



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

Combined Financial Report and
Supplementary Information
June 30, 2017

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Independent Auditor's Report

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

Report on the Combined 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 statement of financial position as of June 30, 2017, the related combined statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements (collectively, the financial statements).

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2017, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter—2016 Financial Statements

The combined financial statements of San Antonio Food Bank, Inc. and SAFB Real Estate, Inc. as of and for the year ended June 30, 2016, were audited by other auditors, whose report dated October 13, 2016, expressed an unmodified opinion on those statements.

Other Matter—Supplementary Information

Our audit of the financial statements was conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information as presented in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such supplementary information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information for the year ended June 30, 2016, was audited by other auditors, whose report dated October 13, 2016, expressed an unmodified opinion on such information in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017, 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 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 or on compliance. That report is an integral part of an audit performed in conformity with *Government Auditing Standards* in considering the Food Bank's internal control over financial reporting and compliance.

RSM US LLP

San Antonio, Texas
November 13, 2017

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

**Combined Statements of Financial Position
June 30, 2017 and 2016**

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,015,662 | \$ 8,835,767 |
| Restricted cash | 187,310 | 187,310 |
| Pledge receivables—current portion | 410,000 | 482,500 |
| Accounts receivable, net | 1,048,577 | 824,488 |
| Receivables from federal sources | 920,596 | 713,133 |
| Inventory | 8,602,736 | 10,676,839 |
| Prepaid expenses | 176,126 | 132,454 |
| Total current assets | 19,361,007 | 21,852,491 |
| Noncurrent assets: | | |
| Pledges receivable, net of current portion | 160,000 | 510,000 |
| Note receivable | 21,198,937 | 20,891,398 |
| Assets limited as to use—investments | 16,728,444 | 15,430,837 |
| Restricted cash | 673,019 | 783,829 |
| Property and equipment, net | 31,181,561 | 26,366,650 |
| Other assets | 323,648 | 262,703 |
| Total noncurrent assets | 70,265,609 | 64,245,417 |
| Total assets | \$ 89,626,616 | \$ 86,097,908 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,571,554 | \$ 861,860 |
| Accrued and other liabilities | 1,002,687 | 756,148 |
| Total current liabilities | 2,574,241 | 1,618,008 |
| Long-term debt | 26,219,077 | 26,061,017 |
| Total liabilities | 28,793,318 | 27,679,025 |
| Net assets: | | |
| Unrestricted net assets: | | |
| Undesignated | 43,953,066 | 41,670,367 |
| Board-designated | 16,328,444 | 15,030,837 |
| | 60,281,510 | 56,701,204 |
| Temporarily restricted net assets | 151,788 | 1,317,679 |
| Permanently restricted net assets | 400,000 | 400,000 |
| Total net assets | 60,833,298 | 58,418,883 |
| Total liabilities and net assets | \$ 89,626,616 | \$ 86,097,908 |

See notes to combined financial statements.

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

**Combined Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| Revenues, support and other changes: | | | | |
| Donated food | \$ 105,154,780 | \$ - | \$ - | \$ 105,154,780 |
| Contributions | 8,638,952 | 1,943,504 | - | 10,582,456 |
| Governmental funding authorities | 6,685,506 | 1,734,227 | - | 8,419,733 |
| United Way | 1,004,022 | - | - | 1,004,022 |
| Purchased food | 1,010,922 | - | - | 1,010,922 |
| Shared maintenance | 781,969 | - | - | 781,969 |
| Investment income | 867,039 | - | - | 867,039 |
| Special events, net of direct expenses of \$154,045 | 510,078 | - | - | 510,078 |
| Nonfederal contracts | 2,265,924 | - | - | 2,265,924 |
| Other income | 1,982,363 | - | - | 1,982,363 |
| Net assets released from restriction | 4,843,622 | (4,843,622) | - | - |
| Total revenues, support and other changes | 133,745,177 | (1,165,891) | - | 132,579,286 |
| Expenses: | | | | |
| Program expenses | 126,812,485 | - | - | 126,812,485 |
| Fundraising and development | 1,154,590 | - | - | 1,154,590 |
| General and administrative | 2,197,796 | - | - | 2,197,796 |
| Total expenses | 130,164,871 | - | - | 130,164,871 |
| Change in net assets | 3,580,306 | (1,165,891) | - | 2,414,415 |
| Net assets at beginning of year | 56,701,204 | 1,317,679 | 400,000 | 58,418,883 |
| Net assets at end of year | <u>\$ 60,281,510</u> | <u>\$ 151,788</u> | <u>\$ 400,000</u> | <u>\$ 60,833,298</u> |

See notes to combined financial statements.

