

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)



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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 (the "Food Bank"), which comprise the consolidated statement of financial position as of June 30, 2020, 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 as of June 30, 2020, 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.

Change in Accounting Principle

As described in Note 4 to the consolidated financial statements, the Food Bank has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 19 of the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. However, the ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2020, on our consideration of the San Francisco Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Francisco Food Bank's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited San Francisco Food Bank dba San Francisco-Marin Food Bank's 2019 consolidated financial statements, and our report dated November 14, 2019 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

November 23, 2020

San Francisco Food Bank
 dba San Francisco-Marín Food Bank
 Consolidated Statement of Financial Position
 June 30, 2020
 (With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	\$ 39,133,095	\$ 5,011,984
Investments in marketable securities	1,929,498	1,487,067
Accounts receivable from affiliated agencies	1,725	2,730
Government grants receivable	2,635,339	873,308
Pledges receivable, current portion	3,172,307	4,598,139
Inventory	5,864,927	4,810,228
Prepaid expenses and other assets	307,106	567,161
Total current assets	53,043,997	17,350,617
Noncurrent assets		
Property and equipment, net	19,368,660	16,379,565
Board designated investments in marketable securities	5,000,000	5,000,000
Pledges receivable, net of current portion	6,922,660	2,690,997
Total noncurrent assets	31,291,320	24,070,562
Total assets	\$ 84,335,317	\$ 41,421,179
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 762,991	\$ 682,149
Accrued expenses	1,541,847	1,261,191
Paycheck Protection Program forgivable loan	2,268,962	-
Deferred revenue	-	62,500
Note payable, current portion	-	151,267
Total current liabilities	4,573,800	2,157,107
Note payable, net of current portion	5,717,178	5,641,053
Total liabilities	10,290,978	7,798,160
Net assets		
Without donor restrictions		
Undesignated	5,687,234	3,490,855
Inventory	5,864,927	4,810,228
Property and equipment	13,651,482	10,587,245
Board designated - operating reserve	12,000,000	1,000,000
Board designated - emergency response and recovery reserve	12,000,000	-
Board designated - facilities reserve	7,000,000	5,000,000
Total without donor restrictions	56,203,643	24,888,328
With donor restrictions	17,840,696	8,734,691
Total net assets	74,044,339	33,623,019
Total liabilities and net assets	\$ 84,335,317	\$ 41,421,179

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, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support and revenue				
Contributions	\$ 41,238,357	\$ 16,323,611	\$ 57,561,968	\$ 25,434,065
Contributions in-kind	54,633,031	-	54,633,031	53,828,175
Governmental support - in-kind food	32,770,975	-	32,770,975	19,706,081
Governmental support - cash	7,470,207	-	7,470,207	5,229,661
Special events (includes in-kind income of \$26,288 and \$32,573)	1,177,318	-	1,177,318	705,746
Net investment income	450,510	-	450,510	438,446
Shared maintenance fees	208,904	-	208,904	187,796
Other income, net	72,358	-	72,358	61,142
Net assets released from restrictions	<u>7,217,606</u>	<u>(7,217,606)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>145,239,266</u>	<u>9,106,005</u>	<u>154,345,271</u>	<u>105,591,112</u>
Functional expenses				
Program services				
Healthy children pantries	8,175,355	-	8,175,355	8,551,731
Brown bag pantries serving seniors	16,314,615	-	16,314,615	10,974,081
Neighborhood pantries	62,667,596	-	62,667,596	51,535,970
Supplemental food program for seniors	8,102,414	-	8,102,414	7,663,203
Agency distribution	9,695,532	-	9,695,532	9,486,244
Advocacy and education	<u>2,520,512</u>	<u>-</u>	<u>2,520,512</u>	<u>2,553,532</u>
Total program services	<u>107,476,024</u>	<u>-</u>	<u>107,476,024</u>	<u>90,764,761</u>
Support services				
Management and general	2,057,425	-	2,057,425	1,913,050
Fundraising	<u>4,390,502</u>	<u>-</u>	<u>4,390,502</u>	<u>3,901,609</u>
Total support services	<u>6,447,927</u>	<u>-</u>	<u>6,447,927</u>	<u>5,814,659</u>
Total functional expenses	<u>113,923,951</u>	<u>-</u>	<u>113,923,951</u>	<u>96,579,420</u>
Change in net assets (See note 3)	31,315,315	9,106,005	40,421,320	9,011,692
Net assets, beginning of year	<u>24,888,328</u>	<u>8,734,691</u>	<u>33,623,019</u>	<u>24,611,327</u>
Net assets, end of year	<u>\$ 56,203,643</u>	<u>\$ 17,840,696</u>	<u>\$ 74,044,339</u>	<u>\$ 33,623,019</u>

