

**San Francisco Food Bank**

dba SF-Marin Food Bank

Financial Statements

June 30, 2017

(With Comparative Totals for 2016)



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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 dba SF-Marine Food Bank (a California nonprofit corporation) (the "Food Bank"), which comprise the statement of financial position as of June 30, 2017, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 dba SF-Marine Food Bank as of June 30, 2017, 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 United States of America.

## Report on Summarized Comparative Information

We have previously audited San Francisco Food Bank dba SF-Marin Food Bank's 2016 financial statements, and our report dated October 24, 2016 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, 2016, 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<sup>LLP</sup>  
San Jose, California

November 8, 2017

San Francisco Food Bank  
 dba SF-Marín Food Bank  
 Statement of Financial Position  
 June 30, 2017  
 (With Comparative Totals for 2016)

	2017	2016
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,195,983	\$ 4,468,762
Investments in marketable securities	1,198,478	835,600
Accounts receivable from affiliated agencies	36,913	41,243
Government grants receivable	1,012,734	639,252
Pledges receivable	1,216,000	834,750
Inventory	3,421,864	3,238,031
Prepaid expenses and other assets	261,707	231,422
Total current assets	11,343,679	10,289,060
Noncurrent assets		
Property and equipment, net	7,502,095	7,419,002
Board designated investments in marketable securities	5,000,000	5,000,000
Pledges receivable, net of current portion	40,000	350,000
Total noncurrent assets	12,542,095	12,769,002
Total assets	\$ 23,885,774	\$ 23,058,062
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 600,359	\$ 545,729
Accrued expenses	1,196,558	1,093,654
Deferred revenue	228,200	287,500
Total current liabilities	2,025,117	1,926,883
Net assets		
Unrestricted		
Undesignated	3,368,039	2,709,532
Inventory	3,421,864	3,238,031
Property and equipment	7,502,095	7,419,002
Board designated - operating reserve	1,000,000	1,000,000
Board designated - facilities reserve	5,000,000	5,000,000
Total unrestricted	20,291,998	19,366,565
Temporarily restricted	1,568,659	1,764,614
Total net assets	21,860,657	21,131,179
Total liabilities and net assets	\$ 23,885,774	\$ 23,058,062

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, 2017  
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Support and revenue				
Support				
Contributions in-kind	\$ 63,151,975	\$ -	\$ 63,151,975	\$ 61,182,991
Contributions	14,174,293	3,069,657	17,243,950	15,201,705
Special events (includes in-kind income of \$71,257 and \$53,607)	<u>700,294</u>	<u>-</u>	<u>700,294</u>	<u>1,017,830</u>
Total support	<u>78,026,562</u>	<u>3,069,657</u>	<u>81,096,219</u>	<u>77,402,526</u>
Revenue				
Governmental support - in-kind food	11,319,141	-	11,319,141	12,377,724
Governmental support - cash	3,795,464	-	3,795,464	3,114,091
Shared maintenance fees	189,419	-	189,419	228,962
Net investment income	490,182	-	490,182	31,171
Other income, net	<u>23,479</u>	<u>-</u>	<u>23,479</u>	<u>100,791</u>
Total revenue	<u>15,817,685</u>	<u>-</u>	<u>15,817,685</u>	<u>15,852,739</u>
Total support and revenue	93,844,247	3,069,657	96,913,904	93,255,265
Net assets released from restriction	<u>3,265,612</u>	<u>(3,265,612)</u>	<u>-</u>	<u>-</u>
Total support, revenue, and net assets released from restriction	<u>97,109,859</u>	<u>(195,955)</u>	<u>96,913,904</u>	<u>93,255,265</u>
Functional expenses				
Program services				
Healthy children pantries	9,202,206	-	9,202,206	9,245,205
Brown bag pantries serving seniors	10,152,599	-	10,152,599	9,330,791
Neighborhood pantries	53,155,308	-	53,155,308	52,089,862
Supplemental food program for seniors	7,586,616	-	7,586,616	8,191,750
Agency distribution	9,415,360	-	9,415,360	9,890,626
Advocacy and education	<u>2,220,200</u>	<u>-</u>	<u>2,220,200</u>	<u>1,899,027</u>
Total program services	<u>91,732,289</u>	<u>-</u>	<u>91,732,289</u>	<u>90,647,261</u>
Support services				
Management and general	1,171,206	-	1,171,206	1,224,273
Fundraising	<u>3,280,931</u>	<u>-</u>	<u>3,280,931</u>	<u>2,888,482</u>
Total support services	<u>4,452,137</u>	<u>-</u>	<u>4,452,137</u>	<u>4,112,755</u>
Total functional expenses	<u>96,184,426</u>	<u>-</u>	<u>96,184,426</u>	<u>94,760,016</u>
Change in net assets	925,433	(195,955)	729,478	(1,504,751)
Net assets, beginning of year	<u>19,366,565</u>	<u>1,764,614</u>	<u>21,131,179</u>	<u>22,635,930</u>
Net assets, end of year	<u>\$ 20,291,998</u>	<u>\$ 1,568,659</u>	<u>\$ 21,860,657</u>	<u>\$ 21,131,179</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, 2017  
(With Comparative Totals for 2016)