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

**Combined Statement of Activities and Changes in Net Assets
Year Ended June 30, 2016**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------------|---------------------------|---------------------------|--------------------|
| Revenues, support and other changes: | | | | |
| Donated food | \$ 100,737,807 | \$ - | \$ - | \$ 100,737,807 |
| Contributions | 8,081,271 | 1,515,000 | - | 9,596,271 |
| Governmental funding authorities | 5,576,004 | 2,316,292 | - | 7,892,296 |
| United Way | 1,236,195 | - | - | 1,236,195 |
| Purchased food | 723,625 | - | - | 723,625 |
| Shared maintenance | 833,601 | - | - | 833,601 |
| Investment income | 182,950 | - | - | 182,950 |
| Special events, net of direct expenses of \$118,632 | 366,903 | - | - | 366,903 |
| Nonfederal contracts | 1,898,561 | - | - | 1,898,561 |
| Other income | 959,930 | - | - | 959,930 |
| Net assets released from restriction | 2,550,861 | (2,550,861) | - | - |
| Total revenues, support and other changes | 123,147,708 | 1,280,431 | - | 124,428,139 |
| Expenses: | | | | |
| Program expenses | 115,682,062 | - | - | 115,682,062 |
| Fundraising and development | 1,083,441 | - | - | 1,083,441 |
| General and administrative | 2,158,897 | - | - | 2,158,897 |
| Total expenses | 118,924,400 | - | - | 118,924,400 |
| Change in net assets | 4,223,308 | 1,280,431 | - | 5,503,739 |
| Net assets at beginning of year | 52,477,896 | 37,248 | 400,000 | 52,915,144 |
| Net assets at end of year | \$ 56,701,204 | \$ 1,317,679 | \$ 400,000 | \$ 58,418,883 |

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, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 2,414,415 | \$ 5,503,739 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 1,410,473 | 1,382,706 |
| Amortization | 158,060 | 158,059 |
| Net realized and unrealized (gain) loss on investments | (491,073) | 220,607 |
| Bad-debt expense | 138,919 | 183,390 |
| Gain on disposal of property and equipment | (6,000) | (1,500) |
| Note receivable—accrued interest | (307,539) | (301,665) |
| Changes in: | | |
| Pledges receivable | 422,500 | (592,500) |
| Accounts receivable | (363,008) | (216,595) |
| Receivables from federal sources | (207,463) | (90,035) |
| Inventory | 2,074,103 | (2,597,790) |
| Prepaid expenses | (43,672) | 865 |
| Other assets | (60,945) | (262,703) |
| Accounts payable | 709,694 | 212,633 |
| Accrued and other liabilities | 246,539 | 229,537 |
| Net cash provided by operating activities | 6,095,003 | 3,828,748 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (6,225,384) | (1,302,188) |
| Proceeds from sales of equipment | 6,000 | 1,500 |
| Change in restricted cash | 110,810 | 110,759 |
| Purchases of investments | (806,534) | (1,022,466) |
| Net cash used in investing activities | (6,915,108) | (2,212,395) |
| Net increase (decrease) in cash and cash equivalents | (820,105) | 1,616,353 |
| Cash and cash equivalents at beginning of year | 8,835,767 | 7,219,414 |
| Cash and cash equivalents at end of year | \$ 8,015,662 | \$ 8,835,767 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 176,060 | \$ 176,060 |

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 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 is supported primarily by contributions and governmental funding authorities.

SAFB Real Estate (Real Estate), a qualified active low-income community business, was organized in 2012 as a Texas nonprofit corporation. Real Estate was organized to acquire the present facility and construct the expansion of the current building for future use by the San Antonio Food Bank.

Both the San Antonio Food Bank 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 financial statements include the statements of financial condition, activities and changes in net assets, and cash flows for the San Antonio Food Bank and Real Estate. All balances and transactions between the entities have been eliminated in combination.

Basis of accounting: The 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 unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases 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.

Adopted accounting pronouncement: In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The Food Bank has adopted this accounting pronouncement effective July 1, 2016. Bond issuance costs were reclassified from other assets to long-term liabilities on the combined statements of financial position.

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

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the 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 updated standard 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. The new standard is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions,” and expands disclosures about the nature and amount of any donor restrictions. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted.

