

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 26



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 (the "Food Bank"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 as of June 30, 2019, 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.



An independent firm
associated with Moore
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Change in Accounting Principle

As described in Note 4 to the consolidated financial statements, the Food Bank has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited San Francisco Food Bank dba San Francisco-Marin Food Bank's 2018 consolidated financial statements, and our report dated November 8, 2018 expressed an unmodified opinion on those audited consolidated financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, adjusted for the change in accounting principle discussed above, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.



Armanino^{LLP}
San Jose, California

November 14, 2019

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Consolidated Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,011,984	\$ 2,646,318
Investments in marketable securities	1,487,067	1,802,612
Accounts receivable from affiliated agencies	2,730	38,054
Government grants receivable	873,308	1,072,516
Pledges receivable, current portion	4,598,139	852,950
Inventory	4,810,228	3,517,117
Prepaid expenses and other assets	<u>567,161</u>	<u>376,051</u>
Total current assets	<u>17,350,617</u>	<u>10,305,618</u>
Noncurrent assets		
Property and equipment, net	16,379,565	16,264,891
Board designated investments in marketable securities	5,000,000	5,000,000
Pledges receivable, net of current portion	<u>2,690,997</u>	<u>923,500</u>
Total noncurrent assets	<u>24,070,562</u>	<u>22,188,391</u>
Total assets	<u>\$ 41,421,179</u>	<u>\$ 32,494,009</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 682,149	\$ 692,077
Accrued expenses	1,261,191	1,113,396
Deferred revenue	62,500	137,500
Note payable, current portion	<u>151,267</u>	<u>147,389</u>
Total current liabilities	2,157,107	2,090,362
Note payable, net of current portion	<u>5,641,053</u>	<u>5,792,320</u>
Total liabilities	<u>7,798,160</u>	<u>7,882,682</u>
Net assets		
Without donor restrictions		
Undesignated	3,490,855	3,547,479
Inventory	4,810,228	3,517,117
Property and equipment	10,587,245	10,325,182
Board designated - operating reserve	1,000,000	1,000,000
Board designated - facilities reserve	<u>5,000,000</u>	<u>5,000,000</u>
Total without donor restrictions	24,888,328	23,389,778
With donor restrictions	<u>8,734,691</u>	<u>1,221,549</u>
Total net assets	<u>33,623,019</u>	<u>24,611,327</u>
Total liabilities and net assets	<u>\$ 41,421,179</u>	<u>\$ 32,494,009</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 Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenue				
Support				
Contributions in-kind	\$ 53,828,175	\$ -	\$ 53,828,175	\$ 63,778,227
Contributions	14,833,954	10,600,111	25,434,065	19,934,317
Special events (includes in-kind income of \$32,573 and \$64,224)	<u>700,972</u>	<u>4,774</u>	<u>705,746</u>	<u>691,994</u>
Total support	<u>69,363,101</u>	<u>10,604,885</u>	<u>79,967,986</u>	<u>84,404,538</u>
Revenue				
Governmental support - in-kind food	19,706,081	-	19,706,081	10,373,877
Governmental support - cash	5,229,661	-	5,229,661	4,642,203
Shared maintenance fees	187,796	-	187,796	209,228
Net investment income	438,446	-	438,446	281,188
Other income, net	<u>61,142</u>	<u>-</u>	<u>61,142</u>	<u>91,714</u>
Total revenue	<u>25,623,126</u>	<u>-</u>	<u>25,623,126</u>	<u>15,598,210</u>
Total support and revenue	94,986,227	10,604,885	105,591,112	100,002,748
Net assets released from restriction	<u>3,091,743</u>	<u>(3,091,743)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>98,077,970</u>	<u>7,513,142</u>	<u>105,591,112</u>	<u>100,002,748</u>
Functional expenses				
Program services				
Healthy children pantries	8,551,731	-	8,551,731	8,730,330
Brown bag pantries serving seniors	10,974,081	-	10,974,081	10,690,496
Neighborhood pantries	51,535,970	-	51,535,970	52,633,895
Supplemental food program for seniors	7,663,203	-	7,663,203	8,134,456
Agency distribution	9,486,244	-	9,486,244	10,140,139
Advocacy and education	<u>2,553,532</u>	<u>-</u>	<u>2,553,532</u>	<u>2,130,932</u>
Total program services	<u>90,764,761</u>	<u>-</u>	<u>90,764,761</u>	<u>92,460,248</u>
Support services				
Management and general	1,913,050	-	1,913,050	1,266,544
Fundraising	<u>3,901,609</u>	<u>-</u>	<u>3,901,609</u>	<u>3,525,286</u>
Total support services	<u>5,814,659</u>	<u>-</u>	<u>5,814,659</u>	<u>4,791,830</u>
Total functional expenses	<u>96,579,420</u>	<u>-</u>	<u>96,579,420</u>	<u>97,252,078</u>
Change in net assets (See note 3)	1,498,550	7,513,142	9,011,692	2,750,670
Net assets, beginning of year	<u>23,389,778</u>	<u>1,221,549</u>	<u>24,611,327</u>	<u>21,860,657</u>
Net assets, end of year	<u>\$ 24,888,328</u>	<u>\$ 8,734,691</u>	<u>\$ 33,623,019</u>	<u>\$ 24,611,327</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, 2019
(With Comparative Totals for 2018)