	Program Services						Support Services				2017 Total	2016 Total
	Healthy Children Pantries	Brown Bag Pantry 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	\$ 7,540,203	\$ 8,022,926	\$ 44,191,647	\$ 6,455,892	\$ 7,919,490	\$ -	\$ 74,130,158	\$ -	\$ -	\$ -	\$ 74,130,158	\$ 73,212,213
Salaries	560,140	854,280	3,262,438	657,081	648,184	1,200,369	7,182,492	714,326	1,461,887	2,176,213	9,358,705	8,619,308
Food procurement	574,465	591,246	2,729,228	2,130	315,512	-	4,212,581	-	-	-	4,212,581	4,733,848
Employee benefits	102,714	156,634	596,866	120,662	118,571	209,918	1,305,365	129,880	250,183	380,063	1,685,428	1,583,981
Freight and storage	120,299	123,139	684,504	14,907	104,580	-	1,047,429	-	-	-	1,047,429	986,992
Outside services	8,230	38,596	48,818	13,566	9,493	71,097	189,800	155,639	825,340	980,979	1,170,779	892,598
Donated services	2,272	3,608	13,237	2,681	2,705	119,750	144,253	15,391	61,426	76,817	221,070	729,288
Payroll taxes	42,214	64,610	245,872	49,727	48,906	86,279	537,608	53,625	102,925	156,550	694,158	647,060
Depreciation and amortization	35,370	53,271	200,875	42,369	40,271	71,452	443,608	46,808	86,704	133,512	577,120	579,171
Occupancy	60,366	63,492	307,462	32,919	52,517	59,561	576,317	8,576	21,997	30,573	606,890	552,174
Donor relations	9,491	11,592	60,415	1,645	10,542	2,893	96,578	1,763	332,860	334,623	431,201	431,400
Vehicle expenses	36,118	37,347	193,760	24,160	32,210	21,471	345,066	2,865	6,408	9,273	354,339	368,063
Warehouse supplies	29,312	31,222	167,693	88,213	29,358	-	345,798	-	-	-	345,798	346,330
Utilities	27,611	34,655	152,662	23,249	28,293	38,263	304,733	13,316	30,406	43,722	348,455	317,682
Public affairs	1,871	2,811	10,762	2,194	1,773	281,671	301,082	2,250	38,905	41,155	342,237	199,745
Equipment expenses	22,072	24,363	121,325	22,561	21,358	10,008	221,687	5,493	10,488	15,981	237,668	178,151
Insurance	9,287	11,266	53,607	9,893	9,848	5,725	99,626	2,755	6,435	9,190	108,816	98,527
Conferences and training	4,043	6,658	23,161	6,525	4,571	16,903	61,861	7,688	19,994	27,682	89,543	82,852
Miscellaneous	9,563	11,054	54,092	7,673	9,951	3,947	96,280	3,144	8,094	11,238	107,518	68,169
Printed materials and postage	3,239	4,939	18,081	4,361	3,512	13,814	47,946	3,668	8,940	12,608	60,554	55,980
Office/computer supplies	3,300	4,850	18,653	4,177	3,684	7,026	41,690	3,985	7,875	11,860	53,550	55,225
Volunteer program	26	40	150	31	31	53	331	34	64	98	429	21,259
	<u>\$ 9,202,206</u>	<u>\$ 10,152,599</u>	<u>\$ 53,155,308</u>	<u>\$ 7,586,616</u>	<u>\$ 9,415,360</u>	<u>\$ 2,220,200</u>	<u>\$ 91,732,289</u>	<u>\$ 1,171,206</u>	<u>\$ 3,280,931</u>	<u>\$ 4,452,137</u>	<u>\$ 96,184,426</u>	<u>\$ 94,760,016</u>
Percentage of total	<u>9.6 %</u>	<u>10.6 %</u>	<u>55.2 %</u>	<u>7.9 %</u>	<u>9.8 %</u>	<u>2.3 %</u>	<u>95.4 %</u>	<u>1.2 %</u>	<u>3.4 %</u>	<u>4.6 %</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, 2017  
(With Comparative Totals for 2016)