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 beginning on January 1, 2019. ASU No. 2016-18 must be applied using a retrospective transition method with early adoption permitted.

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

Basis of presentation: Net assets and revenue, expenses, gains and losses are classified based upon the following criteria:

- **Unrestricted net assets:** Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets result from operating revenues, unrestricted contributions and unrestricted dividend and interest income. Unrestricted net assets may be designated for specific purposes by action of the Board. The unrestricted board-designated endowment net asset is set up by the Food Bank Board for enhancing the overall operational performance of the Food Bank through continuing financial support.
- **Temporarily restricted net assets:** Temporarily restricted net assets consist of assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specified event. When the donor restriction expires, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

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

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

- **Permanently restricted net assets:** Permanently restricted net assets consist of net assets that are subject to donor-imposed stipulations that are to be maintained permanently. Generally, donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The required disclosures required by the Reporting Endowment Funds topic of the *FASB Accounting Standards Codification* (ASC) have not been included in these financial statements due to immateriality.

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 New Market Tax Credits 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 statements of financial position. U.S. money markets are measured at cost. Unrealized gains and losses are included in the statements of activities and changes in net assets.

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 consists of eligible expenditures incurred in excess of grant fund reimbursements.

Pledges receivables 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 financial statements. Pledges with payments to be receive in future years totaled approximately \$570,000 and \$992,500 at June 30, 2017 and 2016, 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 \$241,630 and \$162,335 at June 30, 2017 and 2016, 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 (\$1.73 as of June 30, 2017, and \$1.67 as of June 30, 2016) 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 are 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 seven years; equipment—three to 10 years; furniture and fixtures—five to 10 years; 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, 2017 and 2016.

Issuance costs: Issuance costs represent costs incurred related to the issuance of the new market tax credit (NMTC) notes payable, as discussed in Note 8, and are amortized over the term of the related debt. Issuance costs net of accumulated amortization totaled \$310,923 and \$468,983 at June 30, 2017 and 2016, respectively. Issuance costs are presented as a component of long-term debt in the combined statements of financial condition.

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, 2017 and 2016.

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, 2017 and 2016, no interest or penalties have been or are required to be accrued. The Food Bank, generally, is no longer subject to income tax examinations by federal authorities for years prior to June 30, 2013.

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 an average per pound of food, as determined on an annual basis by Feeding America.

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 unrestricted, temporarily restricted or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions received and expended in the same fiscal year are recorded as unrestricted contributions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets 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.
- **Government funding:** Government 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 government grants and 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 an accrual basis.
- **Purchased food:** The Food Bank recognizes as purchased food revenue, a 10 percent 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 statement of activities and changes in net assets).
- **Nonfederal contracts:** Nonfederal contracts consist of contracts for food disbursement to nonfederal entities. 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 \$752,237 and \$19,117 for the years ended June 30, 2017 and 2016, respectively.

Functional allocation of expenses: The costs of providing various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs including salaries, benefits, taxes and workers' compensation, depreciation and amortization and professional fees and dues have been allocated among the programs and supporting services benefited. Costs including insurance, interest, telephone, travel and transportation, affiliation dues and other expenses are allocated based on total number of employees per department.

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

Notes to Combined Financial Statements

Note 1. Organization and Significant Accounting Policies (Continued)

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.

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 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, 2017 and 2016, total advertising costs totaled \$45,500 and \$41,898, respectively.

Subsequent events: The Food Bank has evaluated subsequent events through November 13, 2017, the date the combined financial statements were available to be issued.

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

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.

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

Notes to Combined Financial Statements

Note 2. Fair Value Measurements and Disclosures (Continued)

The fair value of the Food Bank's cash and cash equivalents, receivables and payables and prepaid and accrued expenses approximates the carrying amounts of such instruments due to their short maturity. The fair value of the notes 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 notes 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.