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

San Francisco Food Bank
dba San Francisco-Marin Food Bank
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Program Services						Support Services			2020 Total	2019 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	\$ 6,642,175	\$ 12,934,334	\$ 51,279,516	\$ 6,406,757	\$ 8,142,520	\$ -	\$ 85,405,302	\$ -	\$ -	\$ -	\$ 85,405,302	\$ 70,943,887
Salaries	579,571	1,258,788	4,224,626	814,166	711,641	1,371,685	8,960,477	1,205,073	2,233,852	3,438,925	12,399,402	11,023,718
Food procurement	420,707	705,939	2,474,467	22,787	269,407	-	3,893,307	-	-	-	3,893,307	4,187,455
Employee benefits	94,642	212,145	710,787	133,051	116,594	214,095	1,481,314	196,285	341,587	537,872	2,019,186	1,831,545
Donated services and supplies	23,095	247,469	663,363	313,117	32,649	72,089	1,351,782	10,540	78,985	89,525	1,441,307	1,183,510
Outside services	24,615	85,191	221,680	31,395	29,169	106,383	498,433	330,624	706,835	1,037,459	1,535,892	1,140,188
Freight and storage	110,170	217,041	780,613	9,089	89,163	-	1,206,076	-	-	-	1,206,076	1,065,278
Depreciation and amortization	54,670	86,979	358,585	44,900	48,682	125,810	719,626	85,596	149,347	234,943	954,569	778,121
Payroll taxes	42,041	88,880	301,143	59,285	51,703	94,891	637,943	87,374	152,051	239,425	877,368	839,726
Occupancy	27,205	66,789	226,113	33,683	31,874	51,058	436,722	38,064	71,188	109,252	545,974	325,403
Marketing and events	5,870	13,428	52,872	1,039	7,387	1,493	82,089	1,265	451,053	452,318	534,407	724,978
Vehicle expenses	41,182	77,289	297,987	31,680	41,940	11,291	501,369	3,882	6,761	10,643	512,012	501,296
Warehouse supplies	23,004	71,309	239,022	105,143	24,234	-	462,712	-	-	-	462,712	322,783
Utilities	22,130	47,601	159,996	24,278	25,058	41,951	321,014	27,989	51,137	79,126	400,140	354,889
Miscellaneous	16,902	54,237	182,906	21,568	19,596	28,586	323,795	25,468	44,336	69,804	393,599	126,459
Public affairs	1,194	2,856	9,309	1,684	1,469	339,060	355,572	2,482	26,375	28,857	384,429	470,608
Equipment expenses	18,370	47,214	176,906	16,563	18,892	12,324	290,269	9,740	16,971	26,711	316,980	252,866
Donated rent	2,620	42,962	119,926	-	3,900	-	169,408	-	-	-	169,408	-
Insurance	11,315	20,418	77,394	12,330	13,086	8,618	143,161	7,117	12,781	19,898	163,059	146,570
Interest	6,105	12,737	43,652	9,481	7,512	14,169	93,656	11,060	20,205	31,265	124,921	152,684
Office/computer supplies	3,201	8,164	26,945	3,921	3,627	7,597	53,455	6,014	10,444	16,458	69,913	73,118
Printed materials and postage	3,280	8,589	26,817	4,097	3,811	11,958	58,552	6,222	12,014	18,236	76,788	60,649
Conferences and training	1,170	2,562	8,297	2,240	1,471	7,181	22,921	2,389	4,157	6,546	29,467	70,362
Volunteer services	121	1,694	4,674	160	147	273	7,069	241	423	664	7,733	3,327
	<u>\$ 8,175,355</u>	<u>\$ 16,314,615</u>	<u>\$ 62,667,596</u>	<u>\$ 8,102,414</u>	<u>\$ 9,695,532</u>	<u>\$ 2,520,512</u>	<u>\$107,476,024</u>	<u>\$ 2,057,425</u>	<u>\$ 4,390,502</u>	<u>\$ 6,447,927</u>	<u>\$113,923,951</u>	<u>\$ 96,579,420</u>
Percentage of total	<u>7.2 %</u>	<u>14.3 %</u>	<u>55.0 %</u>	<u>7.1 %</u>	<u>8.5 %</u>	<u>2.2 %</u>	<u>94.3 %</u>	<u>1.8 %</u>	<u>3.9 %</u>	<u>5.7 %</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, 2020
 (With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ 40,421,320	\$ 9,011,692
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	954,569	778,121
In-kind contributions of food (including USDA)	(85,793,291)	(72,328,076)
Distribution of food received in-kind	85,405,302	70,943,887
Net realized and unrealized gains on investments	(256,479)	(270,815)
Changes in operating assets and liabilities		
Accounts receivable from affiliated agencies	1,005	35,324
Government grants receivable	(1,762,031)	199,208
Pledges receivable	(2,805,831)	(5,512,686)
Inventory (purchased food)	(666,710)	91,078
Prepaid expenses and other assets	260,055	(191,110)
Accounts payable	80,838	(9,928)
Accrued expenses	280,656	147,795
Deferred revenue	(62,500)	(75,000)
Net cash provided by operating activities	36,056,903	2,819,490
Cash flows from investing activities		
Purchase of property and equipment	(3,943,660)	(892,795)
Purchase of investments	(1,329,609)	(5,966,280)
Proceeds from sale of investments	1,143,657	6,552,640
Net cash used in investing activities	(4,129,612)	(306,435)
Cash flows from financing activities		
Proceeds from Payroll Protection Program forgivable loan	2,268,962	-
Principal payments on note payable	(75,142)	(147,389)
Net cash provided by (used in) financing activities	2,193,820	(147,389)
Net increase in cash and cash equivalents	34,121,111	2,365,666
Cash and cash equivalents, beginning of year	5,011,984	2,646,318
Cash and cash equivalents, end of year	\$ 39,133,095	\$ 5,011,984

