22,635,930</u>

The accompanying notes are an integral part of these financial statements.

San Francisco Food Bank
dba SF-Marín Food Bank
Statement of Functional Expenses
For the Year Ended June 30, 2016
(With Comparative Totals for 2015)

	Program services						Support services			2016 Total	2015 Total	
	Healthy children pantries	Brown bag pantries serving seniors	Neighborhood pantries	Supplemental food program for seniors	Agency distribution	Advocacy and education	Total program services	Management and general	Fundraising			Total support services
Donated food	\$ 7,592,720	\$ 7,420,145	\$ 42,989,588	\$ 7,041,714	\$ 8,168,046	\$ -	\$ 73,212,213	\$ -	\$ -	\$ -	\$ 73,212,213	\$ 72,682,176
Salaries	517,932	689,951	3,049,363	618,839	656,055	1,024,835	6,556,975	684,285	1,378,048	2,062,333	8,619,308	7,665,051
Food procurement	594,416	611,084	3,028,245	12,173	487,930	-	4,733,848	-	-	-	4,733,848	4,664,532
Employee benefits	96,426	129,073	568,002	116,121	122,460	182,592	1,214,674	128,899	240,408	369,307	1,583,981	1,566,858
Freight and storage	114,054	110,805	623,755	40,158	98,220	-	986,992	-	-	-	986,992	1,130,067
Outside services	10,646	19,570	66,109	15,477	13,974	19,737	145,513	144,920	602,165	747,085	892,598	928,627
Donated services	33,311	34,661	190,064	27,046	35,003	278,722	598,807	102,923	27,558	130,481	729,288	150,940
Payroll taxes	39,560	52,935	232,449	47,284	50,164	74,556	496,948	52,381	97,731	150,112	647,060	591,015
Depreciation and amortization	37,135	48,099	202,805	46,337	42,597	65,566	442,539	48,075	88,557	136,632	579,171	606,936
Occupancy	56,946	52,994	283,974	30,217	50,134	48,521	522,786	11,913	17,475	29,388	552,174	419,670
Donor relations	9,786	12,098	62,999	2,691	12,207	5,897	105,678	3,094	322,628	325,722	431,400	290,217
Vehicle expenses	37,331	36,122	202,304	26,575	37,231	19,774	359,337	2,987	5,739	8,726	368,063	421,026
Warehouse supplies	29,311	28,440	163,375	94,095	31,109	-	346,330	-	-	-	346,330	382,614
Utilities	24,546	27,625	139,355	22,296	27,143	34,603	275,568	12,865	29,249	42,114	317,682	297,868
Public affairs	7,176	9,633	42,550	8,636	8,870	95,288	172,153	9,444	18,148	27,592	199,745	183,664
Equipment expenses	18,207	17,887	99,617	13,036	18,612	3,334	170,693	2,987	4,471	7,458	178,151	248,465
Insurance	8,183	9,074	47,856	9,174	9,494	5,374	89,155	2,757	6,615	9,372	98,527	88,647
Conferences and training	3,258	4,436	19,619	5,144	4,189	17,480	54,126	5,401	23,325	28,726	82,852	62,887
Miscellaneous	5,060	5,754	28,484	5,418	7,089	5,943	57,748	3,394	7,027	10,421	68,169	89,959
Printed materials and postage	3,068	3,860	17,325	3,214	3,667	9,631	40,765	3,676	11,539	15,215	55,980	85,135
Office/computer supplies	3,872	4,314	19,433	4,280	4,081	7,174	43,154	4,272	7,799	12,071	55,225	91,026
Volunteer program	2,261	2,231	12,591	1,825	2,351	-	21,259	-	-	-	21,259	716
	<u>\$ 9,245,205</u>	<u>\$ 9,330,791</u>	<u>\$ 52,089,862</u>	<u>\$ 8,191,750</u>	<u>\$ 9,890,626</u>	<u>\$ 1,899,027</u>	<u>\$ 90,647,261</u>	<u>\$ 1,224,273</u>	<u>\$ 2,888,482</u>	<u>\$ 4,112,755</u>	<u>\$ 94,760,016</u>	<u>\$ 92,648,096</u>
Percentage of total	<u>9.8 %</u>	<u>9.8 %</u>	<u>55.0 %</u>	<u>8.6 %</u>	<u>10.5 %</u>	<u>2.0 %</u>	<u>95.7 %</u>	<u>1.3 %</u>	<u>3.0 %</u>	<u>4.3 %</u>	<u>100.0 %</u>	

