



San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Combined Financial Report
June 30, 2019

Contents

| | |
|---|------|
| Independent auditor's report | 1-2 |
| Financial statements | |
| Combined statements of financial position | 3 |
| Combined statements of activities | 4-5 |
| Combined statements of cash flows | 6 |
| Notes to combined financial statements | 7-26 |



RSM US LLP

Independent Auditor's Report

To the Board of Directors
San Antonio Food Bank, Inc.
and SAFB Real Estate, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of San Antonio Food Bank, Inc. and SAFB Real Estate, Inc. (collectively, the Food Bank), which comprise the combined statements of financial position as of June 30, 2019 and 2018, the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Food Bank as of June 30, 2019 and 2018, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described on Note 1, the Food Bank adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the current year. The adoption of the standard resulted in additional footnote disclosures and significant changes to classification of net assets and the disclosures related to net assets. The adoption was retrospectively applied to July 1, 2017, the earliest year presented. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2020, on our consideration of the 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 solely 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 the effectiveness of the Food Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.

RSM US LLP

San Antonio, Texas
January 8, 2020

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Combined Statements of Financial Position
June 30, 2019 and 2018

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,217,122 | \$ 7,968,517 |
| Restricted cash | - | 721,770 |
| Pledges receivable—current portion | 75,060 | 111,125 |
| Accounts receivable, net | 1,940,022 | 1,136,641 |
| Receivables from federal sources | 1,791,566 | 855,645 |
| Inventory | 11,319,223 | 5,996,104 |
| Prepaid expenses | 224,225 | 243,778 |
| Total current assets | 23,567,218 | 17,033,580 |
| Noncurrent assets: | | |
| Pledges receivable, net of current portion | 100,000 | 100,000 |
| Note receivable | - | 21,512,465 |
| Assets limited as to use—investments | 24,232,719 | 22,993,941 |
| Property and equipment, net | 32,567,317 | 33,558,113 |
| Other assets | 412,225 | 373,973 |
| Total noncurrent assets | 57,312,261 | 78,538,492 |
| Total assets | \$ 80,879,479 | \$ 95,572,072 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 767,591 | \$ 735,031 |
| Accrued and other liabilities | 1,062,640 | 1,297,200 |
| Long-term debt—current portion | - | 240,000 |
| Total current liabilities | 1,830,231 | 2,272,231 |
| Long-term debt, net of current portion and bond issuance costs | - | 26,137,137 |
| Total liabilities | 1,830,231 | 28,409,368 |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 50,389,588 | 41,228,445 |
| Board-designated | 23,832,719 | 22,593,941 |
| Total without donor restrictions | 74,222,307 | 63,822,386 |
| With donor restrictions: | | |
| Restricted by time or purpose | 4,426,941 | 2,940,318 |
| Restricted in perpetuity | 400,000 | 400,000 |
| Total with donor restrictions | 4,826,941 | 3,340,318 |
| Total net assets | 79,049,248 | 67,162,704 |
| Total liabilities and net assets | \$ 80,879,479 | \$ 95,572,072 |

See notes to combined financial statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Combined Statement of Activities
Year Ended June 30, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|--------------------|
| Revenues, support and other changes: | | | |
| Donated food | \$ 109,735,468 | \$ - | \$ 109,735,468 |
| Contributions | 7,943,584 | 4,028,118 | 11,971,702 |
| Governmental funding | 9,216,096 | - | 9,216,096 |
| United Way | 753,496 | - | 753,496 |
| Purchased food | 1,042,642 | - | 1,042,642 |
| Shared maintenance | 683,627 | - | 683,627 |
| Investment income, net of expenses | 804,035 | - | 804,035 |
| Special events, net of direct expenses of \$200,468 | 628,807 | - | 628,807 |
| Nonfederal contracts | 3,445,310 | - | 3,445,310 |
| Other operating income | 1,176,923 | - | 1,176,923 |
| Net assets released from restrictions | 2,541,495 | (2,541,495) | - |
| Total revenues, support and other changes | 137,971,483 | 1,486,623 | 139,458,106 |
| Expenses: | | | |
| Program expenses | 128,836,340 | - | 128,836,340 |
| General and administrative | 2,028,298 | - | 2,028,298 |
| Fundraising and development | 1,716,854 | - | 1,716,854 |
| Total expenses | 132,581,492 | - | 132,581,492 |
| Change in net assets before other income | 5,389,991 | 1,486,623 | 6,876,614 |
| Other income: | | | |
| Gain on exercise of put option | 5,009,930 | - | 5,009,930 |
| Total other income | 5,009,930 | - | 5,009,930 |
| Change in net assets | 10,399,921 | 1,486,623 | 11,886,544 |
| Net assets at beginning of year | 63,822,386 | 3,340,318 | 67,162,704 |
| Net assets at end of year | \$ 74,222,307 | \$ 4,826,941 | \$ 79,049,248 |

See notes to combined financial statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

**Combined Statement of Activities
Year Ended June 30, 2018**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|--------------------|
| Revenues, support and other changes: | | | |
| Donated food | \$ 116,501,213 | \$ - | \$ 116,501,213 |
| Contributions | 7,590,609 | 9,208,668 | 16,799,277 |
| Governmental funding | 9,357,378 | - | 9,357,378 |
| United Way | 744,668 | - | 744,668 |
| Purchased food | 1,017,412 | - | 1,017,412 |
| Shared maintenance | 790,979 | - | 790,979 |
| Investment income, net of expenses | 925,448 | - | 925,448 |
| Special events, net of direct expenses of \$185,152 | 665,575 | - | 665,575 |
| Nonfederal contracts | 2,641,947 | - | 2,641,947 |
| Other operating income | 1,370,615 | - | 1,370,615 |
| Net assets released from restrictions | 6,420,138 | (6,420,138) | - |
| Total revenues, support and other changes | 148,025,982 | 2,788,530 | 150,814,512 |
| Expenses: | | | |
| Program expenses | 140,584,836 | - | 140,584,836 |
| General and administrative | 2,369,814 | - | 2,369,814 |
| Fundraising and development | 1,530,456 | - | 1,530,456 |
| Total expenses | 144,485,106 | - | 144,485,106 |
| Change in net assets | 3,540,876 | 2,788,530 | 6,329,406 |
| Net assets at beginning of year | 60,281,510 | 551,788 | 60,833,298 |
| Net assets at end of year | \$ 63,822,386 | \$ 3,340,318 | \$ 67,162,704 |