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, 2017 and 2016, and by level within the fair value measurement hierarchy:

| June 30, 2017 | | | | |
|--|---------------------|----------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments by fair value level: | | | | |
| Stocks: | | | | |
| Domestic | \$ 4,081,033 | \$ - | \$ - | \$ 4,081,033 |
| International | 90,810 | - | - | 90,810 |
| Bonds: | | | | |
| Domestic | - | 11,340,080 | - | 11,340,080 |
| International | - | 713,433 | - | 713,433 |
| | <u>\$ 4,171,843</u> | <u>\$ 12,053,513</u> | <u>\$ -</u> | <u>\$ 16,225,356</u> |
| Investments measured at cost: | | | | |
| U.S. money markets | | | | 503,088 |
| Total assets limited as to use—investments | | | | <u>\$ 16,728,444</u> |
| June 30, 2016 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Investments by fair value level: | | | | |
| Stocks: | | | | |
| Domestic | \$ 3,309,068 | \$ - | \$ - | \$ 3,309,068 |
| International | 349,320 | - | - | 349,320 |
| Bonds: | | | | |
| Domestic | - | 10,660,081 | - | 10,660,081 |
| International | - | 436,465 | - | 436,465 |
| | <u>\$ 3,658,388</u> | <u>\$ 11,096,546</u> | <u>\$ -</u> | <u>\$ 14,754,934</u> |
| Investments measured at cost: | | | | |
| U.S. money markets | | | | 675,903 |
| Total assets limited as to use—investments | | | | <u>\$ 15,430,837</u> |

Bond and fixed income investments are classified within Level 2 of the valuation hierarchy, with the exception of certain Treasury bonds and 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 | |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| Board-designated endowments | \$ 5,364,969 | \$ 4,843,499 |
| Endowment-donor restricted | 400,000 | 400,000 |
| Board-designated investments | 7,598,379 | 7,687,338 |
| Board-designated for capital purchases | 3,365,096 | 2,500,000 |
| | <u>\$ 16,728,444</u> | <u>\$ 15,430,837</u> |

Assets limited as to use—investments consist of the following:

| | June 30, 2017 | | |
|--------------------|----------------------|----------------------|-------------------------|
| | Cost | Estimated Fair Value | Unrealized Depreciation |
| Stocks: | | | |
| Domestic | \$ 3,870,776 | \$ 4,081,033 | \$ 210,257 |
| International | 56,103 | 90,810 | 34,707 |
| Bonds: | | | |
| Domestic | 11,436,832 | 11,340,080 | (96,752) |
| International | 713,897 | 713,433 | (464) |
| U.S. money markets | 503,088 | 503,088 | - |
| | <u>\$ 16,580,696</u> | <u>\$ 16,728,444</u> | <u>\$ 147,748</u> |

| | June 30, 2016 | | |
|--------------------|----------------------|----------------------|-------------------------|
| | Cost | Estimated Fair Value | Unrealized Depreciation |
| Stocks: | | | |
| Domestic | \$ 3,467,700 | \$ 3,309,068 | \$ (158,632) |
| International | 328,869 | 349,320 | 20,451 |
| Bonds: | | | |
| Domestic | 10,864,409 | 10,660,081 | (204,328) |
| International | 437,281 | 436,465 | (816) |
| U.S. money markets | 675,903 | 675,903 | - |
| | <u>\$ 15,774,162</u> | <u>\$ 15,430,837</u> | <u>\$ (343,325)</u> |

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.**Notes to Combined Financial Statements**

Note 3. Assets Limited as to Use—Investments (Continued)

Assets limited as to use—investments income consists of the following:

| | Year Ended June 30, 2017 | | |
|----------------------------------|--------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividends | \$ 449,671 | \$ - | \$ 449,671 |
| Net realized and unrealized gain | 491,073 | - | 491,073 |
| Investment expenses | (73,705) | - | (73,705) |
| | <u>\$ 867,039</u> | <u>\$ -</u> | <u>\$ 867,039</u> |

| | Year Ended June 30, 2016 | | |
|------------------------------------|--------------------------|---------------------------|-------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Interest and dividends | \$ 471,109 | \$ - | \$ 471,109 |
| Net realized and unrealized losses | (220,607) | - | (220,607) |
| Investment expenses | (67,552) | - | (67,552) |
| | <u>\$ 182,950</u> | <u>\$ -</u> | <u>\$ 182,950</u> |

Note 4. Pledge Receivables

Pledges receivable are expected to be collected as follows:

| | |
|-----------------------|-------------------|
| Years ending June 30: | |
| 2018 | \$ 410,000 |
| 2019 | 60,000 |
| 2020 | 50,000 |
| 2021 | 50,000 |
| | <u>\$ 570,000</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 | |
|--------------------------|---------------------|----------------------|
| | 2017 | 2016 |
| Donated food inventory | \$ 8,160,868 | \$ 10,261,069 |
| Purchased food inventory | 441,868 | 415,770 |
| | <u>\$ 8,602,736</u> | <u>\$ 10,676,839</u> |

