

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Consolidated Financial Statements
June 30, 2018
(With Comparative Totals for 2017)



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of San Francisco Food Bank dba San Francisco-Marin Food Bank and Subsidiary (the "Food Bank"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Francisco Food Bank dba San Francisco-Marin Food Bank and Subsidiary as of June 30, 2018, and the changes in their net assets and their 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 San Francisco-Marín Food Bank's 2017 financial statements, and our report dated November 8, 2017 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, 2017, 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

November 8, 2018

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Consolidated Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,646,318	\$ 4,195,983
Investments in marketable securities	1,802,612	1,198,478
Accounts receivable from affiliated agencies	38,054	36,913
Government grants receivable	1,072,516	1,012,734
Pledges receivable, current portion	852,950	1,216,000
Inventory	3,517,117	3,421,864
Prepaid expenses and other assets	376,051	261,707
Total current assets	10,305,618	11,343,679
Noncurrent assets		
Property and equipment, net	16,264,891	7,502,095
Board designated investments in marketable securities	5,000,000	5,000,000
Pledges receivable, net of current portion	923,500	40,000
Total noncurrent assets	22,188,391	12,542,095
Total assets	\$ 32,494,009	\$ 23,885,774
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 692,077	\$ 600,359
Accrued expenses	1,113,396	1,196,558
Deferred revenue	137,500	228,200
Note payable, current portion	147,389	-
Total current liabilities	2,090,362	2,025,117
Note payable, net of current portion	5,792,320	-
Total liabilities	7,882,682	2,025,117
Net assets		
Unrestricted		
Undesignated	3,547,479	3,368,039
Inventory	3,517,117	3,421,864
Property and equipment	10,325,182	7,502,095
Board designated - operating reserve	1,000,000	1,000,000
Board designated - facilities reserve	5,000,000	5,000,000
Total unrestricted	23,389,778	20,291,998
Temporarily restricted	1,221,549	1,568,659
Total net assets	24,611,327	21,860,657
Total liabilities and net assets	\$ 32,494,009	\$ 23,885,774

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

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Consolidated Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total</u>
Support and revenue				
Support				
Contributions in-kind	\$ 63,778,227	\$ -	\$ 63,778,227	\$ 63,151,975
Contributions	13,999,165	5,935,152	19,934,317	17,243,950
Special events (includes in-kind income of \$64,224 and \$71,257)	<u>691,994</u>	<u>-</u>	<u>691,994</u>	<u>700,294</u>
Total support	<u>78,469,386</u>	<u>5,935,152</u>	<u>84,404,538</u>	<u>81,096,219</u>
Revenue				
Governmental support - in-kind food	10,373,877	-	10,373,877	11,319,141
Governmental support - cash	4,642,203	-	4,642,203	3,795,464
Shared maintenance fees	209,228	-	209,228	189,419
Net investment income	281,188	-	281,188	490,182
Other income, net	<u>91,714</u>	<u>-</u>	<u>91,714</u>	<u>23,479</u>
Total revenue	<u>15,598,210</u>	<u>-</u>	<u>15,598,210</u>	<u>15,817,685</u>
Total support and revenue	94,067,596	5,935,152	100,002,748	96,913,904
Net assets released from restriction	<u>6,282,262</u>	<u>(6,282,262)</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restriction	<u>100,349,858</u>	<u>(347,110)</u>	<u>100,002,748</u>	<u>96,913,904</u>
Functional expenses				
Program services				
Healthy children pantries	8,730,330	-	8,730,330	9,202,206
Brown bag pantries serving seniors	10,690,496	-	10,690,496	10,152,599
Neighborhood pantries	52,633,895	-	52,633,895	53,155,308
Supplemental food program for seniors	8,134,456	-	8,134,456	7,586,616
Agency distribution	10,140,139	-	10,140,139	9,415,360
Advocacy and education	<u>2,130,932</u>	<u>-</u>	<u>2,130,932</u>	<u>2,220,200</u>
Total program services	<u>92,460,248</u>	<u>-</u>	<u>92,460,248</u>	<u>91,732,289</u>
Support services				
Management and general	1,266,544	-	1,266,544	1,171,206
Fundraising	<u>3,525,286</u>	<u>-</u>	<u>3,525,286</u>	<u>3,280,931</u>
Total support services	<u>4,791,830</u>	<u>-</u>	<u>4,791,830</u>	<u>4,452,137</u>
Total functional expenses	<u>97,252,078</u>	<u>-</u>	<u>97,252,078</u>	<u>96,184,426</u>
Change in net assets (See note 3)	3,097,780	(347,110)	2,750,670	729,478
Net assets, beginning of year	<u>20,291,998</u>	<u>1,568,659</u>	<u>21,860,657</u>	<u>21,131,179</u>
Net assets, end of year	<u>\$ 23,389,778</u>	<u>\$ 1,221,549</u>	<u>\$ 24,611,327</u>	<u>\$ 21,860,657</u>