	Program Services						Support Services				2019 Total	2018 Total
	Healthy Children Pantries	Brown Bag Pantry Serving Seniors	Neighborhood Pantry	Supplemental Food Program For Seniors	Agency Distribution	Advocacy and Education	Total Program Services	Management and General	Fundraising	Total Support Services		
Donated food	\$ 6,787,146	\$ 8,401,649	\$ 41,658,948	\$ 6,286,349	\$ 7,809,795	\$ -	\$ 70,943,887	\$ -	\$ -	\$ -	\$ 70,943,887	\$ 73,540,773
Salaries	646,025	1,043,048	3,714,834	779,200	729,691	1,286,879	8,199,677	1,049,409	1,774,632	2,824,041	11,023,718	9,682,017
Food procurement	515,077	642,802	2,698,758	691	330,127	-	4,187,455	-	-	-	4,187,455	4,652,101
Employee benefits	109,138	177,595	629,281	133,717	123,419	209,403	1,382,553	178,403	270,589	448,992	1,831,545	1,756,775
Donated services	60,017	101,108	353,080	70,403	69,927	178,162	832,697	276,377	74,436	350,813	1,183,510	255,438
Outside services	15,197	55,431	90,592	22,759	17,479	71,830	273,288	172,928	693,972	866,900	1,140,188	1,386,713
Freight and storage	117,822	144,080	689,132	14,588	99,656	-	1,065,278	-	-	-	1,065,278	1,198,223
Payroll taxes	50,270	81,282	288,033	61,395	56,690	95,853	633,523	82,055	124,148	206,203	839,726	709,130
Depreciation and amortization	51,138	69,204	279,647	42,934	48,876	97,382	589,181	72,355	116,585	188,940	778,121	605,106
Marketing and events	6,158	9,955	47,773	680	8,165	1,092	73,823	910	650,245	651,155	724,978	579,201
Vehicle expenses	50,472	57,833	283,186	35,279	47,053	16,510	490,333	4,324	6,639	10,963	501,296	410,612
Public affairs	1,356	2,195	7,812	1,699	1,526	414,790	429,378	2,157	39,073	41,230	470,608	332,772
Utilities	25,713	36,140	144,148	24,744	26,492	41,178	298,415	18,965	37,509	56,474	354,889	392,118
Occupancy	24,228	30,558	125,440	20,425	22,478	46,566	269,695	14,207	41,501	55,708	325,403	621,662
Warehouse supplies	23,681	28,258	139,092	106,430	24,802	520	322,783	-	-	-	322,783	344,597
Equipment expenses	22,761	27,608	127,876	16,872	22,094	16,241	233,452	7,748	11,666	19,414	252,866	221,999
Interest	11,159	14,796	59,819	8,952	10,760	22,456	127,942	6,828	17,914	24,742	152,684	38,765
Insurance	11,755	16,437	69,829	13,347	12,984	7,996	132,348	4,977	9,245	14,222	146,570	122,769
Miscellaneous	11,325	14,567	65,535	7,992	12,219	4,831	116,469	3,984	6,006	9,990	126,459	153,719