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 729,478	\$ (1,504,751)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	577,120	579,171
Loss on sale/disposal of property and equipment	14,786	2,382
Donated property and equipment	-	(12,514)
In-kind contributions of food (including USDA)	(74,250,046)	(72,815,013)
Distribution of food received in-kind	74,130,158	73,212,213
Net realized and unrealized (gains) and losses on investments	(312,945)	131,659
Changes in operating assets and liabilities		
Accounts receivable from affiliated agencies	4,330	18,959
Government grants receivable	(373,482)	649,931
Pledges receivable	(71,250)	(285,250)
Inventory	(63,945)	132,134
Prepaid expenses and other assets	(30,285)	(13,064)
Accounts payable	54,630	(171,793)
Accrued expenses	102,904	(195,520)
Deferred revenue	(59,300)	(115,062)
Net cash provided by (used in) operating activities	452,153	(386,518)
Cash flows from investing activities		
Purchase of property and equipment	(674,999)	(272,266)
Purchase of investments	(2,726,039)	(1,458,288)
Proceeds from sale of investments	2,676,106	1,132,935
Net cash used in investing activities	(724,932)	(597,619)
Net decrease in cash and cash equivalents	(272,779)	(984,137)
Cash and cash equivalents, beginning of year	4,468,762	5,452,899
Cash and cash equivalents, end of year	\$ 4,195,983	\$ 4,468,762

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, 2017  
(With Comparative Totals for 2016)

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 distributed 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 2016-2017 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 260 pantries, helping nearly 30,000 households each week.

The Food Bank obtains government revenues and support equal to 16% 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.

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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:

- *Healthy 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 2016-2017 fiscal year, the Food Bank expanded its Home-Delivered Grocery Program, providing regular groceries to nearly 1,500 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.

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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 11,500 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.

3. CHANGE IN NET ASSETS

Year ended June 30, 2017

The positive change in net assets for the year ended June 30, 2017 is largely due to temporarily restricted funding that will be spent in subsequent years.

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3. CHANGE IN NET ASSETS (continued)

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.

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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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, 2016, 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. Contributions that are promised in one year but are not expected to be collected until after the end of that year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of any such discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for doubtful contributions and grants receivable is established based on management's judgment including such factors as prior collection history, type of contribution and current aging of contributions and grants receivable. As of June 30, 2017 and 2016 the Food Bank estimates that no reserve for losses on receivables is required.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 products were valued at \$1.73 and \$1.67 per pound for the years ended June 30, 2017 and 2016, respectively. Donated government food was valued at \$1.52 and \$1.67 per pound for the years ended June 30, 2017 and 2016, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

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 \$3,000 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. The Board of Directors designated \$5,000,000 of the total investment balance as a facilities reserve not to be used for operating purposes.

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."

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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.
- *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 30th. 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, 2017 and 2016 was \$382,645 and \$344,486, 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.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Contributions in-kind

Donated non-government products were valued at \$1.73 and \$1.67 per pound for the years ended June 30, 2017 and 2016, respectively. Donated government food was valued at \$1.52 and \$1.67 per pound for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 the Food Bank incurred costs of \$964,972 and \$966,908, respectively, for informational materials and activities that include fundraising appeals. Of these costs, \$842,159 and \$891,345, respectively was allocated to fundraising expense, \$122,813 and \$75,563, respectively was allocated to programs, and no amounts required allocation to management and general expense.



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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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, 2016, 2015, and 2014 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, 2016, 2015, 2014 and 2013 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, 2017 and 2016 totaled \$179,715 and \$12,641, respectively.

Subsequent events

Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2017 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, 2017. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 8, 2017.

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5. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2017	2016
Amounts due in less than one year	\$ 1,216,000	\$ 834,750
Amounts due in one to five years	40,000	350,000
	\$ 1,256,000	\$ 1,184,750

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 products were valued at \$1.73 and \$1.67 per pound for the years ended June 30, 2017 and 2016, respectively. Donated government food was valued at \$1.52 and \$1.67 per pound for the years ended June 30, 2017 and 2016, respectively. This valuation is based on a cost study conducted for Feeding America.

Inventory consists of the following:

	2017	2016
USDA food commodities	\$ 1,876,690	\$ 1,950,963
Donated non-government food	1,291,442	1,097,282
Purchased food	253,732	189,786
	\$ 3,421,864	\$ 3,238,031

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7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Building	\$ 5,403,731	\$ 5,403,731
Land	3,328,645	3,328,645
Vehicles	2,882,077	2,669,040
Building improvements	1,229,775	1,128,899
Office furniture equipment	885,652	969,167
Warehouse equipment	693,557	635,286
Other depreciable property	34,749	38,115
	14,458,186	14,172,883
Accumulated depreciation and amortization	(6,956,091)	(6,753,881)
	\$ 7,502,095	\$ 7,419,002

Depreciation and amortization expense for the year ended June 30, 2017 and 2016 totaled \$577,120 and \$579,171, respectively.