See notes to combined financial statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

**Combined Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 11,886,544 | \$ 6,329,406 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,859,431 | 1,698,800 |
| Amortization | 152,863 | 158,060 |
| Net realized and unrealized gain on investments | (213,348) | (453,050) |
| Bad-debt expense | 348,469 | 356,377 |
| Gain on disposal of property and equipment | - | (62,133) |
| Note receivable—accrued interest | - | (313,528) |
| Gain on exercise of put option | (5,009,930) | - |
| Changes in: | | |
| Pledges receivable | 36,065 | 358,875 |
| Accounts receivable | (1,151,850) | (444,441) |
| Receivables from federal sources | (935,921) | 64,951 |
| Inventory | (5,323,119) | 2,606,632 |
| Prepaid expenses | 19,553 | (67,652) |
| Other assets | (38,252) | (50,325) |
| Accounts payable | 32,560 | (836,523) |
| Accrued and other liabilities | (234,560) | 294,513 |
| Net cash provided by operating activities | 1,428,505 | 9,639,962 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (868,635) | (4,122,889) |
| Proceeds from sales of equipment | - | 109,670 |
| Decrease in restricted cash | 721,770 | 138,559 |
| Purchases of investments | (1,032,035) | (5,812,447) |
| Net cash used in investing activities | (1,178,900) | (9,687,107) |
| Cash flows from financing activities: | | |
| Exercise of put option | (1,000) | - |
| Net cash used in financing activities | (1,000) | - |
| Net increase (decrease) in cash and cash equivalents | 248,605 | (47,145) |
| Cash and cash equivalents at beginning of year | 7,968,517 | 8,015,662 |
| Cash and cash equivalents at end of year | \$ 8,217,122 | \$ 7,968,517 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 175,060 | \$ 175,060 |
| Noncash financing activity: | | |
| Assignment of notes payable | \$ 26,530,000 | \$ - |
| Assignment of notes receivable | \$ 21,751,611 | \$ - |

See notes to combined financial statements.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization: The San Antonio Food Bank, Inc. was incorporated in San Antonio, Texas, on March 24, 1980, and is a clearinghouse that acquires and redistributes food to qualified agencies in San Antonio and surrounding counties. The San Antonio Food Bank, Inc. is supported primarily by contributions and governmental funding authorities.

SAFB Real Estate, Inc. (Real Estate), a qualified active low-income community business, was organized in 2012 as a Texas nonprofit corporation. Real Estate was formed in connection with the new market tax credit (NMTC) financing to acquire the present facility and construct the expansion of the current building for future use by the San Antonio Food Bank, Inc. As reported in Note 7, on June 20, 2019, Real Estate completed the unwinding of the NMTC upon expiration of the tax credit compliance period and its net assets were transferred to the San Antonio Food Bank, Inc.

Both the San Antonio Food Bank, Inc. and Real Estate share a common Board of Directors (the Board), as well as management. The organizing documents of each entity do not provide for either entity to control the other through board seats or other voting powers; therefore, management presents combined financial statements.

The combined companies are collectively referred to as the Food Bank.

Basis of combination: These combined financial statements include the combined statements of financial condition, activities and cash flows for the San Antonio Food Bank, Inc. and Real Estate. All balances and transactions between the entities have been eliminated in combination.

Basis of accounting: The combined financial statements of the Food Bank have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Support and revenue are reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as released from restrictions between the applicable classes of net assets.

Use of estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation: In accordance with Not-for-Profit Entities topic of the *FASB Accounting Standards Codification* (ASC), the Food Bank reports information regarding its financial position and activities according to two classes of net assets: without and with donor restrictions.

Under these provisions, net assets and revenue, expenses, gains and losses are classified as without and with donor restrictions based on the following criteria:

- Without donor restrictions—Net assets without donor restriction represent assets available for expenditure that are not subject to donor-imposed restrictions.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

- With donor restrictions—Net assets that are subject to donor-imposed restrictions that require the gift to be used for a specified purpose, to be retained for a specified period of time or until a specified event occurs, or to be maintained in perpetuity.

Cash equivalents: For financial statement purposes, the Food Bank considers all checking accounts, overnight repurchase agreements and highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Restricted cash: Restricted cash is restricted for debt reserve funds related to the NMTC financing commitment.

Assets limited as to use—investments: Investments are stated at fair value based upon quoted market prices, when available, or estimates of fair value in the combined statements of financial position. U.S. money markets are measured at cost. Unrealized gains and losses are included in the combined statements of activities.

The Food Bank has an investment policy that sets guidelines and constraints to ensure the portfolio is appropriately diversified.

Accounts receivable: Accounts receivable are stated at the amount the Food Bank expects to collect at year-end.

Receivables from federal sources consist of eligible expenditures incurred in excess of grant fund reimbursements.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable, if any, which are expected to be collected in future years are recorded at the present value of their estimated future cash flows if material to the combined financial statements. Pledges with payments to be received in future years totaled \$175,060 and \$211,125 at June 30, 2019 and 2018, respectively. Conditional contributions are not recorded as support in the combined financial statements until the conditions are substantially met.

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for doubtful accounts totaled \$402,620 and \$242,580 at June 30, 2019 and 2018, respectively.