Conferences and training	3,480	7,704	20,083	4,739	3,816	16,557	56,379	5,518	8,465	13,983	70,362	64,249
Office/computer supplies	4,474	6,757	25,032	5,595	4,741	9,491	56,090	6,760	10,268	17,028	73,118	55,847
Donated rent	-	-	-	-	-	-	-	-	-	-	-	62,988
Printed materials and postage	3,118	4,760	16,895	4,194	3,232	15,387	47,586	4,822	8,241	13,063	60,649	58,273
Volunteer services	221	314	1,145	219	222	408	2,529	323	475	798	3,327	6,231
	<u>\$ 8,551,731</u>	<u>\$ 10,974,081</u>	<u>\$ 51,535,970</u>	<u>\$ 7,663,203</u>	<u>\$ 9,486,244</u>	<u>\$ 2,553,532</u>	<u>\$ 90,764,761</u>	<u>\$ 1,913,050</u>	<u>\$ 3,901,609</u>	<u>\$ 5,814,659</u>	<u>\$ 96,579,420</u>	<u>\$ 97,252,078</u>
Percentage of total	<u>8.9 %</u>	<u>11.4 %</u>	<u>53.4 %</u>	<u>7.9 %</u>	<u>9.8 %</u>	<u>2.6 %</u>	<u>94.0 %</u>	<u>2.0 %</u>	<u>4.0 %</u>	<u>6.0 %</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, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 9,011,692	\$ 2,750,670
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	778,121	605,106
Loss on sale/disposal of property and equipment	-	8,852
In-kind contributions of food (including USDA)	(70,831,065)	(73,659,583)
Distribution of food received in-kind	72,327,780	73,540,773
Net realized and unrealized gains on investments	(270,815)	(97,183)
Changes in operating assets and liabilities		
Accounts receivable from affiliated agencies	35,324	(1,141)
Government grants receivable	199,208	(59,782)
Pledges receivable	(5,512,686)	(520,450)
Inventory	(2,789,826)	(189,655)
Prepaid expenses and other assets	(191,110)	(114,344)
Accounts payable	(9,928)	91,718
Accrued expenses	147,795	(83,162)
Deferred revenue	(75,000)	(90,700)
Net cash provided by operating activities	2,819,490	2,181,119
Cash flows from investing activities		
Purchase of property and equipment	(892,795)	(9,376,758)
Purchase of investments	(5,966,280)	(4,119,616)
Proceeds from sale of investments	6,552,640	3,825,881
Net cash used in investing activities	(306,435)	(9,670,493)
Cash flows from financing activities		
Proceeds from note payable	-	6,000,000
Principal payments on note payable	(147,389)	(60,291)
Net cash provided by (used in) financing activities	(147,389)	5,939,709
Net increase (decrease) in cash and cash equivalents	2,365,666	(1,549,665)
Cash and cash equivalents, beginning of year	2,646,318	4,195,983
Cash and cash equivalents, end of year	\$ 5,011,984	\$ 2,646,318