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 124,921	\$ 152,684
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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, 2020
(With Comparative Totals for 2019)

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. 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 56 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. Prior to the COVID-19 outbreak, the Food Bank served more than 30,000 families each week at its weekly farmer's market style pantries and delivered weekly groceries to more than 3,500 seniors and other participants with low-mobility. More than 70% of its food went out through its pantry network.

Dramatic increase in need - With the onset of the pandemic and the beginning of shelter-in-place in mid-March, almost 100 of its 270 weekly pantries were forced to close as the Food Bank simultaneously began to see a dramatic increase in requests for food assistance. Over the course of the subsequent 8-12 weeks, the Food Bank made significant changes to its programming and operations to accommodate the pandemic and increased demand for food assistance. The Food Bank opened 24 walk-up "pop-up" pantries, mostly in large, outdoor spaces that would allow for social distancing and 3 drive-through pop-up pantries. Each pantry was 5-10x larger than the average pre-pandemic pantry. It nearly doubled the number of families it was serving each week prior to the pandemic, reaching more than 60,000 weekly households at the height of its COVID-19 response efforts. It dramatically increased its home-delivered grocery program from about 250 deliveries a week out of the Food Bank to ~12,000 weekly, to try to serve all its participants over 65 who had previously been able to attend pantries in person.