Inventory: Inventory consists primarily of canned goods, produce and durable household goods. Food inventory is valued at the weighted-average wholesale value per pound (\$1.62 as of June 30, 2019, and \$1.68 as of June 30, 2018), as determined by an annual study performed by Feeding America (a national organization of food banks). Purchased inventory value is determined using the first-in, first-out method.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment is stated at cost if purchased, or fair value if donated. Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives: buildings and improvements—10 to 40 years, vehicles—five to 7 years, equipment—three to 10 years, furniture and fixtures—five to 10 years and intangible assets—40 years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Construction in progress will be depreciated when placed into service. The Food Bank has adopted a capitalization policy for property and equipment of \$2,500.

Impairment of long-lived assets: The Food Bank reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results; trends and prospects; and the effects of obsolescence, demand, competition and other economic factors. The Food Bank did not recognize an impairment loss during the years ended June 30, 2019 and 2018.

Bond issuance costs: Bond issuance costs represent costs incurred related to the issuance of the NMTC long-term debt, as discussed in Note 8, and are amortized over the term of the related debt. Issuance costs net of accumulated amortization totaled \$0 and \$152,863 at June 30, 2019 and 2018, respectively. Issuance costs are presented as a component of long-term debt in the combined statements of financial condition. As reported in Note 7, on June 20, 2019, Real Estate completed the unwinding of the NMTC upon expiration of the tax credit compliance period.

Federal income tax: The Food Bank is a not-for-profit organization and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code (IRC), except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying combined financial statements. Uncertain tax provisions, if any, are recorded in accordance with accounting guidance for income taxes, which requires the recognition of a liability for tax provisions taken that do not meet the more likely than not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2019 and 2018.

The Food Bank's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At June 30, 2019 and 2018, no interest or penalties have been or are required to be accrued.

Revenue recognition: In accordance with U.S. GAAP, revenue is recorded when earned rather than received. The following summarizes the revenue recognition policies for major classifications of revenue:

- **Donated food:** Donated food is accounted for by weight throughout the fiscal year and valued at fiscal year-end using the weighted-average wholesale value per pound of food, as determined by an annual study performed by Feeding America (a national organization for food banks).

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

- **Contributions:** The Food Bank records contributions when received as with or without donor restrictions, depending on the existence or nature of any donor restrictions. Contributions received and expended in the same fiscal year are recorded as contributions without donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions—restricted by time or purpose are reclassified to net assets without donor restrictions and reported in the combined statements of activities as net assets released from restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.
- **Governmental funding:** Governmental funding includes federal grant revenue, as well as revenue from food distribution contracts the Food Bank has with the state, city and surrounding counties. Federal grant funding is either recorded when advances are received or when expenses are incurred, as is the case on reimbursement grants. The Food Bank considers all federal grants, as well as contracts, as exchange transactions rather than contributions. The Food Bank recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as refundable advances. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract.
- **United Way:** Contributions from United Way are allocated annually in July and are recorded by the Food Bank on the accrual basis.
- **Purchased food:** The Food Bank recognizes as purchased food revenue, a 10% markup over costs for foods specifically purchased for and distributed to qualified agencies in San Antonio and surrounding counties to provide nutritional needs when those foods are not received through donation.
- **Shared maintenance:** The Food Bank distributes a certain portion of its food to qualified agencies in San Antonio and surrounding counties for \$0.15 per pound upon receipt from the Food Bank (referred to as shared maintenance in the combined statements of activities).
- **Nonfederal contracts:** Nonfederal contracts consist of contracts for food disbursement to nonfederal entities in San Antonio and surrounding counties. The contracts are approximately six months or less.
- **In-kind donations:** In-kind donations consist of donated services and materials. Donated services and materials are recorded if the services and/or materials (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Food Bank. Donated services and materials totaled \$23,814 and \$19,709 for the years ended June 30, 2019 and 2018, respectively.

Contingencies: Certain conditions may exist as of the date the combined financial statements are issued, which may result in a loss to the Food Bank, but which will only be resolved when one or more future events occur or fail to occur. The Food Bank's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Food Bank or unasserted claims that may result in such proceedings, the Food Bank's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Food Bank's combined financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Advertising expenses: The Food Bank expenses advertising costs as incurred. As of June 30, 2019 and 2018, advertising costs totaled \$0 and \$17,610, respectively.

Subsequent events: The Food Bank has evaluated subsequent events through January 8, 2020, the date the combined financial statements were available to be issued.

Reclassification: Certain reclassifications have been made in the prior-year combined statement of activities to conform to the current-year presentation with no effect on change in net assets.

Adopted accounting pronouncement: Effective July 1, 2018, the Food Bank adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this ASU did not have an effect on total net assets, but did result in additional reporting changes affecting the following:

- Net asset classifications and related disclosures
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date
- New reporting requirements related to expenses including disclosure of expenses by both nature and function
- Reporting of net investment return

The Food Bank made changes to terminology and classification as described above, as well as included additional and modified disclosures, particularly in Notes 10, 11, 12 and 16 to the combined financial statements. Amounts previously reported for the year ended June 30, 2018, have been reclassified, on a retrospective basis, to achieve consistent presentation. Net asset amounts previously reported as temporarily or permanently restricted have been combined and reported as net assets with donor restrictions.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09 one year, making it effective for the Food Bank for fiscal year June 30, 2020.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU No. 2016-18 will be effective for the Food Bank for fiscal year June 30, 2020. ASU No. 2016-18 must be applied using a retrospective transition method with early adoption permitted.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU No. 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU No. 2016-15 will be effective for the Food Bank for fiscal year June 30, 2020. ASU No. 2016-15 requires a retrospective transition method.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. ASU No. 2018-08 will be effective for the Food Bank for fiscal year June 30, 2020, for contributions received and fiscal year June 30, 2021, for contributions made. ASU No. 2018-08 should be applied on a modified-prospective basis. Retrospective application is permitted.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU No. 2018-13 will be effective for the Food Bank for fiscal year June 30, 2021.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective-interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provided an additional transition option that allows companies to continue applying the guidance under the current lease standard in the comparative periods presented in the financial statements. ASU No. 2018-11 also provides lessors with a practical expedient, in certain circumstances, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