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

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	Program Services						Support Services				2018 Total	2017 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	\$ 6,958,927	\$ 8,267,964	\$ 42,965,961	\$ 6,873,128	\$ 8,474,793	\$ -	\$ 73,540,773	\$ -	\$ -	\$ -	\$ 73,540,773	\$ 74,130,158
Salaries	602,770	950,259	3,403,932	726,264	699,561	1,097,102	7,479,888	758,306	1,443,823	2,202,129	9,682,017	9,358,705
Food procurement	586,039	695,094	3,009,208	4,225	354,916	-	4,649,482	-	2,619	2,619	4,652,101	4,212,581
Employee benefits	111,491	175,186	627,300	134,626	129,099	193,229	1,370,931	139,588	246,256	385,844	1,756,775	1,685,428
Outside services	11,247	25,910	64,086	17,263	12,851	94,186	225,543	162,773	998,397	1,161,170	1,386,713	1,170,779
Freight and storage	137,004	152,768	771,068	12,782	124,601	-	1,198,223	-	-	-	1,198,223	1,047,429
Payroll taxes	44,960	70,744	253,079	54,465	52,150	77,668	553,066	56,574	99,490	156,064	709,130	694,158
Occupancy	55,185	65,748	285,427	40,224	52,894	71,410	570,888	15,128	35,646	50,774	621,662	606,890
Depreciation and amortization	41,415	58,883	215,997	46,193	44,013	68,097	474,598	50,824	79,684	130,508	605,106	577,120
Marketing and events	10,092	15,546	74,863	3,402	12,800	5,045	121,748	3,480	453,973	457,453	579,201	431,201
Vehicle expenses	41,074	45,936	224,144	29,507	40,534	20,482	401,677	3,209	5,726	8,935	410,612	354,339
Utilities	31,343	41,682	176,076	24,091	33,451	40,796	347,439	14,603	30,076	44,679	392,118	348,455
Warehouse supplies	26,360	31,292	158,846	98,271	29,828	-	344,597	-	-	-	344,597	345,798
Public affairs	1,114	1,746	6,251	1,334	1,295	308,216	319,956	1,724	11,092	12,816	332,772	342,237
Donated services	6,511	9,753	34,215	7,388	7,256	88,430	153,553	33,394	68,491	101,885	255,438	221,070
Equipment expenses	20,356	23,672	110,971	14,935	20,292	12,940	203,166	6,985	11,848	18,833	221,999	237,668
Miscellaneous	13,235	16,927	78,594	13,808	15,202	5,340	143,106	3,903	6,710	10,613	153,719	107,518
Insurance	10,197	13,553	59,931	11,567	11,723	5,729	112,700	3,199	6,870	10,069	122,769	108,816
Conferences and training	3,422	5,563	19,863	5,054	3,980	13,251	51,133	4,472	8,644	13,116	64,249	89,543
Donated rent	6,126	7,419	35,357	6,779	7,307	-	62,988	-	-	-	62,988	-
Printed materials and postage	3,179	5,130	16,988	4,521	3,530	14,117	47,465	3,669	7,139	10,808	58,273	60,554
Office/computer supplies	3,715	5,364	19,832	4,050	4,016	7,241	44,218	4,227	7,402	11,629	55,847	53,550
Interest	4,196	3,793	19,961	137	3,630	7,048	38,765	-	-	-	38,765	-
Volunteer services	372	564	1,945	442	417	605	4,345	486	1,400	1,886	6,231	429
	<u>\$ 8,730,330</u>	<u>\$ 10,690,496</u>	<u>\$ 52,633,895</u>	<u>\$ 8,134,456</u>	<u>\$ 10,140,139</u>	<u>\$ 2,130,932</u>	<u>\$ 92,460,248</u>	<u>\$ 1,266,544</u>	<u>\$ 3,525,286</u>	<u>\$ 4,791,830</u>	<u>\$ 97,252,078</u>	<u>\$ 96,184,426</u>
Percentage of total	<u>9.0 %</u>	<u>11.0 %</u>	<u>54.1 %</u>	<u>8.4 %</u>	<u>10.4 %</u>	<u>2.2 %</u>	<u>95.1 %</u>	<u>1.3 %</u>	<u>3.6 %</u>	<u>4.9 %</u>	<u>100.0 %</u>	