The accompanying notes are an integral part of these financial statements.

San Francisco Food Bank
 dba SF-Marin Food Bank
 Statement of Cash Flows
 For the Year Ended June 30, 2016
 (With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (1,504,751)	\$ 1,654,722
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	579,171	606,936
Loss on sale/disposal of property and equipment	2,382	-
Donated property and equipment	(12,514)	(40,150)
In-kind contributions of food (including USDA)	(72,815,013)	(72,828,416)
Distribution of food received in-kind	73,212,213	72,682,176
Net realized and unrealized losses on investments	131,659	60,661
Changes in operating assets and liabilities		
Accounts receivable from affiliated agencies, net	18,959	11,576
Government grants receivable	649,931	(611,787)
Pledges receivable	(285,250)	(549,776)
Inventory purchased	132,134	44,376
Prepaid expenses and other assets	(13,064)	(13,488)
Accounts payable	(171,793)	(174,556)
Accrued expenses	(195,520)	374,626
Deferred revenue	(115,062)	7,762
Net cash provided by (used in) operating activities	(386,518)	1,224,662
Cash flows from investing activities		
Purchase of property and equipment	(272,266)	(380,020)
Purchase of investments	(1,458,288)	(1,757,778)
Proceeds from sale of investments	1,132,935	1,669,472
Net cash used in investing activities	(597,619)	(468,326)
Net increase (decrease) in cash and cash equivalents	(984,137)	756,336
Cash and cash equivalents, beginning of year	5,452,899	4,696,563
Cash and cash equivalents, end of year	\$ 4,468,762	\$ 5,452,899

The accompanying notes are an integral part of these financial statements.

San Francisco Food Bank
dba SF-Marín Food Bank
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

1. NATURE OF OPERATIONS

The San Francisco Food Bank (dba "SF-Marín Food Bank", referred to hereafter as "Food Bank") is the largest distributor of food to low-income families and individuals in San Francisco and Marin Counties, providing non-perishable groceries, fresh produce, bread, meat and dairy to over 400 community partners, from senior centers and after-school programs to soup kitchens and food pantries. The Food Bank solicits donations from a wide variety of sources, including produce growers, supermarket chains, wholesalers, the United States Department of Agriculture, large manufacturers, and locally sponsored food drives; then distributes these food commodities to qualifying nonprofit agencies and neighborhood pantries. The Food Bank is meeting more of the community need in its service area than any other urban food bank in the country according to the national food bank association Feeding America's annual *Meals Distributed as % of Meal Gap in Service Area* report.

This year, the Food Bank increased its distribution to nearly 48 million pounds of food, equivalent to more than 109,000 meals per day. The Food Bank was fortunate to receive significant financial support from the community in the 2015-2016 fiscal year, allowing it to address the sustained level of ongoing need caused by the recession. This funding enabled the Food Bank to bring in large quantities of protein, fresh produce, staples and other nutritious items. The Food Bank expanded service and increased the amount and quality of food distributed through its more than 250 pantries, helping nearly 31,000 households each week.

The Food Bank obtains government revenues and support equal to 17% of total revenues and support from the following government agencies:

United States Department of Agriculture (USDA) - Emergency Food Assistance Program

The USDA revenue represents federal funds which have been distributed through the California Department of Social Services. The funds are designated to partially cover the costs of distributing USDA commodities to nonprofit agencies serving low-income families and individuals through their emergency meal and pantry programs.