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 152,684	\$ 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-Marín Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. NATURE OF OPERATIONS

The San Francisco Food Bank (dba "San Francisco-Marín 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 metropolitan 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 over 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. More than 41,000 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 5 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 23,000 donors in FY18-19, who contributed over \$19.8 million to fuel operations. In addition, the Food Bank obtains cash support equal to 5% 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.

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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), Department of Homelessness and Supportive Housing (DHS) and Department of Public Health (DPH)

HSA, DHS, 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 2018-2019 fiscal year, the Food Bank expanded its Home-Delivered Groceries Program, providing regular groceries to over 3,400 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.

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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.
- *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 seven 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. In 2018, we expanded this program to UCSF, City College of San Francisco, and Dominican College (Marin). 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.

Supplemental Food Program for Seniors

This program provides a monthly box of nutritious USDA food to more than 11,800 low-income senior citizens.

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

2. PROGRAM SERVICES (continued)

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, 2019

The positive change in net assets for the year ended June 30, 2019 is largely due to funds raised by the Food Bank's capital campaign. Some of these funds will be used initially to improve the Food Bank's San Rafael property purchased in 2018. The remaining funds, along with future capital campaign contributions, will be used in subsequent years to expand the Food Bank's San Francisco facility.

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.

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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. This warehouse/office building serves as the hub for the Food Bank's efforts to end hunger in Marin county. 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 consolidated financial position and operating activities in two classes of net assets: without donor restrictions and with donor restrictions.

- *Net assets without donor restrictions* - include those assets used to carry 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, inventory, and property and equipment funds.
- *Net assets with donor restrictions* - 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.

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 consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived.

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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 consolidated 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, 2019 and 2018 the allowance for doubtful accounts was \$25,000 and \$0, respectively.

Inventory

Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated non-government products were valued at \$1.62 and \$1.68 per pound for the years ended June 30, 2019 and 2018, respectively. Donated government food was valued at \$1.52 and \$1.57 per pound for the years ended June 30, 2019 and 2018, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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 net assets without donor restrictions 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.

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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, 2019 and 2018 was \$350,742 and \$405,314, 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 donations without restrictions and donations with restrictions depending on the nature of donor restrictions. For contributions with donor restrictions funds are reported as increases in restricted net assets. When the restriction is met, the amount is shown as a reclassification of net assets with donor restrictions to net assets without restrictions.

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions in-kind

Donated non-government products were valued at \$1.62 and \$1.68 per pound for the years ended June 30, 2019 and 2018, respectively. Donated government food was valued at \$1.52 and \$1.57 per pound for the years ended June 30, 2019 and 2018, 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 consolidated 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. The 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 Food Bank. For the years ended June 30, 2019 and 2018, the Food Bank incurred costs of \$1,113,264 and \$1,066,543, respectively, for informational materials and activities that include fundraising appeals. Of these costs, \$1,038,552 and \$951,898, respectively was allocated to fundraising expense, \$74,712 and \$114,645, respectively was allocated to programs, and no amounts required allocation to management and general expense.

Income taxes

The 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).

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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, 2018, 2017, and 2016 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, 2018, 2017, 2016, and 2015 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, 2019 and 2018 totaled \$209,408 and \$161,669, respectively.

Subsequent events

Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2019 for potential recognition or disclosure in the financial statements. On October 31, 2019, a majority of eligible employees of the Food Bank voted to join the Office and Professional Employees Union International Local 29. Negotiations are ongoing, and no contract or agreement between the two parties has been finalized as of November 14, 2019.

Recently issued accounting standards

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 makes certain improvements to current reporting requirements, including the following:

- Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
- Enhancing disclosures about amounts and purposes of governing board designations, appropriations and similar actions that result in self imposed limits on the use of resources without donor imposed restrictions.
- Enhancing disclosures about the composition of net assets with donor restrictions and how the restrictions affect the use of resources.

San Francisco Food Bank
 dba San Francisco-Marin Food Bank
 Notes to Consolidated Financial Statements
 June 30, 2019
 (With Comparative Totals for 2018)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently issued accounting standards (continued)

- Enhancing disclosures about the qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
- Reporting amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
- Enhancing disclosures on the methods used to allocate costs among program and support functions.
- Enhancing disclosures on underwater endowment funds.

The amendments have been applied on a retrospective basis in 2018.

5. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	2019	2018
Amount due in less than one year	\$ 4,598,139	\$ 852,950
Amounts due in one to five years	2,690,997	923,500
	\$ 7,289,136	\$ 1,776,450

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 \$1.62 and \$1.68 per pound for the years ended June 30, 2019 and 2018, respectively. Donated government food was valued at \$1.52 and \$1.57 per pound for the years ended June 30, 2019 and 2018, respectively. This valuation is based on a cost study conducted for Feeding America.