Volunteers are essential to the Food Bank model. More than 53,000 volunteers are engaged this year to sort, repack, and get produce out the door as quickly as possible. Volunteers handle nearly 40% of food distributed, a 15% increase over the prior year driven by the pandemic response. They also assist in the field, bringing food to pantries, partner agencies, or directly to participants. Post shelter-in-place, the Food Bank relied on nearly double the number of weekly volunteers to support its increased services.

San Francisco Food Bank
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Notes to Consolidated Financial Statements
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1. NATURE OF OPERATIONS (continued)

Increased support in response to the increase in need - The Food Bank engaged over 39,000 donors in FY19-20 and saw a significant increase in revenue to support the Food Bank's COVID-19 response efforts. Donors contributed a total of \$45.9 million to support the Food Bank in FY19-20, which resulted in a surplus at fiscal year-end on June 30, 2020. At the end of FY19-20, the Board of Directors increased the organization's Operating Reserve to \$12 million so that it now covers at least three months of projected operating expenses (with the recommended range for this reserve being three to six months of operating expenses). In addition, the Board or Directors has established an Emergency Response and Recovery Reserve (also \$12 million) to support current and future efforts to feed the community in times of unexpected and significant need.

Ongoing need for the community's increased support - The economic fall-out from the pandemic has created a long-term need for the Food Bank to maintain the sharply increased levels of service from the past few months. Consequently, the Food Bank has seen a 60% increase in ongoing expenses, and it will take considerable time for the annual fundraising to sustainably grow to support this increase in annual expenses. For FY21, the board has approved an operating budget with a projected \$5 million deficit.

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 Social Services. CSFP provides a monthly box of nutritious USDA commodity food products to eligible seniors.

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.

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Notes to Consolidated Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS (continued)

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

COVID-19 Food Programs

In response to the closure of pantries and the increased need for food assistance, the Food Bank established over two dozen large-scale pantries during the last three months of its fiscal year. These Pop-Up Pantries (both walk-up and drive-thru) provide weekly groceries to those who lost access to food due to the pandemic. In addition, it expanded its Home-Delivered Groceries Program thereby providing weekly groceries to many of its senior participants who are sheltering in place and no longer have access to their regular pantries. The Food Bank also worked with existing pantry partners to safely expand their weekly distributions to accommodate the increased need for food assistance.

Ongoing Pantry Programs

The Food Bank has a variety of ongoing 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. School closures brought on by the pandemic have temporarily suspended most of these pantries.
- *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.

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(With Comparative Totals for 2019)

2. PROGRAM SERVICES (continued)

Ongoing 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 Assistance 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. Unfortunately, the pandemic forced the clinics hosting these distributions to suspend the program associated with these distributions.
- *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, it 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. School closures brought on by the pandemic have temporarily suspended most of these pantries.

Supplemental Food Program for Seniors

This program provides a monthly box of nutritious USDA food to almost 11,700 low-income senior citizens.

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(With Comparative Totals for 2019)

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, 2020

The positive change in net assets for the year ended June 30, 2020 is largely due to operating funds raised in response to the COVID-19 pandemic as well as the Food Bank's ongoing capital campaign. The economic fallout from the pandemic could last several years. The operating funds will be used in these years to address the ongoing need to provide more food to the community. The capital funds will be used in subsequent years to expand the Food Bank's San Francisco facility to better meet this need.

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.

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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. 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.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-08, Not-For-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional.

The Food Bank adopted ASU 2018-08 with a date of the initial application of July 1, 2019 using the modified prospective method. The adoption of ASU 2018-08 did not have a significant impact on the Food Bank's financial position, result of operations, or cash flows. The Food Bank has evaluated contributions received and contributions made and has determined that there is no significant change as a result of the adoption of the standard.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Food Bank's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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, 2020 and 2019 the allowance for doubtful accounts was \$25,000 and \$25,000, respectively.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated non-government products were valued at \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. Donated government food was valued at \$1.49 and \$1.52 per pound for the years ended June 30, 2020 and 2019, respectively. This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from three to seven years for vehicles, office furniture and equipment, and thirty-nine years for buildings and building improvements. Equipment purchases over \$3,000 are capitalized. Depreciation is recorded as a decrease in 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."