United States Department of Agriculture (USDA) - Commodity Supplemental Food Program (CSFP)

CSFP is partially funded by the USDA and state-administered by the California Department of Education. CSFP provides a monthly box of nutritious USDA commodity food products to eligible seniors.

United States Department of Agriculture (USDA) - Nutrition Education Program

Nutrition education is funded by the USDA as part of the Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps). Nutrition Education efforts include interactive seminars as well as cooking demonstrations featuring fresh, seasonal produce distributed by the Food Bank.

San Francisco Food Bank
dba SF-Marín Food Bank
Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

1. NATURE OF OPERATIONS (continued)

United States Department of Agriculture (USDA) - CalFresh Outreach Program

CalFresh (California's name for SNAP, formerly Food Stamps) outreach is funded by the USDA in an effort to get benefits to those who qualify for this underutilized federal program. One initiative is CalFresh-In-A-Day, a partnership with the City and County of San Francisco to provide next-day benefits.

City and County of San Francisco Human Services Agency (HSA) and Department of Public Health (DPH)

HSA and DPH funds are designated to provide weekly groceries to low-income immigrants, senior citizens, persons with disabilities, persons with HIV/AIDS, and formerly homeless individuals. HSA funds also provide a nutritionally balanced three-day supply of emergency food to eligible families and individuals.

2. PROGRAM SERVICES

Pantry Programs

The Food Bank has established a variety of pantry programs designed to provide a lifeline for people who need help. The pantries provide food to low-income seniors, families, children and other individuals, enabling them to plan and prepare meals in their own homes, an essential aspect of promoting good health, normalcy and dignity. Relying largely on the support of grants and contributions, the Food Bank operates the following types of pantries:

- *Health Children Pantries* - this program combats child hunger by distributing nutritious foods every week in family-friendly environments such as public schools, childcare centers, parenting support centers and other child-focused locations.
- *Brown Bag Pantries Serving Seniors* - this program enables the Food Bank to help low-income seniors and adults with disabilities secure immediate access to nutritious food. The Food Bank provides weekly groceries to thousands of older adults struggling to maintain their health and independence. In the 2015-2016 fiscal year, the Food Bank expanded its Home-Delivered Grocery Program, providing regular groceries to nearly 925 seniors and adults with disabilities in San Francisco and Marin. The Food Bank provides the food, performs some deliveries and collaborates with other community organizations to serve homebound and mobility-impaired individuals who cannot make the trip to pantry sites or meal programs and don't qualify for home-delivered meals.

San Francisco Food Bank
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Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

2. PROGRAM SERVICES (continued)

Pantry Programs (continued)

- *Neighborhood Pantries* - the Food Bank established a network of weekly pantries to serve economically distressed communities and reach target populations in need of food assistance. The *Immigrant Food Assistance Pantries* initiative focuses on low-income immigrants struggling with language and cultural barriers. The *Community Food Partners Pantries* distribute food to families living in public housing developments. The *Supportive Housing Pantries* distribute easily prepared fresh and packaged products to formerly homeless individuals living in permanent housing with supportive services. The *Neighborhood Grocery Network Pantries* distributes supplemental weekly groceries to working poor families and low-income individuals.

Supplemental Food Program for Seniors

This program provides a monthly box of nutritious USDA food to more than 11,300 low-income senior citizens.

Agency Distribution Shopping Program

More than 200 of the Food Bank's member agencies, including community centers, religious organizations, soup kitchens, shelters, affordable housing, senior programs, AIDS support programs and childcare centers, visit the warehouse on a regular basis to select bread, dry goods, meat and fresh produce for their clients.