In December 2018, the FASB issued ASU No. 2018-20, *Narrow-Scope Improvements for Lessors*. This ASU provides an election for lessors to exclude sales and related taxes from consideration in the contract, requires lessors to exclude from revenue and expense lessor costs paid directly to a third party by lessees and clarifies lessors' accounting for variable payments related to both lease and nonlease components. In March 2019, the FASB issued ASU No. 2019-01, *Leases (Topic 842): Codification Improvements*, which modifies the disclosure requirements for determining the fair value of the underlying asset by lessors that are not manufacturers or dealers, the presentation on the statements of cash flows for sales-type and direct financing leases and amends the transition disclosures related to Topic 250, accounting changes and error corrects. ASU No. 2019-01 will be effective for the Food Bank for fiscal year June 30, 2021. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The new standard provides a number of practical expedients. The standard is effective for the Food Bank for fiscal year June 30, 2021.

The Food Bank has not yet selected a transition method for the recent accounting pronouncements above and is currently evaluating the effect these standards will have on its combined financial statements.

Note 2. Fair Value Measurements and Disclosures

The requirements of Fair Value Measurements and Disclosures of the ASC apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. 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. Fair Value Measurements and Disclosures also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels.

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs are observable, other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Inputs are unobservable and are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The fair value of the Food Bank's cash and cash equivalents, receivables and payables and prepaid and accrued liabilities approximates the carrying amounts of such instruments due to their short maturity. The fair value of the note receivable and debt approximates the carrying amount because the rate and terms currently available to the Food Bank approximate the rate and terms on the existing note receivable and debt.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

The following tables represent assets measured at fair value on a recurring basis as reported on the combined statements of financial position as of June 30, 2019 and 2018, and by level within the fair value measurement hierarchy:

| | June 30, 2019 | | | |
|--|---------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments by fair value level: | | | | |
| Stocks: | | | | |
| Domestic | \$ 6,476,182 | \$ - | \$ - | \$ 6,476,182 |
| International | 1,621,972 | - | - | 1,621,972 |
| Bonds: | | | | |
| Domestic | - | 15,483,707 | - | 15,483,707 |
| International | - | 13,787 | - | 13,787 |
| | <u>\$ 8,098,154</u> | <u>\$ 15,497,494</u> | <u>\$ -</u> | <u>23,595,648</u> |
| Investments measured at cost: | | | | |
| U.S. money markets | | | | 637,071 |
| Total assets limited as to use—investments | | | | <u>\$ 24,232,719</u> |

| | June 30, 2018 | | | |
|--|---------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments by fair value level: | | | | |
| Stocks: | | | | |
| Domestic | \$ 5,809,664 | \$ - | \$ - | \$ 5,809,664 |
| International | 1,528,206 | - | - | 1,528,206 |
| Bonds: | | | | |
| Domestic | - | 14,325,334 | - | 14,325,334 |
| International | - | 518,580 | - | 518,580 |
| | <u>\$ 7,337,870</u> | <u>\$ 14,843,914</u> | <u>\$ -</u> | <u>22,181,784</u> |
| Investments measured at cost: | | | | |
| U.S. money markets | | | | 812,157 |
| Total assets limited as to use—investments | | | | <u>\$ 22,993,941</u> |

Investments held in bonds are classified within Level 2 of the valuation hierarchy, with the exception of certain equity investment securities that are classified within Level 1. The Food Bank obtains fair value measurements from reputable pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the United States Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, the bond's terms and conditions and other such data.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 3. Assets Limited as to Use—Investments

Assets limited to use are comprised of Board-designated endowments, two individual donor restricted endowment funds established for a variety of purposes, funds designated by the Board for capital purchases and Board-designated investments. The Board-designated investments are designated for a six-month reserve.

| | June 30 | |
|--|----------------------|----------------------|
| | 2019 | 2018 |
| Board-designated endowments | \$ 11,504,336 | \$ 11,074,387 |
| Endowment-donor restricted | 400,000 | 400,000 |
| Board-designated investments | 8,963,287 | 8,154,458 |
| Board-designated for capital purchases | 3,365,096 | 3,365,096 |
| | <u>\$ 24,232,719</u> | <u>\$ 22,993,941</u> |

Assets limited as to use-investments income consist of the following:

| | Year Ended June 30, 2019 | | |
|----------------------------------|------------------------------|---------------------------|-------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Interest and dividends | \$ 695,067 | \$ - | \$ 695,067 |
| Net realized and unrealized gain | 213,348 | - | 213,348 |
| Investment expenses | (104,380) | - | (104,380) |
| | <u>\$ 804,035</u> | <u>\$ -</u> | <u>\$ 804,035</u> |

| | Year Ended June 30, 2018 | | |
|----------------------------------|------------------------------|---------------------------|-------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Interest and dividends | \$ 537,526 | \$ - | \$ 537,526 |
| Net realized and unrealized gain | 453,050 | - | 453,050 |
| Investment expenses | (65,128) | - | (65,128) |
| | <u>\$ 925,448</u> | <u>\$ -</u> | <u>\$ 925,448</u> |

Note 4. Pledges Receivable

Pledges receivable are expected to be collected as follows:

| | |
|-----------------------|-------------------|
| Years ending June 30: | |
| 2020 | \$ 75,060 |
| 2021 | 50,000 |
| 2022 | 50,000 |
| | <u>\$ 175,060</u> |

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 5. Inventory

Inventory consists of the following:

| | June 30 | |
|---------------------------|----------------------|---------------------|
| | 2019 | 2018 |
| Donated food inventory | \$ 10,970,977 | \$ 5,484,724 |
| Purchased food inventory | 348,246 | 509,915 |
| Inventory held for retail | - | 1,465 |
| | <u>\$ 11,319,223</u> | <u>\$ 5,996,104</u> |