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, 2017:

	Level 1	Level 2	Level 3	Total
Bond fund	\$ 3,733,721	\$ -	\$ -	\$ 3,733,721
Equity fund	2,464,757	-	-	2,464,757
	\$ 6,198,478	\$ -	\$ -	\$ 6,198,478

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:

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

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

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

	<u>2017</u>	<u>2016</u>
Net realized and unrealized gains (losses)	\$ 312,945	\$ (131,659)
Interest and dividend income	<u>177,237</u>	<u>162,830</u>
	<u>\$ 490,182</u>	<u>\$ 31,171</u>

Details of the investments in marketable securities are as follows as of June 30, 2017:

	<u>Fair Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Bond fund	\$ 3,733,721	\$ 3,666,317	\$ 67,404
Equity fund	<u>2,464,757</u>	<u>1,853,522</u>	<u>611,235</u>
	<u>\$ 6,198,478</u>	<u>\$ 5,519,839</u>	<u>\$ 678,639</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>

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, 2017 and 2016.

Under the terms of the line of credit agreement, the Food Bank is required to comply with certain financial covenants. As of June 30, 2017 and 2016, the Food Bank has met these financial covenants.

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10. BOARD DESIGNATED NET ASSETS

Operating reserve

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.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Purpose restrictions		
Pantry programs	\$ 491,740	\$ -
Advocacy and education	300,000	-
San Francisco nutritious food FY17-18	108,300	-
Capital grants	63,250	150,000
Site development	58,649	376,964
Brown bag pantries serving seniors	35,000	-
Special projects	35,000	-
Marin fresh, nutritious food FY 16-17	28,500	28,125
Food stamp outreach FY17-18	25,000	-
College pantry	25,000	-
Marin capital grants disaster	3,220	-
Marin County only FY16-17	-	300,000
Marin County only FY 17-18	300,000	300,000
Food purchase FY 16-17	-	177,650
San Francisco nutritious food FY 16-17	-	106,875
Healthy children pantries FY 16-17	-	65,000
Food stamp outreach FY 16-17	-	25,000
San Francisco healthy child, pantry FY 16-17	-	25,000
	<u>1,473,659</u>	<u>1,554,614</u>
Time restrictions		
General support for future periods	<u>95,000</u>	<u>210,000</u>
	<u>95,000</u>	<u>210,000</u>
	<u>\$ 1,568,659</u>	<u>\$ 1,764,614</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>2017</u>	<u>2016</u>
Marin County only	\$ 361,009	\$ 420,868
Capital grants	485,923	281,164
Pantry programs	421,010	80,000
Healthy children pantries	418,861	166,615
Site development	368,316	123,038
Food purchase	273,413	230,157
San Francisco only	267,508	360,881
San Francisco fresh, nutritious food	225,435	207,175
Brown bag pantries serving seniors	78,809	15,726
Food stamp outreach	75,000	50,000
Marin fresh, nutritious food	61,968	55,400
San Francisco healthy child, pantry	25,000	50,000
Advocacy and education	10,030	20,010
Holiday programs	10,000	10,000
Volunteer engagement	10,000	-
Marin capital grants disaster	6,780	-
Marin healthy child, pantry	6,000	10,025
Morning snack	500	7,500
Nutrition education	50	-
Marin pantry program	-	25,000
Turkey purchase	-	10,050
Home delivered groceries	-	525
Marin senior brown bag	-	75
	<u>3,105,612</u>	<u>2,124,209</u>
Time restricted	<u>160,000</u>	<u>140,000</u>
	<u>\$ 3,265,612</u>	<u>\$ 2,264,209</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 \$0.004 per pound for the year ended June 30, 2017. Total shared maintenance fees during the years ended June 30, 2017 and 2016, totaled \$189,419 and \$228,962, respectively.

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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, 2017 and 2016 the following in-kind contributions were received by the Food Bank:

Contributions in-kind are as follows:

	2017	2016
Governmental support - in-kind food		
Food - government	\$ 11,319,141	\$ 12,377,724
Contributions in-kind - non-government		
Food - non-government	62,930,905	60,437,289
Outside services	221,070	733,188
Equipment	-	12,514
	63,151,975	61,182,991
Special event supplies	71,257	53,607
Total contributions in-kind - non-government	63,223,232	61,236,598
Total contributions in-kind	\$ 74,542,373	\$ 73,614,322

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, 2017 and 2016, which were based on the estimated dollar value of volunteer time calculated using the San Francisco Minimum Compensation Ordinance (MCO) rate of \$13.00 and \$12.25 per hour, respectively, and Marin County's Living Wage Ordinance rate of \$13.80 and \$13.18 per hour for the years ended June 30, 2017 and 2016, respectively, amounted to \$1,813,252 and \$1,763,778, 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, 2017 and 2016 totaled \$424,041 and \$365,502, 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>	
2018	\$ 162,000
2019	12,000
2020	<u>4,000</u>
	<u>\$ 178,000</u>

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.