Note 6. Property and Equipment

Property and equipment consist of the following:

| | June 30 | |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| Land | \$ 1,553,222 | \$ 962,572 |
| Buildings and improvements | 26,100,132 | 25,967,535 |
| Vehicles | 4,928,397 | 4,643,131 |
| Equipment | 2,242,525 | 2,201,270 |
| Furniture and fixtures | 846,711 | 846,711 |
| Intangible assets | 121,803 | 111,290 |
| Construction in progress | 5,426,341 | 419,527 |
| | <u>41,219,131</u> | <u>35,152,036</u> |
| Less accumulated depreciation and amortization | <u>10,037,570</u> | <u>8,785,386</u> |
| Net property and equipment | <u>\$ 31,181,561</u> | <u>\$ 26,366,650</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 percent 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 percent. Interest is payable quarterly beginning October 2012 until June 30, 2042. All principal and unpaid interest is due and payable in June 30, 2042. Interest earned as of June 30, 2017 and 2016, totaled \$406,087 and \$400,213, respectively, and has been included in other income on the statement of activities and changes in net assets. The note receivable totaled \$21,198,937 and \$20,891,398 for the years ended June 30, 2017 and 2016, 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 notes payable 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 that 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 notes payable against San Antonio Food Bank loan receivable from SAFB 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.

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, 2017 and 2016, \$860,329 and \$971,139, 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 property.

Under the terms of the loan agreement, each loan has an interest rate of 0.65985 percent 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.

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.**Notes to Combined Financial Statements****Note 8. Long-Term Debt (Continued)**

Long-term debt consists of the following:

| | June 30 | |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| Note payable to NNMF Sub-CDE XVI, LLC; maturing June 30, 2042; principal payments commencing in October 2019 | \$ 10,152,333 | \$ 10,152,333 |
| Note payable to NNMF Sub-CDE XVI, LLC; maturing June 30, 2042; principal payments commencing in June 2019 | 3,637,667 | 3,637,667 |
| Note payable to TMF Sub-CDE VIII, LLC; maturing June 30, 2042; principal payments commencing in October 2019 | 9,557,167 | 9,557,167 |
| Note payable to TMF Sub-CDE VIII, LLC; maturing June 30, 2042; principal payments commencing in June 2019 | 3,182,833 | 3,182,833 |
| | 26,530,000 | 26,530,000 |
| Less issuance costs | 310,923 | 468,983 |
| | <u>\$ 26,219,077</u> | <u>\$ 26,061,017</u> |

Aggregate maturities required on long-term debt at June 30, 2017, were as follows:

| | |
|-------------------------|----------------------|
| Years ending June 30: | |
| 2018 | \$ - |
| 2019 | 240,000 |
| 2020 | 796,768 |
| 2021 | 1,067,336 |
| 2022 | 1,081,503 |
| Thereafter through 2042 | 23,344,393 |
| | <u>\$ 26,530,000</u> |

Interest expense totaled \$175,060 for each of the years ended June 30, 2017 and 2016.

Note 9. Leases

The Food Bank leases equipment pursuant to noncancelable operating lease agreements expiring through 2019. Rental expense totaled approximately \$218,000 and \$135,000 for the years ended June 30, 2017 and 2016, respectively.

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

| | |
|-----------------------|-------------------|
| Years ending June 30: | |
| 2018 | \$ 171,893 |
| 2019 | 139,028 |
| 2020 | 96,588 |
| 2021 | 54,249 |
| 2022 | 21,000 |
| | <u>\$ 482,758</u> |

San Antonio Food Bank, Inc. and SAFB Real Estate, Inc.**Notes to Combined Financial Statements**

Note 10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

| | June 30 | |
|--------------------------------|-------------------|---------------------|
| | 2017 | 2016 |
| Capital Campaign | \$ - | \$ 1,287,515 |
| Food Distribution Program | - | 20,164 |
| Other—disaster relief | 10,000 | 10,000 |
| New Braunfels Food Bank (NBFB) | 67,890 | - |
| NBFB Workforce | 23,898 | - |
| Volunteer Project | 50,000 | - |
| | <u>\$ 151,788</u> | <u>\$ 1,317,679</u> |

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

| | June 30 | |
|----------------------------|---------------------|---------------------|
| | 2017 | 2016 |
| Capital improvements | \$ 3,231,019 | \$ 227,485 |
| Food distribution programs | 258,120 | 821,967 |
| Kitchen table | 48,633 | 205,757 |
| Transportation of food | 110,250 | 400,000 |
| Children's programs | 438,705 | 395,576 |
| Nutrition | 480,000 | 445,500 |
| Grocery Rescue Program | 176,375 | - |
| Equipment | 20,142 | 53,400 |
| Daisy Cares | 3,865 | - |
| Community garden | 4,316 | 75 |
| Other | 72,197 | 1,101 |
| | <u>\$ 4,843,622</u> | <u>\$ 2,550,861</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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment 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 permanently restricted net assets is classified as temporarily restricted net assets 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 unrestricted net assets as of June 30, 2017 or 2016.