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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

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

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Food Bank's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30th. The maximum vacation time that can be accrued and carried over to the next year is 200 hours. The accrued vacation balance as of June 30, 2020 and 2019 was \$540,116 and \$350,742, respectively, and is included in accrued expenses.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. The Food Bank will not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. A promise that calls for specific outcomes to be achieved will be treated as a conditional promise to give. Contributions are recorded as with or without donor 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.

Contributions that are considered conditional promises to give which contain barriers and a right of return or right of release are not recognized until the conditions on which they depend are met, at which time, the gift is recognized as either grants and contributions revenue with or without restriction.

The Food Bank receives a significant amount of governmental cash and in-kind food assistance. The governmental cash assistance is received through reimbursement-based local, state and federally funded programs. The revenue generated from these programs is recorded as government support in the statement of activities. This governmental support meets the criteria to be classified as conditional contributions under GAAP revenue recognition for nonprofit organizations it contains barriers related to incurrence of qualifying expenditures and a right of return or release. The Food Bank has elected a simultaneous release option to account for these grants. Therefore, they are recorded as government support without donor restrictions upon satisfaction of the barriers. In the event amounts are received and have not been earned, the Food Bank records such amounts as a refundable advance until earned.

Contributions in-kind

Donated non-government products were valued at \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. Donated government food was valued at \$1.49 and \$1.52 per pound for the years ended June 30, 2020 and 2019, 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 16.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and 2019, the Food Bank incurred costs of \$1,062,328 and \$1,113,264, respectively, for informational materials and activities that include fundraising appeals. Of these costs, \$979,133 and \$1,038,552, respectively was allocated to fundraising expense, \$83,195 and \$74,712, 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).

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, 2019, 2018, and 2017 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, 2019, 2018, 2017, and 2016 could be subject to examination by state taxing authorities, generally for four years after they are filed.

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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2020 and 2019 totaled \$195,490 and \$209,408, respectively.

Subsequent events

Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2020 for potential recognition or disclosure in the financial statements. The Food Bank had subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2020 (see Note 21). Subsequent events have been evaluated through the date the financial statements became available to be issued, November 23, 2020.

5. PLEDGES RECEIVABLE

Pledges receivable consisted of the following:

	2020	2019
Amount due in less than one year	\$ 3,172,307	\$ 4,598,139
Amounts due in one to five years	6,922,660	2,690,997
	\$ 10,094,967	\$ 7,289,136

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 \$1.74 and \$1.62 per pound for the years ended June 30, 2020 and 2019, respectively. Donated government food was valued at \$1.49 and \$1.52 per pound for the years ended June 30, 2020 and 2019, respectively. This valuation is based on a cost study conducted for Feeding America.

Inventory consisted of the following:

	2020	2019
USDA food commodities	\$ 3,555,932	\$ 3,927,268
Donated non-government food	1,503,188	743,864
Purchased food	805,807	139,096
	\$ 5,864,927	\$ 4,810,228

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7. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Building	\$ 11,736,061	\$ 11,736,066
Land	5,459,568	5,459,568
Vehicles	3,544,227	3,341,801
Building improvements	4,815,022	1,678,794
Office furniture equipment	1,228,031	1,066,973
Warehouse equipment	966,437	1,030,848
Other depreciable property	34,749	34,749
	27,784,095	24,348,799
Accumulated depreciation and amortization	(8,415,435)	(7,969,234)
	\$ 19,368,660	\$ 16,379,565

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 totaled \$954,569 and \$778,121, respectively.