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

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 2,750,670	\$ 729,478
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	605,106	577,120
Loss on sale/disposal of property and equipment	8,852	14,786
In-kind contributions of food (including USDA)	(73,659,583)	(74,250,046)
Distribution of food received in-kind	73,540,773	74,130,158
Net realized and unrealized gains on investments	(97,183)	(312,945)
Changes in operating assets and liabilities		
Accounts receivable from affiliated agencies	(1,141)	4,330
Government grants receivable	(59,782)	(373,482)
Pledges receivable	(520,450)	(71,250)
Inventory	(189,655)	(63,945)
Prepaid expenses and other assets	(114,344)	(30,285)
Accounts payable	91,718	54,630
Accrued expenses	(83,162)	102,904
Deferred revenue	(90,700)	(59,300)
Net cash provided by operating activities	2,181,119	452,153
Cash flows from investing activities		
Purchase of property and equipment	(9,376,758)	(674,999)
Purchase of investments	(4,119,616)	(2,726,039)
Proceeds from sale of investments	3,825,881	2,676,106
Net cash used in investing activities	(9,670,493)	(724,932)
Cash flows from financing activities		
Proceeds from note payable	6,000,000	-
Principal payments on note payable	(60,291)	-
Net cash provided by financing activities	5,939,709	-
Net decrease in cash and cash equivalents	(1,549,665)	(272,779)
Cash and cash equivalents, beginning of year	4,195,983	4,468,762
Cash and cash equivalents, end of year	\$ 2,646,318	\$ 4,195,983

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 38,765	\$ -
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The accompanying notes are an integral part of these consolidated financial statements.

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Notes to Consolidated Financial Statements
June 30, 2018
(With Comparative Totals for 2017)

1. NATURE OF OPERATIONS

The San Francisco Food Bank (dba "San Francisco-Marin Food Bank", referred to hereafter as "Food Bank"), was founded in 1987 and is the largest distributor of food to low-income families and individuals in San Francisco and Marin Counties. The Food Bank is a lifeline to healthy, nourishing food that empowers kids to learn, adults to focus on work, and seniors to stay healthy and active. The Food Bank works in many ways to address hunger - from its flagship pantry network and home-delivered groceries program, to nutrition-education classes and CalFresh (food stamps) enrollment. Every week, 140,000 people count on the Food Bank for food assistance. The Food Bank meets more of the community need in its service area than any other urban food bank in the country according to Feeding America's annual Meals Distributed as % of Meal Gap in Service Area report.

Last year, the Food Bank distributed nearly 48 million pounds of food. The Food Bank recovers fresh produce and pantry staples from farmers and manufacturers who produce more food than they can sell; over 60% of food distributed is fresh fruits and vegetables.

Volunteers are essential to the Food Bank model. As an alternative to hired staff, more than 38,000 volunteers are engaged each year to sort, repack, and get produce out the door as quickly as possible. Volunteers handle nearly 30% of food distributed and also assist in the field, bringing food to pantries, partner agencies, or directly to participants.