San Francisco Food Bank
 dba San Francisco-Marín Food Bank
 Notes to Consolidated Financial Statements
 June 30, 2019
 (With Comparative Totals for 2018)

6. INVENTORY (continued)

Inventory consisted of the following:

	2019	2018
USDA food commodities	\$ 3,927,268	\$ 1,258,026
Donated non-government food	743,864	2,028,918
Purchased food	139,096	230,173
	\$ 4,810,228	\$ 3,517,117

7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2019	2018
Building	\$ 11,736,066	\$ 11,736,066
Land	5,459,568	5,459,568
Vehicles	3,341,801	3,405,183
Building improvements	1,678,794	1,305,751
Office furniture equipment	1,066,973	954,761
Warehouse equipment	1,030,848	805,814
Other depreciable property	34,749	34,749
	24,348,799	23,701,892
Accumulated depreciation and amortization	(7,969,234)	(7,437,001)
	\$ 16,379,565	\$ 16,264,891

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 totaled \$778,121 and \$605,106, respectively.

San Francisco Food Bank
 dba San Francisco-Marín Food Bank
 Notes to Consolidated Financial Statements
 June 30, 2019
 (With Comparative Totals for 2018)

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Bond fund	\$ 4,055,860	\$ -	\$ -	\$ 4,055,860
Equity fund	<u>2,431,207</u>	<u>-</u>	<u>-</u>	<u>2,431,207</u>
	<u>\$ 6,487,067</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,487,067</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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</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>

Investment earnings during the year consisted of the following:

	<u>2019</u>	<u>2018</u>
Net realized and unrealized gains	\$ 270,815	\$ 97,183
Interest and dividend income	<u>167,631</u>	<u>184,005</u>
	<u>\$ 438,446</u>	<u>\$ 281,188</u>

Details of the investments in marketable securities are as follows as of June 30, 2019:

	<u>Fair Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Bond fund	\$ 4,055,860	\$ 3,792,059	\$ 263,801
Equity fund	<u>2,431,207</u>	<u>2,264,892</u>	<u>166,315</u>
	<u>\$ 6,487,067</u>	<u>\$ 6,056,951</u>	<u>\$ 430,116</u>

San Francisco Food Bank
 dba San Francisco-Marín Food Bank
 Notes to Consolidated Financial Statements
 June 30, 2019
 (With Comparative Totals for 2018)

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

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>

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 of 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 notes payable are as follows:

<u>Year ending June 30,</u>	
2020	\$ 151,267
2021	155,247
2022	155,247
2023	163,524
2024	167,827
Thereafter	<u>4,999,208</u>
	<u>\$ 5,792,320</u>

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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, 2019 and 2018.

Under the terms of the line of credit agreement, the Food Bank is required to comply with certain financial covenants. As of June 30, 2019 and 2018, 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.

San Francisco Food Bank
 dba San Francisco-Marín Food Bank
 Notes to Consolidated Financial Statements
 June 30, 2019
 (With Comparative Totals for 2018)

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Purpose restrictions		
Site development	\$ 6,885,444	\$ 131,618
Special projects	1,153,527	28,528
Trucking capacity	139,422	-
College pantries in San Francisco	118,373	-
Egg purchases	46,305	-
Food stamps outreach	41,280	50,000
Fresh, nutritious food	13,139	11,580
Marin County only	-	330,000
San Francisco fresh, nutritious food	-	125,400
Pantry programs	-	75,000
Marin fresh, nutritious food	-	33,000
Healthy children pantries	-	25,000
	8,397,490	810,126
Time restrictions		
General support for future periods	337,201	411,423
	337,201	411,423
	\$ 8,734,691	\$ 1,221,549

San Francisco Food Bank
 dba San Francisco-Marín Food Bank
 Notes to Consolidated Financial Statements
 June 30, 2019
 (With Comparative Totals for 2018)

12. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year were as follows:

	<u>2019</u>	<u>2018</u>
Special projects	\$ 529,778	\$ 6,472
Site development	440,957	2,944,028
Marin County only	428,242	732,910
Fresh, nutritious food	365,000	17,613
Food stamp outreach	155,320	25,000
San Francisco only	136,225	306,525
Healthy children pantries	127,065	326,603
Pantry programs	104,000	591,740
Marin fresh, nutritious food	96,025	61,500
San Francisco senior brown bag	91,586	1,000
College Pantry	76,054	25,050
Trucking capacity	50,000	367,917
Egg purchases	46,305	-
San Francisco fresh, nutritious food	16,863	108,300
Home delivered groceries	17,500	3,670
Holiday program	15,000	35,000
Morning snack	15,000	15,000
Disaster relief	7,273	10,000
Advocacy and education	2,030	300,000
Marin senior brown bag	100	200
Capital grants	-	163,750
SF food stamps outreach	-	75,000
Food purchase	-	53,814
Volunteer engagement	-	10,000
Marin capital grants disaster	-	3,220
Trucking costs	-	2,950
	<u>2,720,323</u>	<u>6,187,262</u>
Time restricted	<u>371,420</u>	<u>95,000</u>
	<u>\$ 3,091,743</u>	<u>\$ 6,282,262</u>

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, 2019. Total shared maintenance fees during the years ended June 30, 2019 and 2018, totaled \$187,796 and \$209,228, respectively.

San Francisco Food Bank
dba San Francisco-Marín Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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, 2019 and 2018 the following in-kind contributions were received by the Food Bank:

Contributions in-kind are as follows:

	2019	2018
Government support - in-kind food		
Food - government	\$ 19,706,081	\$ 10,373,877
Contributions in-kind - non-government		
Food - non-government	52,621,995	63,285,706
Outside services	1,203,510	255,438
Donated rent	-	62,988
Equipment	2,670	6,846
	53,828,175	63,610,978
Special events supplies	32,573	64,224
Total contributions in-kind - non-government	53,860,748	63,675,202
Total contributions in-kind	\$ 73,566,829	\$ 74,049,079

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, 2019 and 2018, which were based on the estimated dollar value of volunteer time calculated using the San Francisco Minimum Compensation Ordinance (MCO) rate of \$15.00 and \$14.00 per hour, respectively, and Marin County's Living Wage Ordinance rate of \$14.80 and \$14.20 per hour for the years ended June 30, 2019 and 2018, respectively, amounted to \$1,685,323 and \$1,615,152, 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.

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, 2019 and 2018 totaled \$468,401 and \$451,633, respectively.

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Notes to Consolidated Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

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:

Year ending June 30,

2020	\$ <u>25,999</u>
	<u>\$ 25,999</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.

San Francisco Food Bank
 dba San Francisco-Marín Food Bank
 Notes to Consolidated Financial Statements
 June 30, 2019
 (With Comparative Totals for 2018)

18. LIQUIDITY

As part of the Food Bank's liquidity management it has a policy to structure its financial assets to be available as its general expenditure, liabilities, and other obligations come due.

As part of this policy, the Food Bank holds a balance of cash, receivables, and securities equal to approximately three months of operating expenses that can be readily liquidated to pay for operating needs. The Food Bank also maintains a \$1,000,000 line of credit that can be accessed for operating needs. Long-term investments consist of a Board designated facilities reserve.

The Food Bank expects that accounts receivable from program service fee revenue will be collected and available within 90 days of the fiscal year end.

Short-term contributions receivable consists of grants and pledges receivable expected to be received within one year from June 30, 2019. Unrestricted short-term grants and pledges receivable will be available to support general operations of the Food Bank.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 5,011,984
Investments	6,487,067
Accounts receivable	<u>8,165,174</u>
	<u>19,664,225</u>
Less: amounts unavailable for general expenditures within one year	
Long-term pledges receivable	(2,690,997)
Long-term investments	(5,000,000)
Net assets with restrictions	<u>(6,013,916)</u>
	<u>(13,704,913)</u>
	<u>\$ 5,959,312</u>