Note 6. Property and Equipment

Property and equipment consists of the following:

| | June 30 | |
|--|----------------------|----------------------|
| | 2019 | 2018 |
| Land | \$ 1,805,348 | \$ 1,805,348 |
| Buildings and improvements | 32,028,860 | 31,836,853 |
| Vehicles | 6,398,360 | 6,197,513 |
| Equipment | 3,221,721 | 2,980,140 |
| Furniture and fixtures | 1,035,391 | 1,007,854 |
| Intangible assets | 167,953 | 213,879 |
| Work in progress | 345,635 | - |
| Construction in progress | - | 93,048 |
| | <u>45,003,268</u> | <u>44,134,635</u> |
| Less accumulated depreciation and amortization | <u>12,435,951</u> | <u>10,576,522</u> |
| Net property and equipment | <u>\$ 32,567,317</u> | <u>\$ 33,558,113</u> |

Note 7. Note Receivable

The San Antonio Food Bank (the Lender) entered into an agreement on June 19, 2012, to lend \$19,709,500 to SAFB Investment Fund, LLC (the Borrower), hereinafter refer to as U.S. Bancorp Community Development Corporation. US Bancorp Community Development Corporation is the sole member of and owns 100% of the SAFB Investment Fund, LLC. The note is secured by U.S. Bancorp Community Development Corporation's continuing first priority interest in and to all of U.S. Bancorp Community Development Corporation's right, title and equity interest in National New Market Fund (NNMF) Sub-CDE XVI, LLC and Texas Mezzanine Fund (TMF) Sub-CDE VIII, LLC. The interest rate on the note is fixed at 1.93317%. Interest is payable quarterly beginning October 2012 until June 30, 2042. All principal and unpaid interest are due and payable in June 30, 2042. Interest earned as of June 30, 2019 and 2018, totaled \$120,447 and \$412,075, respectively, and has been included in other income in the combined statements of activities. The note receivable totaled \$0 and \$21,512,465 as of June 30, 2019 and 2018, respectively.

The agreement above includes a Put and Call Agreement, which was made and entered into as of June 19, 2012, by and between San Antonio Food Bank (the Purchaser) and U.S. Bancorp Community Development Corporation (the Investor).

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 7. Note Receivable (Continued)

Under the put option, the Purchaser grants to the Investor an option (the Put) to sell the interest to the Purchaser. The Put may be exercised by the Investor at any time during the period beginning at the end of the tax credit investment period and ending six months after the Investor receives notice from the Purchaser (after the end of the Tax Credit Investment Period) that the Investor may exercise its option (the Put Option Period). If, at any time during the Put Option Period, the Investor elects to sell its interest, it shall give the Purchaser notice of such election (an Election Notice). Within 30 days after delivery to the Purchaser of an Election Notice from the Investor, the Purchaser or its assignee shall pay to the Investor a purchase price in an amount equal to \$1,000. After exercising its put option, the San Antonio Food Bank can cancel the NMTC long-term debt as the lending entities are subsidiaries of SAFB Investment Fund, LLC, the entity to which the put option relates.

Under the call option, in the event the Investor does not deliver an Election Notice to the Purchaser during the Put Option Period, the Purchaser or its assignee shall have the right and option (the Call), subject to certain conditions defined in the agreement, at any time during the six-month period following the Put Option Period (the Call Option Period) to purchase the interest for an amount (the Call Price) equal to the fair market value of the interest, as determined by mutual agreement among the parties, or if there is no such agreement, then by a qualified independent appraiser.

It is San Antonio Food Bank's management's intention to exercise its call option if U.S. Bancorp Community Development Corporation does not exercise its put option. Upon either U.S. Bancorp Community Development Corporation's or San Antonio Food Bank's exercise of the option, San Antonio Food Bank becomes the sole member of SAFB Investment Fund, LLC and then could elect to retire the obligation of SAFB Real Estate's NMTC long-term debt against San Antonio Food Bank loan receivable from SAFB Investment Fund, LLC.

On June 20, 2019, the Food Bank completed the unwind of the SAFB Real Estate's tax credit structure. The Food Bank's notes payable to NNMF Sub-CDE XVI, LLC totaling \$13,790,000 (Loan A and Loan B) and to TMF Sub-CDE VIII, LLC totaling \$12,740,000 (Loan C and Loan D) were assigned by that entity to NMTC Investment Fund LLC. Concurrently, a put option was exercised in which the Food Bank acquired NMTC Investment Fund LLC for \$1,000. As a result of the assignment and concurrent exercise of the put option, the note receivable and payable totaling \$26,530,000 (Loan A, Loan B, Loan C, and Loan D) are held by the Food Bank through its wholly owned subsidiaries and are settled in full satisfaction. The Food Bank recognized a gain of \$5,009,930 from the exercise of the put option, which is reflected in other income in the combined statement of activities for the year ended June 30, 2019. The name of the investment fund was also changed to Investment Fund LLC.

Note 8. Long-Term Debt

SAFB Real Estate executed a loan agreement on June 19, 2012, that provides for borrowings of \$13,790,000 and \$12,740,000 from NNMF Sub-CDE XVI, LLC and TMF Sub-CDE VIII, LLC, respectively. The loans were acquired for the expansion of the San Antonio Food Bank and are intended to be treated as a qualified low-income community investment for purposes of generating NMTC under section 45D of the IRC. The loans are secured by a property deed of trust and security agreement filing on this property and a guaranty by the San Antonio Food Bank's obligations under the loan agreement.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 8. Long-Term Debt (Continued)

Pursuant to the issuance of the NMTC, SAFB Real Estate was required to establish certain reserve accounts for payment of certain fees and expenses. At June 30, 2019 and 2018, \$0 and \$721,770, respectively, was held at U.S. Bancorp Community Development Corporation for this purpose and is reported under assets limited as to use in the combined statements of financial position. In addition, there are negative covenants that preclude the SAFB Real Estate from adding additional debt, changing structure, selling property, establishing subsidiaries, amending organizational documents, making seizures, leasing property, making prohibited contributions, modifying construction documents, conducting business with a blocked person or creating liens on the property.