Even with these efforts, there is still a staggering 1 in 4 neighbors in need of food assistance in San Francisco and Marin Counties. Currently the Food Bank serves about half of those in need. However, hunger is a solvable problem. More food is available, and the Food Bank continues to innovate and grow its services to provide food and nutrition programs to tens of thousands more people.

The Food Bank engaged over 23,500 donors in FY17-18, who contributed over \$17.5 million to fuel operations. In addition, the Food Bank obtains government revenue equal to 15% of total support and revenue 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.

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Notes to Consolidated Financial Statements
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(With Comparative Totals for 2017)

1. NATURE OF OPERATIONS (continued)

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.

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.

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Notes to Consolidated Financial Statements
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2. PROGRAM SERVICES (continued)

Pantry Programs (continued)

- *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 2017-2018 fiscal year, the Food Bank expanded its Home-Delivered Groceries Program, providing regular groceries to over 2,700 senior 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.
- *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.
- *Food Pharmacies* - In 2016, the Food Bank began collaborating with health clinics to connect patients with free, healthy groceries, nutrition education, and CalFresh (food stamps). Food Pharmacies integrate good nutrition with healthcare. They connect patients at the San Francisco Health Network's community health clinics with free, nutritious groceries; nutrition education; cooking demonstrations; and other food resources such as CalFresh — all at the same clinics where they see their physicians and receive medical care, making healthy eating and food access a core aspect of someone's health care. Food Pharmacy participants also take part in a 12-week curriculum, receive blood pressure checks, and personalized counseling on how healthy eating can support participants' health goals. The Food Bank operates four Food Pharmacies in San Francisco.
- *College Pantries* - In 2017, the Food Bank partnered with San Francisco State University and College of Marin to connect low-income students with healthy food and CalFresh right on campus. When low-income college students can focus on their studies, instead of worrying about how to afford their next meal, they are much more likely to succeed. Eligible students can access free, fresh produce and other groceries on a weekly basis. By providing food right on campus, the Food Bank makes it easy for students to drop in, pick up food, and get back to the hard work of pursuing their education.

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2. PROGRAM SERVICES (continued)

Supplemental Food Program for Seniors

This program provides a monthly box of nutritious USDA food to more than 11,800 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, 2018

The positive change in net assets for the year ended June 30, 2018 is largely due to funds raised by the Food Bank's capital campaign. A significant portion of these funds were used to purchase a new facility in Marin County (San Rafael) resulting in an increase in the value of property and equipment on the Consolidated Statement of Financial Position. Related to the purchase of this new facility, the mortgage on the property has increased the Food Bank's liabilities. The ongoing capital campaign is expected to retire this debt.

Year ended June 30, 2017

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

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of San Francisco Food Bank and its wholly-owned subsidiary End Hunger, LLC (a California limited liability company). End Hunger, LLC was formed for the purpose of acquiring and holding a building located at 2550 Kerner Boulevard, San Rafael, California. All material intercompany transactions have been eliminated upon consolidation.

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.

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, 2017, from which the summarized information was derived.

San Francisco Food Bank
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Accounts receivable represent amounts due from affiliated agencies and are stated at the amount the Food Bank expects to collect for shared maintenance fees. Government grants receivable represent grants from government agencies. Pledges receivable represent contributions receivable. 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 if the discount amount is considered material. 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 accounts, grants and or pledges receivable is established based on management's judgment including such factors as prior collection history, type of receivable and current aging of receivable. 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, 2018 and 2017 the Food Bank estimates that no reserve for losses on receivables is required.

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 \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. Donated government food was valued at \$1.57 and \$1.52 per pound for the years ended June 30, 2018 and 2017, 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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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 \$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 consolidated 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."

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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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 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, 2018 and 2017 was \$405,314 and \$382,645, 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 products were valued at \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. Donated government food was valued at \$1.57 and \$1.52 per pound for the years ended June 30, 2018 and 2017, 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 14.