Advocacy and Education

Food Bank advocacy efforts focus on optimizing under-utilized government food assistance programs (e.g., CalFresh, the state's food stamp program, and San Francisco's public school meals program), eliminating bureaucracy and red tape that prevents low-income individuals from receiving assistance, improving program quality and participation, and offering recommendations to elected officials and community leaders to reduce barriers to food for low-income residents of San Francisco and Marin. Food Bank education programs raise public awareness about the problem of hunger, help mobilize support for government programs and policies that provide adequate nutrition for low-income people, inform and assist low-income households to apply for CalFresh and promote healthy eating and nutrition basics.

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Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

3. CHANGE IN NET ASSETS

Year ended June 30, 2016

The negative change in net assets for the year ended June 30, 2016 is due in part to the Food Bank distributing more donated food than it received. The financial impact of this is a negative change in net assets of approximately \$400,000. In addition, the Food Bank did not receive the same number of large, one-time gifts (bequests and corporate contributions) for the year ended June 30, 2016 as it did in the prior year.

Year ended June 30, 2015

The positive change in net assets for the year ended June 30, 2015 is largely due to temporarily restricted funding that will be spent in subsequent years.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of San Francisco Food Bank have been prepared on the accrual basis of accounting.

Financial statement presentation

The Food Bank follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with accounting principles generally accepted in the United States of America, the Food Bank reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Food Bank. Under this category, the Food Bank maintains an operating fund, any net assets designated by the Board for specific purposes and the unrestricted inventory and property and equipment funds.
- *Temporarily restricted net assets* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the end of the current reporting period.
- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

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Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Food Bank's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash equivalents include highly liquid investments and investments with a maturity of three months or less and exclude donor restricted receipts for long-term purposes. The Food Bank maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Food Bank has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts, grants and pledges receivable

Receivables represent amounts due from affiliated agencies and are stated at the amount the Food Bank expects to collect for shared maintenance fees and grants from government agencies. Provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Food Bank determines that payments will not be received. Any subsequent receipts are credited to the allowance. As of June 30, 2016 and 2015 the Food Bank estimates that no reserve for losses on receivables is required. Bad debt expense for the years ended June 30, 2016 and 2015 amounted to \$1,344 and \$11,196, respectively.

Inventory

Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated non-government food and donated government food for the years ended June 30, 2016 and 2015 was valued at \$1.67 and \$1.70 per pound, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

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(With Comparative Totals for 2015)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from three to seven years for vehicles, office furniture and equipment, and thirty-nine years for buildings and building improvements. Equipment purchases over \$1,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is charged to the activity benefiting from the use of the facilities or equipment. Amounts expended for maintenance and repairs are charged to operations as incurred.

The Food Bank regularly evaluates its long-lived assets for indicators of possible impairment. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset's fair market value or discounted estimates of future cash flows. The Food Bank has not identified any such impairment losses to date.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains or losses are included in the change in net assets.

Fair value measurements

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Food Bank. Unobservable inputs reflect the Food Bank's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

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Notes to Financial Statements
June 30, 2016
(With Comparative Totals for 2015)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Food Bank's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

All of the Food Bank's assets and liabilities are classified as Level 1 with the exception of donated food. All donated non-government food and USDA food commodities inventory are classified as Level 2 assets. The Food Bank did not have any assets or liabilities classified as Level 3.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30. The maximum vacation time that can be accrued and carried over to the next year is 200 hours. The accrued vacation balance as of June 30, 2016 and 2015 was \$344,486 and \$287,867, respectively, and is included in accrued expenses.

Revenue recognition

The Food Bank recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in-kind

Donated non-government food and donated government food for the years ended June 30, 2016 and 2015 was valued at \$1.67 and \$1.70 per pound, respectively. This valuation is based on a cost study conducted for Feeding America. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Food Bank would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Food Bank also receives donated services that do not require specific expertise but which are nonetheless central to the Food Bank's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 13.

Allocation of functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and support services benefited based on an analysis of personnel time and poundage of food distributed by each program.