Under the terms of the loan agreement, each loan has an interest rate of 0.65985% per annum, payable quarterly, beginning October 1, 2012, and the principal balance is due in its entirety on the stated maturity dates noted below. SAFB Real Estate is not permitted to prepay any portion of the loans in whole or in part until the seventh anniversary of the loan.

Long-term debt consists of the following:

| | June 30 | |
|--|-------------|----------------------|
| | 2019 | 2018 |
| Note payable to NNMF Sub-CDE XVI, LLC; maturing June 30, 2042; principal payments commencing in October 2019 | \$ - | \$ 10,152,333 |
| Note payable to NNMF Sub-CDE XVI, LLC; maturing June 30, 2042; principal payments commencing in June 2019 | - | 3,637,667 |
| Note payable to TMF Sub-CDE VIII, LLC; maturing June 30, 2042; principal payments commencing in October 2019 | - | 9,557,167 |
| Note payable to TMF Sub-CDE VIII, LLC; maturing June 30, 2042; principal payments commencing in June 2019 | - | 3,182,833 |
| | - | 26,530,000 |
| Less current portion | - | 240,000 |
| Less bond issuance costs | - | 152,863 |
| | <u>\$ -</u> | <u>\$ 26,137,137</u> |

Interest expense totaled \$175,060 for each of the years ended June 30, 2019 and 2018.

Note 9. Leases

The Food Bank leases equipment pursuant to noncancelable operating lease agreements expiring through 2024. Rental expense totaled approximately \$69,000 and \$144,000 for the years ended June 30, 2019 and 2018, respectively.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 9. Leases (Continued)

Future minimum lease payments under noncancelable operating leases were as follows:

| | | |
|-----------------------|----|----------------|
| Years ending June 30: | | |
| 2020 | \$ | 97,740 |
| 2021 | | 91,866 |
| 2022 | | 72,966 |
| 2023 | | 57,756 |
| 2024 | | 33,691 |
| | \$ | <u>354,019</u> |

Note 10. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following:

| | June 30 | |
|---|---------------------|---------------------|
| | 2019 | 2018 |
| Mobile Pantry | \$ 447,300 | \$ 332,216 |
| Sales Force—CRM | 80,365 | 209,000 |
| Children’s Programs | 542,499 | 133,663 |
| Grocery Rescue Program | - | 73,756 |
| New Braunfels Food Bank (NBFB) | 447,698 | 447,698 |
| Community Garden | 60,121 | 66,116 |
| Disaster Relief | 1,590,516 | 1,553,827 |
| NBFB Workforce | - | 23,898 |
| Volunteer Project | - | 50,000 |
| Nutrition | 314,008 | - |
| Food Distribution Programs | 77,845 | - |
| Kitchen Table | 4,653 | - |
| Government Shutdown | 203,584 | - |
| Senior Wellness Intervention Model | 427,203 | - |
| Other | 231,149 | 50,144 |
| Endowment—in perpetuity for future operations | 400,000 | 400,000 |
| | <u>\$ 4,826,941</u> | <u>\$ 3,340,318</u> |

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 10. Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

| | June 30 | |
|------------------------------------|---------------------|---------------------|
| | 2019 | 2018 |
| NBFB | \$ - | \$ 1,559,570 |
| Disaster Relief | 1,602 | 1,770,064 |
| Vehicles | - | 1,730,000 |
| Food Distribution Programs | 742,093 | 32,582 |
| Kitchen Table | 30,347 | 74,050 |
| Transportation of Food | 50,000 | 110,000 |
| Children's Programs | 298,247 | 170,752 |
| Nutrition | 30,625 | 459,246 |
| Grocery Rescue Program | 196,381 | 118,619 |
| Equipment | 29,772 | 135,000 |
| Daisy Cares | 25 | - |
| Community Garden | 23,664 | 22,116 |
| Community Kitchen | 17,683 | - |
| Mobile Pantry | 142,346 | - |
| Volunteer Project | 50,000 | - |
| Sales Force—CRM | 295,635 | - |
| SNAP | 31,600 | - |
| Senior Wellness Intervention Model | 405,797 | - |
| NBFB Workforce | 64,898 | - |
| Other | 130,780 | 238,139 |
| | <u>\$ 2,541,495</u> | <u>\$ 6,420,138</u> |

Note 11. Endowments

The endowments include both donor-restricted funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including Board-designated endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: The Board has interpreted that the State Prudent Management of Institutional Funds Act (SPMIFA), as adopted by the state of Texas, applies to the Food Bank. As a result, the Food Bank classifies as with donor restrictions—restricted in perpetuity net assets (a) the original value of gifts donated to the endowment held in perpetuity, (b) the original value of subsequent gifts to the endowment in perpetuity and (c) accumulations to the endowment in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in with donor restrictions—restricted in perpetuity net assets classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Food Bank in a manner consistent with the standards of prudence prescribed by SPMIFA.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 11. Endowments (Continued)

In accordance with SPMIFA, the Food Bank considers the following factors in determining whether to expend or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Food Bank and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Food Bank
- The investment policies of the Food Bank

Funds with deficiencies: From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Food Bank to retain as a fund of perpetual duration. There were no deficiencies of this nature that are reported in without donor restrictions net assets as of June 30, 2019 or 2018.

Spending policy: The primary objective of the Food Bank's endowment spending policy is to achieve a proper balance between present and future organizational needs, while achieving a reasonable degree of stability and predictability in income. The Food Bank will consistently apply this spending policy to all eligible endowments. If a donor stipulates certain conditions regarding endowment spending, the donor stipulations will supersede and will be honored. Funds designated to the endowment fund by the Food Bank's Finance Committee will be used for general operations unless otherwise specified, in accordance with the spending rate. When distributions are made, the spending rate will be up to 7% of the fair market value of each endowment fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditures is made or, in the case of fund in existence for fewer than three years, the fair market value of the endowment calculated for the period the endowment fund has been in existence.