Allocation of functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the consolidated 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, 2018 and 2017 the Food Bank incurred costs of \$1,066,543 and \$964,972, respectively, for informational materials and activities that include fundraising appeals. Of these costs, \$951,898 and \$842,159, respectively was allocated to fundraising expense, \$114,645 and \$122,813, 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, 2017, 2016, and 2015 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, 2017, 2016, 2015 and 2014 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, 2018 and 2017 totaled \$161,669 and \$179,715, respectively.

Subsequent events

Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2018 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, 2018. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 8, 2018.

5. PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2018	2017
Amounts due in less than one year	\$ 852,950	\$ 1,216,000
Amounts due in one to five years	923,500	40,000
	\$ 1,776,450	\$ 1,256,000

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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 products were valued at \$1.68 and \$1.73 per pound for the years ended June 30, 2018 and 2017, respectively. Donated government food was valued at \$1.57 and \$1.52 per pound for the years ended June 30, 2018 and 2017, respectively. This valuation is based on a cost study conducted for Feeding America.

Inventory consists of the following:

	<u>2018</u>	<u>2017</u>
USDA food commodities	\$ 1,258,026	\$ 1,876,690
Donated non-government food	2,028,918	1,291,442
Purchased food	<u>230,173</u>	<u>253,732</u>
	<u>\$ 3,517,117</u>	<u>\$ 3,421,864</u>

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Building	\$ 11,736,066	\$ 5,403,731
Land	5,459,568	3,328,645
Vehicles	3,405,183	2,882,077
Building improvements	1,305,751	1,229,775
Office furniture equipment	954,761	885,652
Warehouse equipment	805,814	693,557
Other depreciable property	<u>34,749</u>	<u>34,749</u>
	23,701,892	14,458,186
Accumulated depreciation and amortization	<u>(7,437,001)</u>	<u>(6,956,091)</u>
	<u>\$ 16,264,891</u>	<u>\$ 7,502,095</u>

Depreciation and amortization expense for the year ended June 30, 2018 and 2017 totaled \$605,106 and \$577,120, 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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond fund	\$ 4,266,647	\$ -	\$ -	\$ 4,266,647
Equity fund	<u>2,535,965</u>	<u>-</u>	<u>-</u>	<u>2,535,965</u>
	<u>\$ 6,802,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,802,612</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, 2017:

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

Investment earnings during the year consist of the following:

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gains	\$ 97,183	\$ 312,945
Interest and dividend income	<u>184,005</u>	<u>177,237</u>
	<u>\$ 281,188</u>	<u>\$ 490,182</u>

Details of the investments in marketable securities are as follows as of June 30, 2018:

	<u>Fair Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Bond fund	\$ 4,266,647	\$ 3,092,053	\$ 1,174,594
Equity fund	<u>2,535,965</u>	<u>1,238,395</u>	<u>1,297,570</u>
	<u>\$ 6,802,612</u>	<u>\$ 4,330,448</u>	<u>\$ 2,472,164</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, 2017:

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

9. NOTE PAYABLE

San Francisco Food Bank filed and incorporated a limited liability company, "End Hunger, LLC" dated December 21, 2017 for the purpose of acquiring and holding a building located at 2550 Kerner Boulevard, San Rafael, California from Siesta Investments, LLC. Once the entity was incorporated, End Hunger, LLC entered into an operating agreement with San Francisco Food Bank dated December 21, 2017.

On January 4, 2018, End Hunger, LLC entered into a promissory note agreement with Siesta Investments, LLC for the principal sum of \$6,000,000. The note is secured by the property and bears interest at 2.6%. Payments are due in monthly installments of \$25,006 until December 1, 2032. The note matures on January 4, 2033 at which time a final payment in the aggregate amount of the then outstanding and unpaid loan amount, together with all accrued and unpaid interest is payable in full.

The future maturities of the note payable are as follows:

<u>Year ending June 30,</u>			
2019		\$	147,389
2020			151,267
2021			155,247
2022			159,332
2023			163,524
Thereafter			5,162,950
		\$	5,939,709

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10. 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, 2020. There were no amounts outstanding under this line of credit as of June 30, 2018 and 2017.