Allocation of joint costs

The Food Bank accounts for joint costs in accordance with accounting principles generally accepted in the United States of America. San Francisco Food Bank is required to record all of the costs of certain activities as fundraising expenses, rather than allocating certain costs to various programs of the Organization. For the years ended June 30, 2016 and 2015 the Food Bank incurred costs of \$966,908 and \$910,585, respectively, for informational materials and activities that include fundraising appeals. Of these costs, \$891,345 and \$867,395, respectively was allocated to fundraising expense, \$75,563 and \$43,190, respectively was allocated to programs, and no amounts required allocation to management and general expense.

Income taxes

San Francisco Food Bank is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Food Bank qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a).

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Food Bank in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Food Bank's federal returns for the years ended June 30, 2015, 2014 and 2013 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Food Bank's state returns for the years ended June 30, 2015, 2014, 2013 and 2012 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2016 and 2015 totaled \$12,641 and \$12,600, respectively.

Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent events

Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2016 for potential recognition or disclosure in the financial statements. The Food Bank did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 24, 2016.

5. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2016	2015
Amounts due in less than one year	\$ 834,750	\$ 899,500
Amounts due in one to five years	350,000	-
	\$ 1,184,750	\$ 899,500

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6. INVENTORY

Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated non-government food and donated government food for the years ended June 30, 2016 or 2015 was valued at \$1.67 and \$1.70 per pound, respectively. This valuation is based on a cost study conducted for Feeding America. All donated non-government food and USDA food commodities inventory are classified as Level 2 assets and all purchased food inventory is classified as a Level 1 asset (see Note 4).

Inventory consists of the following:

	<u>2016</u>	<u>2015</u>
USDA food commodities	\$ 1,950,963	\$ 2,238,759
Donated non-government food	1,097,282	1,206,686
Purchased food	<u>189,786</u>	<u>321,920</u>
	<u>\$ 3,238,031</u>	<u>\$ 3,767,365</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Building	\$ 5,403,731	\$ 5,403,731
Land	3,328,645	3,328,645
Vehicles	2,669,040	2,672,051
Building improvements	1,128,899	959,661
Office furniture equipment	969,167	957,532
Warehouse equipment	635,286	600,600
Other depreciable property	<u>38,115</u>	<u>56,339</u>
	14,172,883	13,978,559
Accumulated depreciation and amortization	<u>(6,753,881)</u>	<u>(6,262,784)</u>
	<u>\$ 7,419,002</u>	<u>\$ 7,715,775</u>

Depreciation and amortization expense for the year ended June 30, 2016 and 2015 totaled \$579,171 and \$606,936, respectively.

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8. INVESTMENTS IN MARKETABLE SECURITIES AND FAIR VALUE DISCLOSURES

The following table sets forth by level, within the fair value hierarchy, the Food Bank's assets at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond fund	\$ 3,688,935	\$ -	\$ -	\$ 3,688,935
Equity fund	<u>2,146,665</u>	<u>-</u>	<u>-</u>	<u>2,146,665</u>
	<u>\$ 5,835,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,835,600</u>

The following table sets forth by level, within the fair value hierarchy, the Food Bank's assets at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond fund	\$ 3,211,102	\$ -	\$ -	\$ 3,211,102
Equity fund	<u>2,430,804</u>	<u>-</u>	<u>-</u>	<u>2,430,804</u>
	<u>\$ 5,641,906</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,641,906</u>

Investment earnings (losses) during the year consist of the following:

	<u>2016</u>	<u>2015</u>
Net realized and unrealized losses	\$ (131,659)	\$ (60,661)
Interest and dividend income	<u>162,830</u>	<u>179,297</u>
	<u>\$ 31,171</u>	<u>\$ 118,636</u>

Details of the investments in marketable securities are as follows as of June 30, 2016:

	<u>Fair market value</u>	<u>Cost</u>	<u>Unrealized appreciation</u>
Bond fund	\$ 3,688,935	\$ 3,569,635	\$ 119,300
Equity fund	<u>2,146,665</u>	<u>1,788,797</u>	<u>357,868</u>
	<u>\$ 5,835,600</u>	<u>\$ 5,358,432</u>	<u>\$ 477,168</u>