Investment return, objectives, risk parameters and strategies: The Food Bank has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to support the Food Bank's operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Food Bank must hold in perpetuity or for a donor-specified period. The Food Bank's objective for the endowment account is to generate a long term, total rate of return (income plus appreciation) that will permit real growth in fund assets while supporting an annual payout rate that is expected to approximate 5% of the trailing 12 quarter average market value of the fund.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 11. Endowments (Continued)

The endowment net asset composition by type is comprised of the following:

| | Year Ended June 30, 2019 | | |
|----------------------------------|------------------------------|---------------------------|----------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor-restricted endowment funds | \$ - | \$ 400,000 | \$ 400,000 |
| Board-designated endowments | 11,504,336 | - | 11,504,336 |
| | <u>\$ 11,504,336</u> | <u>\$ 400,000</u> | <u>\$ 11,904,336</u> |

| | Year Ended June 30, 2018 | | |
|----------------------------------|------------------------------|---------------------------|----------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Donor-restricted endowment funds | \$ - | \$ 400,000 | \$ 400,000 |
| Board-designated endowments | 11,074,387 | - | 11,074,387 |
| | <u>\$ 11,074,387</u> | <u>\$ 400,000</u> | <u>\$ 11,474,387</u> |

The Food Bank had the following changes in endowment net assets:

| | Year Ended June 30, 2019 | | |
|---|------------------------------|---------------------------|----------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment net assets at beginning of year | \$ 11,074,387 | \$ 400,000 | \$ 11,474,387 |
| Investment return: | | | |
| Investment income | 227,726 | - | 227,726 |
| Net appreciation | 274,660 | - | 274,660 |
| Amounts appropriated for expenditures | (72,437) | - | (72,437) |
| Endowment net assets at end of year | <u>\$ 11,504,336</u> | <u>\$ 400,000</u> | <u>\$ 11,904,336</u> |

| | Year Ended June 30, 2018 | | |
|---|------------------------------|---------------------------|----------------------|
| | Without Donor Restriction | With Donor Restriction | Total |
| Endowment net assets at beginning of year | \$ 5,364,969 | \$ 400,000 | \$ 5,764,969 |
| Investment return: | | | |
| Investment income | 179,020 | - | 179,020 |
| Net appreciation | 572,662 | - | 572,662 |
| Contributions | 5,000,000 | - | 5,000,000 |
| Amounts appropriated for expenditures | (42,264) | - | (42,264) |
| Endowment net assets at end of year | <u>\$ 11,074,387</u> | <u>\$ 400,000</u> | <u>\$ 11,474,387</u> |

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 12. Functional Expenses

The following reflects the classification of expenses for the Food Bank by both the underlying nature of the expense and function, as of June 30, 2019 and 2018. Certain costs, including salaries, benefits and taxes and workers' compensation, have been allocated among the programs and supporting services benefited. Costs, including occupancy and product storage and depreciation and amortization, have been allocated based on square footage. Costs, including printing and subscriptions, other expenses, travel and transportation, insurance, professional fees and dues, interest, telephone, affiliation dues and bad debt expense, have been allocated based on total number of employees per department.

| | Program Expenses | Supporting Services | | Total 2019 |
|---------------------------------|-----------------------|----------------------------|-----------------------------|-----------------------|
| | | General and Administrative | Fundraising and Development | |
| Distributed food | \$ 109,899,185 | \$ - | \$ - | \$ 109,899,185 |
| Salaries | 8,349,371 | 1,474,968 | 946,323 | 10,770,662 |
| Benefits | 1,473,752 | 121,269 | 56,372 | 1,651,393 |
| Taxes and workers' compensation | 631,678 | 92,046 | 72,743 | 796,467 |
| Affiliation dues | 73,381 | 6,212 | 7,765 | 87,358 |
| Bad-debt expense | 348,469 | - | - | 348,469 |
| Depreciation and amortization | 1,874,601 | 64,968 | 72,725 | 2,012,294 |
| Insurance | 362,783 | 30,153 | 37,691 | 430,627 |
| Interest | 218,760 | 18,519 | 23,149 | 260,428 |
| Maintenance of equipment | 616,559 | 12,433 | 16,256 | 645,248 |
| Occupancy and product storage | 859,204 | 29,776 | 33,333 | 922,313 |
| Other expenses | 1,038,148 | 87,886 | 109,857 | 1,235,891 |
| Postage and shipping | 19,660 | 484 | 52,601 | 72,745 |
| Printing and publications | 385,066 | 32,598 | 102,570 | 520,234 |
| Professional fees and dues | 190,578 | 16,134 | 20,167 | 226,879 |
| Rentals | 152,254 | 5,276 | 5,907 | 163,437 |
| Supplies and food items | 1,970,226 | 4,125 | 119,969 | 2,094,320 |
| Telephone | 169,236 | 14,237 | 17,909 | 201,382 |
| Travel and transportation | 203,429 | 17,214 | 21,517 | 242,160 |
| | <u>\$ 128,836,340</u> | <u>\$ 2,028,298</u> | <u>\$ 1,716,854</u> | <u>\$ 132,581,492</u> |