Under the terms of the line of credit agreement, the Food Bank is required to comply with certain financial covenants. As of June 30, 2018 and 2017, the Food Bank has met these financial covenants.

11. 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.

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12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Purpose restrictions		
Marin County only	\$ 330,000	\$ 300,000
Site development	131,618	58,649
San Francisco fresh, nutritious food	125,400	108,300
Pantry programs	75,000	491,740
Food stamp outreach	50,000	25,000
Marin fresh, nutritious food	33,000	28,500
Special projects	28,528	35,000
Healthy children pantries	25,000	-
Fresh, nutritious food	11,580	-
Advocacy and education	-	300,000
Capital grants	-	63,250
Brown bag pantries serving seniors	-	35,000
College pantry	-	25,000
Marin capital grants disaster	-	3,220
	<u>810,126</u>	<u>1,473,659</u>
Time restrictions		
General support for future periods	411,423	95,000
	<u>411,423</u>	<u>95,000</u>
	<u>\$ 1,221,549</u>	<u>\$ 1,568,659</u>

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12. TEMPORARILY RESTRICTED NET ASSETS (continued)

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

	<u>2018</u>	<u>2017</u>
Site development	\$ 2,944,028	\$ 368,316
Marin County only	732,910	361,009
Pantry programs	591,740	421,010
Trucking capacity	367,917	-
Healthy children pantries	326,603	418,861
San Francisco only	306,525	267,508
Capital grants	163,750	485,923
Advocacy and education	300,000	10,030
San Francisco fresh, nutritious food	108,300	225,435
SF food stamps outreach	75,000	-
Marin fresh, nutritious food	61,500	61,968
Food purchase	53,814	273,413
Holiday programs	35,000	10,000
College Pantry	25,050	-
Food stamp outreach	25,000	75,000
Fresh, nutritious food	17,613	-
Morning snack	15,000	500
Volunteer engagement	10,000	10,000
Disaster relief	10,000	-
Special projects	6,472	-
Home delivered groceries	3,670	-
Marin capital grants disaster	3,220	6,780
Trucking costs	2,950	-
SF senior brown bag	1,000	-
Marin senior brown bag	200	-
Brown bag pantries serving seniors	-	78,809
San Francisco healthy child, pantry	-	25,000
Marin healthy child, pantry	-	6,000
Nutrition education	-	50
	<u>6,187,262</u>	<u>3,105,612</u>
Time restricted	<u>95,000</u>	<u>160,000</u>
	<u>\$ 6,282,262</u>	<u>\$ 3,265,612</u>

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13. 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, 2018. Total shared maintenance fees during the years ended June 30, 2018 and 2017, totaled \$209,228 and \$189,419, respectively.

14. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, equipment, rent and expert services received are recorded as contributions. During the years ended June 30, 2018 and 2017 the following in-kind contributions were received by the Food Bank:

Contributions in-kind are as follows:

	2018	2017
Government support - in-kind food		
Food - government	\$ 10,373,877	\$ 11,319,141
Contributions in-kind - non-government		
Food - non-government	63,285,706	62,930,905
Outside services	255,438	221,070
Donated rent	62,988	-
Equipment	6,846	-
	63,610,978	63,151,975
Special events supplies	64,224	71,257
Total contributions in-kind - non-government	63,675,202	63,223,232
Total contributions in-kind	\$ 74,049,079	\$ 74,542,373

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, 2018 and 2017, which were based on the estimated dollar value of volunteer time calculated using the San Francisco Minimum Compensation Ordinance (MCO) rate of \$14.00 and \$13.00 per hour, respectively, and Marin County's Living Wage Ordinance rate of \$14.20 and \$13.80 per hour for the years ended June 30, 2018 and 2017, respectively, amounted to \$1,615,152 and \$1,813,252, 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.

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15. 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, 2018 and 2017 totaled \$451,633 and \$424,041, respectively.

16. 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.

17. 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>	
2019	\$ 12,000
2020	<u>4,000</u>
	<u>\$ 16,000</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.

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17. COMMITMENTS AND CONTINGENCIES (continued)

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.