8. INVESTMENTS IN MARKETABLE SECURITIES AND FAIR VALUE DISCLOSURES

The following table sets forth by level, within the fair value hierarchy, the Food Bank's assets at fair value as of June 30, 2020:

	Level 1	Level 2	Level 3	Fair Value
Bond fund	\$ 4,656,712	\$ -	\$ -	\$ 4,656,712
Equity fund	2,272,786	-	-	2,272,786
	\$ 6,929,498	\$ -	\$ -	\$ 6,929,498

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:

	Level 1	Level 2	Level 3	Fair Value
Bond fund	\$ 4,055,860	\$ -	\$ -	\$ 4,055,860
Equity fund	2,431,207	-	-	2,431,207
	\$ 6,487,067	\$ -	\$ -	\$ 6,487,067

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

Investment earnings during the year consisted of the following:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gains	\$ 256,479	\$ 270,815
Interest and dividend income	<u>194,031</u>	<u>167,631</u>
	<u>\$ 450,510</u>	<u>\$ 438,446</u>

Details of the investments in marketable securities are as follows as of June 30, 2020:

	<u>Fair Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Bond fund	\$ 4,656,712	\$ 4,443,192	\$ 213,520
Equity fund	<u>2,272,786</u>	<u>2,186,746</u>	<u>86,040</u>
	<u>\$ 6,929,498</u>	<u>\$ 6,629,938</u>	<u>\$ 299,560</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>

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9. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On April 16, 2020, the Food Bank received loan proceeds of \$2,268,962 from a promissory note issued by MUFG Union Bank, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration. The term on the loan is two years and the annual interest rate is 1%. Payments of principal and interest are deferred for the first ten months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Food Bank intends to apply for forgiveness of the PPP loan with respect to these covered expenses. As of June 30, 2020, the PPP loan is recognized as Paycheck Protection Program forgivable loan on the statement of financial position and disclosed as the conditional government grant (see Note 14). The Food Bank plans to submit its forgiveness application during year ended June 30, 2021. The loan will be recognized as income in the statement of activities in the period The Food Bank receives formal approval of forgiveness.

10. 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.

During the year ended June 30, 2020, End Hunger, LLC entered into an amended and restated promissory note agreement with Siesta Investments, LLC to restructure the loan for the principal balance of \$5,717,178. The amended and restated note is secured by the property and bears interest of 1.6%. Interest only payments are due monthly commencing on January 1, 2020. The note matures on December 1, 2044 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.

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11. 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 matured on February 1, 2020. The line of credit was not renewed subsequent to February 1, 2020. There were no amounts outstanding under this line of credit as of June 30, 2019.

Under the terms of the line of credit agreement, the Food Bank was required to comply with certain financial covenants. As of June 30, 2019 and through February 1, 2020 (date of maturity), the Food Bank met these financial covenants.

12. BOARD DESIGNATED NET ASSETS

Operating reserve

The Food Bank maintains a reserve to cover expected and unexpected expense needs or revenue shortfalls related to its annual operations.

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.

Emergency response and recovery reserve

The Food Bank maintains a reserve to cover unexpected expense needs or revenue shortfall due to emergency response and recovery efforts associated with natural, technological, man-made, and/or economic emergencies.

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13. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Purpose restrictions		
Site development	\$ 16,875,702	\$ 6,885,444
Special projects	598,750	1,153,527
College pantries in San Francisco	121,910	118,373
Healthy children pantries	44,334	-
Trucking capacity	-	139,422
Egg purchases	-	46,305
Food stamps outreach	-	41,280
Fresh, nutritious food	-	13,139
	<u>17,640,696</u>	<u>8,397,490</u>
Time restrictions		
General support for future periods	<u>200,000</u>	<u>337,201</u>
	<u>200,000</u>	<u>337,201</u>
	<u>\$ 17,840,696</u>	<u>\$ 8,734,691</u>

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13. NET ASSETS WITH DONOR RESTRICTIONS (continued)

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

	2020	2019
Site development	\$ 3,142,856	\$ 440,957
Marin County only	968,296	428,242
Special projects	554,777	529,778
Trucking capacity	427,099	50,000
San Francisco fresh, nutritious food	312,300	16,863
San Francisco only	236,267	136,225
College pantry	196,463	76,054
Disaster relief	393,293	7,273
Healthy children pantries	112,445	127,065
Food stamps outreach	101,280	155,320
Pantry programs	100,000	104,000
San Francisco food stamps outreach	95,000	-
Marin fresh, nutritious food	79,500	96,025
Egg purchases	46,305	46,305
San Francisco senior brown bag	33,841	91,586
Capital grants for Marin	28,000	-
Fresh, nutritious food	26,242	365,000
Protein purchase	25,000	-
Holiday program	20,000	15,000
Home delivered groceries	16,100	17,500
Morning snack	15,000	15,000
Marin senior brown bag	330	100
Advocacy and education	10	2,030
	6,930,404	2,720,323
Time restricted	287,202	371,420
	\$ 7,217,606	\$ 3,091,743

14. CONDITIONAL GOVERNMENT GRANT

A conditional government grant is recognized when the Food Bank meets the terms of the conditions in the grant agreement.