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 12. Functional Expenses (Continued)

| | Program Expenses | Supporting Services | | Total 2018 |
|---------------------------------|-----------------------|----------------------------|-----------------------------|-----------------------|
| | | General and Administrative | Fundraising and Development | |
| Distributed food | \$ 123,902,147 | \$ - | \$ - | \$ 123,902,147 |
| Salaries | 8,067,152 | 825,862 | 681,583 | 9,574,597 |
| Benefits | 1,459,067 | 107,385 | 106,010 | 1,672,462 |
| Taxes and workers' compensation | 623,205 | 53,817 | 54,451 | 731,473 |
| Affiliation dues | 60,269 | 10,175 | 7,827 | 78,271 |
| Bad-debt expense | 356,377 | - | - | 356,377 |
| Depreciation and amortization | 1,002,704 | 835,587 | 18,569 | 1,856,860 |
| Insurance | 279,016 | 47,107 | 36,236 | 362,359 |
| Interest | 227,217 | 38,361 | 29,509 | 295,087 |
| Maintenance of equipment | 634,780 | 16,617 | 13,294 | 664,691 |
| Occupancy and product storage | 928,167 | 22,033 | 105,578 | 1,055,778 |
| Other expenses | 778,583 | 191,616 | 147,398 | 1,117,597 |
| Postage and shipping | 14,763 | 326 | 64,229 | 79,318 |
| Printing and publications | 444,619 | 3,682 | 49,811 | 498,112 |
| Professional fees and dues | 79,334 | 51,195 | 23,174 | 153,703 |
| Rentals | 339,901 | (3,854) | 10,917 | 346,964 |
| Supplies and food items | 1,128,090 | 126,103 | 148,175 | 1,402,368 |
| Telephone | 104,332 | 17,614 | 13,550 | 135,496 |
| Travel and transportation | 155,113 | 26,188 | 20,145 | 201,446 |
| | <u>\$ 140,584,836</u> | <u>\$ 2,369,814</u> | <u>\$ 1,530,456</u> | <u>\$ 144,485,106</u> |

Note 13. Employee Benefit Plans

The Food Bank has a qualified retirement plan for the benefit of eligible employees. The plan is available to employees who work at least 20 hours per week and is available immediately after beginning employment. The plan has an employer match provision of up to 7% of employee salary deferrals. The Food Bank's contributions to the plan totaled \$491,941 and \$481,743 for the years ended June 30, 2019 and 2018, respectively.

The Food Bank has entered into an agreement for an unqualified, unfunded 457(b) retirement plan. This plan was intended to add additional retirement benefits for only key personnel at the Food Bank. Selected personnel are entitled to 100% of eligible benefits to date upon involuntary termination or to eligible benefits upon voluntary termination. Contributions to the plan are voluntary and the Food Bank may terminate the retirement plan at any time. This plan is employee funded only.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 14. Significant Estimates and Concentrations

The Food Bank is the recipient of federal, state and local assistance monies to operate its programs. Grants are subject to review and audit by grantor agencies. Such audits could result in noncompliance findings and disallowance of expenditures resulting in requests for reimbursement by the grantor agency. In the opinion of the Food Bank's management, such disallowance, if any, will not be significant.

For the years ended June 30, 2019 and 2018, federal and state government agencies accounted for approximately 6% of the Food Bank's revenues. Federal and state government agencies accounted for 47% and 38% of the Food Bank's receivables at June 30, 2019 and 2018, respectively.

Corporate and individual contributions are dependent upon various factors, such as grant writing, financial markets and individual capacity for giving. Donated food revenue is subject to various factors not within the control of the Food Bank.

The Food Bank maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation up to a maximum of \$250,000. The Food Bank has not experienced any losses in such accounts.

Overnight repurchase agreements involve investment risk, including the possible loss of principle. The securities bought and sold daily are direct obligations of, or obligations that are fully guaranteed, as to principal and interest by, the United States government or any agency thereof, including without limitation U.S. Treasury bills, bonds and notes and obligations guaranteed by the Government National Mortgage Association and Government Sponsored Enterprises, which are not agencies of the federal or any state government, and which do not receive any federal funds, such as the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Banks and Federal Home Loan Banks. The Food Bank had \$6,475,000 and \$6,670,000 in its overnight repurchase agreements account at June 30, 2019 and 2018, respectively.

Note 15. Self-Insured Health Insurance

The Food Bank became self-insured effective March 2018, up to certain limits, for employee group health claims. The Food Bank has purchased stop-loss insurance, which will reimburse the Food Bank for individual claims in excess of \$75,000 annually or aggregate claims exceeding \$761,678 annually. Operations are charged with the cost of claims reported and an estimate of claims incurred, but not reported. A liability for unpaid claims and the associated claim expenses, including incurred, but not reported losses, is estimated and reflected in the combined statements of financial position as accrued and other liabilities. Total expense under the program was \$946,417 and \$173,757 as of June 30, 2019 and 2018, respectively. The self-insured claims liability includes incurred, but not reported losses of \$123,436 and \$103,526 as of June 30, 2019 and 2018, respectively.

The determination of such claims and expenses and the appropriateness of the related liability are continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the near term.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.

Notes to Combined Financial Statements

Note 16. Liquidity and Availability

The following reflects the Food Bank's financial assets as of June 30, 2019, reduced by amounts not available for general expenditures within one year. The policy of the Food Bank is to structure its financial assets to be available for general expenditures and meet their upcoming liabilities. The Food Bank regularly monitors liquidity to meet its operating needs and other contractual commitments.

Financial assets at year-end:

| | |
|--------------------------------------|-------------------|
| Cash and cash equivalents | \$ 8,217,122 |
| Pledges receivable | 175,060 |
| Accounts receivable, net | 1,940,022 |
| Receivables from federal sources | 1,791,566 |
| Assets limited as to use—investments | <u>24,232,719</u> |
| Financial assets at of June 30, 2019 | <u>36,356,489</u> |

Less amounts not available to meet cash needs for general expenditures within one year:

| | |
|--|----------------------|
| Amounts not due within one year or subject to donor restriction | 4,926,941 |
| Amounts board-designated for future use | <u>12,365,096</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 19,064,452</u> |

The Food Bank has various sources of liquidity at its disposal, including cash and cash equivalents and investments. The Food Bank has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Board has designated a portion of the investments to create a six-month reserve, which is available for expenditures within one year. See Note 3 for investments that are board-designated for investments (i.e., six-month reserve). Based on historical experience, only the portion of pledges receivable due within one year are considered available for use in meeting annual operating needs (liquid). The Food Bank is supported by contributions and grants. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Food Bank must maintain sufficient resources to meet those responsibilities.