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8. INVESTMENTS IN MARKETABLE SECURITIES AND FAIR VALUE DISCLOSURES
 (continued)

Details of the investments in marketable securities are as follows as of June 30, 2015:

	<u>Fair market value</u>	<u>Cost</u>	<u>Unrealized appreciation</u>
Bond fund	\$ 3,211,102	\$ 3,114,138	\$ 96,964
Equity fund	<u>2,430,804</u>	<u>1,942,469</u>	<u>488,335</u>
	<u>\$ 5,641,906</u>	<u>\$ 5,056,607</u>	<u>\$ 585,299</u>

9. LINE OF CREDIT

The Food Bank has a revolving unsecured line of credit for borrowings up to \$1,000,000 bearing interest at one-half percent in excess of the reference rate. The line of credit matures on February 1, 2018. There were no amounts outstanding under this line of credit as of June 30, 2016 and 2015.

Under the terms of the line of credit agreement, the Food Bank is required to comply with certain financial covenants. As of June 30, 2016 and 2015, the Food Bank has met these financial covenants.

10. BOARD DESIGNATED NET ASSETS

Operating reserves

The Food Bank maintains a reserve to cover unexpected expense or revenue needs such as responding to a natural disaster, a significant decrease in private donations, or a change in its government support.

Facilities reserve

The Food Bank maintains a reserve fund to attend to significant long-term building repairs and equipment replacement over the next ten years as well as address future increased capacity or expansion.

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11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Purpose restrictions		
Site development	\$ 376,964	\$ 450,000
Marin County only - FY 16-17	300,000	-
Marin County only - FY 17-18	300,000	-
Food purchase - FY 16-17	177,650	177,650
Capital grants	150,000	281,164
San Francisco nutritious food FY 16-17	106,875	-
Healthy children pantries - FY 16-17	65,000	-
Marin fresh, nutritious food FY 16-17	28,125	-
Food stamp outreach FY 16-17	25,000	-
San Francisco healthy child, pantry FY 16-17	25,000	-
Food purchase - FY 15-16	-	303,650
Marin County only - FY 15-16	-	290,000
Healthy children pantries - FY 15-16	-	87,500
Food stamp outreach - FY 15-16	-	75,000
Brown bag pantries serving seniors - FY 15-16	-	7,500
	<u>1,554,614</u>	<u>1,672,464</u>
Time restrictions		
General support for future periods	<u>210,000</u>	<u>140,000</u>
	<u>210,000</u>	<u>140,000</u>
	<u>\$ 1,764,614</u>	<u>\$ 1,812,464</u>

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11. TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets released from restriction during the year were as follows:

	<u>2016</u>	<u>2015</u>
Marin County only	\$ 420,868	\$ 106,320
San Francisco only	360,881	334,437
Capital grants	281,164	-
Food purchase	230,157	425,351
San Francisco fresh, nutritious food	207,175	-
Healthy children pantries	166,615	235,223
Site development	123,038	37,637
Pantry programs	80,000	94,000
Marin fresh, nutritious food	55,400	-
Food stamp outreach	50,000	50,000
San Francisco healthy child, pantry	50,000	-
Marin pantry program	25,000	-
Advocacy and education	20,010	89,000
Brown bag pantries serving seniors	15,726	94,887
Turkey purchase	10,050	-
Marin healthy child, pantry	10,025	-
Holiday programs	10,000	11,000
Morning snack	7,500	31,200
Home delivered groceries	525	-
Marin senior brown bag	75	-
Nutrition education	-	6,000
	<u>2,124,209</u>	<u>1,515,055</u>
Time restricted	<u>140,000</u>	<u>-</u>
	<u>\$ 2,264,209</u>	<u>\$ 1,515,055</u>

12. SHARED MAINTENANCE FEES

The Food Bank receives fees from participating agencies to assist in the costs of distributing food. These shared maintenance fees are based upon predetermined rates from \$0 to \$0.18 per pound or an average of \$0.005 per pound for the year ended June 30, 2016. Total shared maintenance fees during the years ended June 30, 2016 and 2015, totaled \$228,962 and \$254,120, respectively.

13. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, equipment, supplies and expert services received are recorded as contributions. During the years ended June 30, 2016 and 2015 the following in-kind contributions were received by the Food Bank:

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13. CONTRIBUTIONS IN-KIND (continued)

Contributions in-kind are as follows:

	2016	2015
Contributions in-kind - government		
Food government	<u>\$ 12,377,724</u>	<u>\$ 11,969,112</u>
Contributions in-kind - non-government		
Food - non-government	60,437,289	60,859,304
Outside services	733,188	154,465
Equipment	<u>12,514</u>	<u>40,150</u>
	<u>61,182,991</u>	<u>61,053,919</u>
Special event supplies	<u>53,607</u>	<u>14,700</u>
Total contributions in-kind - non-government	<u>61,236,598</u>	<u>61,068,619</u>
Total contributions in-kind	<u><u>\$ 73,614,322</u></u>	<u><u>\$ 73,037,731</u></u>

The Food Bank also receives donated services that do not require specific expertise but which are nonetheless central to the Food Bank's operations. The Food Bank relies on volunteers from the community to sort, glean, and repack donated food. The estimated value of these services for the years ended June 30, 2016 and 2015, which were based on the estimated dollar value of volunteer time calculated using the San Francisco Minimum Compensation Ordinance (MCO) rate of \$12.25 and \$11.03 per hour, respectively, and Marin County's Living Wage Ordinance rate of \$13.18 and \$12.55 per hour for the years ended June 30, 2016 and 2015, respectively, amounted to \$1,763,778 and \$1,649,691, respectively. In accordance with accounting principles generally accepted in the United States of America, the value of these services is not reflected in the financial statements.

14. RETIREMENT PLAN

The Food Bank provides retirement benefits to its employees through an annuity thrift plan. The Food Bank contributes 3% of salary to the plan for all eligible employees and matches up to an additional 3% for employees who make contributions. Employees are eligible to begin making contributions immediately upon hire regardless of age. Employees are eligible for the employer matching contributions after one year of service. Employer contributions to the plan for the years ended June 30, 2016 and 2015 totaled \$365,502 and \$327,357, respectively.

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15. CONFLICT OF INTEREST

Included among the Food Bank's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Food Bank in the development of policies and programs and in the evaluation of business transactions. The Food Bank has adopted a conflict of interest policy whereby board members are disqualified from participation in the final decisions regarding any action affecting their related company or organization.

16. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Food Bank rents storage facilities under operating leases, which expire at various dates, ending October 31, 2019.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2017	\$ 182,759
2018	40,599
2019	12,000
2020	<u>4,000</u>
	<u>\$ 239,358</u>

Feeding America

The Food Bank has a contractual agreement with Feeding America. The agreement improves the capacity of the Food Bank to provide solutions to the problem of hunger in America. Under the terms of the agreement, the Food Bank is required to maintain certain financial covenants, which they complied with for each of the years ended June 30, 2016 and 2015. The Food Bank can terminate the agreement by a written notice 30 days in advance subject to the termination provisions as defined by the agreement. Feeding America can terminate the agreement with cause as provided by the compliance standards per the agreement.

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16. COMMITMENTS AND CONTINGENCIES (continued)

Grants and contracts

Grants and contracts awarded to San Francisco Food Bank are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Food Bank could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

Legal proceedings

The Food Bank is engaged in certain legal and administrative proceedings in the normal course of its operations. While it is not possible to determine the ultimate outcome of these matters at this time, management believes that any liabilities from such proceedings, or claims that are pending or known to be threatened, will not have a material adverse effect on the Food Bank's financial condition, results of activities or cash flows.