The conditional government grant is detailed as follows:

Incurring qualifying costs for forgiveness of the PPP loan	<u><u>\$ 2,268,962</u></u>
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15. 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 years ended June 30, 2020 and 2019. Total shared maintenance fees during the years ended June 30, 2020 and 2019, totaled \$208,904 and \$187,796, respectively.

16. CONTRIBUTIONS IN-KIND

The estimated fair value of donated food, equipment, rent, expert services and supplies received are recorded as contributions. During the years ended June 30, 2020 and 2019 the following in-kind contributions were received by the Food Bank:

Contributions in-kind are as follows:

	2020	2019
Government support - in-kind food		
Food - government	\$ 32,770,975	\$ 19,706,081
Contributions in-kind - non-government		
Food - non-government	53,022,316	52,621,995
Outside services	1,397,627	1,203,510
Donated rent	169,408	-
Equipment	43,680	2,670
	54,633,031	53,828,175
Special events supplies	26,288	32,573
Total contributions in-kind - non-government	54,659,319	53,860,748
Total contributions in-kind	\$ 87,430,294	\$ 73,566,829

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, 2020 and 2019, which were based on the estimated dollar value of volunteer time calculated using the San Francisco Minimum Compensation Ordinance (MCO) rate of \$16.50 and \$15.00 per hour, respectively, and Marin County's Living Wage Ordinance rate of \$15.03 and \$14.80 per hour for the years ended June 30, 2020 and 2019, respectively, amounted to \$2,060,213 and \$1,685,323, 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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17. 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, 2020 and 2019 totaled \$542,256 and \$468,401, respectively.

18. 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.

19. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Food Bank rents storage facilities under operating leases, which expire at various dates, ending October 31, 2029.

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

<u>Year ending June 30,</u>	
2021	\$ 195,840
2022	201,712
2023	207,768
2024	214,000
2025	220,416
Thereafter	<u>1,033,316</u>
	<u>\$ 2,073,052</u>

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19. COMMITMENTS AND CONTINGENCIES (continued)

Grants and contracts

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

Legal proceedings

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

COVID-19 impact

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders.

The Food Bank is an essential service provider, and its services have continued throughout the COVID-19 pandemic without any material interruption. As the situation continues to evolve, the Food Bank is closely monitoring the impact of the pandemic on all aspects of its business including how it impacts its participants, suppliers, vendors and employees as well as its ability to continue providing services. The Food Bank believes the ultimate impact of the COVID-19 pandemic on its operating results, cash flows, and financial condition is likely to be determined by factors that are uncertain and unpredictable.

20. 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. Long-term investments consist of a Board designated facilities reserve.

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20. LIQUIDITY (continued)

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, 2020. 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, 2020 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash and cash equivalents	\$ 39,133,095
Investments	6,929,498
Accounts receivable from affiliated agencies	1,725
Government grants receivable	2,635,339
Pledges receivable	<u>10,094,967</u>
	<u>58,794,624</u>
Less: amounts unavailable for general expenditures within one year	
Long-term pledges receivable	(6,922,660)
Long-term investments	(5,000,000)
Net assets with restrictions	<u>(10,743,036)</u>
	<u>(22,665,696)</u>
	<u>\$ 36,128,928</u>

21. SUBSEQUENT EVENTS

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 were ongoing at the close of the fiscal year. On September 16, 2020, a collective bargaining agreement was ratified by members of the bargaining unit. The agreement will not have a material impact on the Food Bank's finances.