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 percent 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 percent 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, 2017 | | | |
|----------------------------------|--------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ - | \$ - | \$ 400,000 | \$ 400,000 |
| Board-designated endowments | 5,364,969 | - | - | 5,364,969 |
| | <u>\$ 5,364,969</u> | <u>\$ -</u> | <u>\$ 400,000</u> | <u>\$ 5,764,969</u> |

| | Year Ended June 30, 2016 | | | |
|----------------------------------|--------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | \$ - | \$ - | \$ 400,000 | \$ 400,000 |
| Board-designated endowments | 4,843,499 | - | - | 4,843,499 |
| | <u>\$ 4,843,499</u> | <u>\$ -</u> | <u>\$ 400,000</u> | <u>\$ 5,243,499</u> |

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

| | Year Ended June 30, 2017 | | | |
|---|--------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets at beginning of year | \$ 4,843,499 | \$ - | \$ 400,000 | \$ 5,243,499 |
| Investment return: | | | | |
| Investment income | 151,984 | - | - | 151,984 |
| Net appreciation | 410,916 | - | - | 410,916 |
| Amounts appropriated for expenditures | (41,430) | - | - | (41,430) |
| Endowment net assets at end of year | <u>\$ 5,364,969</u> | <u>\$ -</u> | <u>\$ 400,000</u> | <u>\$ 5,764,969</u> |

| | Year Ended June 30, 2016 | | | |
|---|--------------------------|------------------------|------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets at beginning of year | \$ 4,688,424 | \$ - | \$ 400,000 | \$ 5,088,424 |
| Investment return: | | | | |
| Investment income | 165,465 | - | - | 165,465 |
| Net appreciation | 27,217 | - | - | 27,217 |
| Amounts appropriated for expenditures | (37,607) | - | - | (37,607) |
| Endowment net assets at end of year | <u>\$ 4,843,499</u> | <u>\$ -</u> | <u>\$ 400,000</u> | <u>\$ 5,243,499</u> |

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

Notes to Combined Financial Statements

Note 11. Endowments (Continued)

Amounts of donor-restricted endowment funds classified as permanently restricted net assets consist of the following:

| | June 30 | |
|---|------------|------------|
| | 2017 | 2016 |
| Permanently restricted net assets: | | |
| The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by SPMIFA | \$ 400,000 | \$ 400,000 |

Note 12. 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 percent of employee salary deferrals. The Food Bank's contributions to the plan were \$393,229 and \$367,247 for the years ended June 30, 2017 and 2016, respectively.

Effective May 15, 2009, the Food Bank created an unqualified, unfunded retirement plan to encourage executive personnel to remain with the Food Bank for a ten-year period. The plan stipulates that Board-selected personnel accumulated an initial unvested benefit of \$100,000 on May 15, 2009, and an additional benefit of 10 percent of base pay each July 31, beginning in 2009 and extending through 2018. Vesting in the benefit was 30 percent through July 31, 2011, and then increases 10 percent per year through July 31, 2018. Selected personnel are entitled to 100 percent of eligible benefits to date upon involuntary termination, or to vested eligible benefits upon voluntary termination. The Food Bank may terminate the retirement plan at any time. The plan is currently unfunded.

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 the key personnel at the Food Bank. Selected personnel are entitled to 100 percent 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.

Note 13. 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, 2017 and 2016, federal and state government agencies accounted for approximately 6 percent of the Food Bank's revenues. Federal and state government agencies accounted for 42 percent of the Food Bank's receivables at June 30, 2017 and 2016.

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.

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

Notes to Combined Financial Statements

Note 13. Significant Estimates and Concentrations (Continued)

The Food Bank maintains its cash in bank deposit accounts which, 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 \$8,481,000 and \$8,063,000 in its overnight repurchase agreements account at June 30, 2017 and 2016, respectively.

Note 14. Subsequent Event

In 2016, the Food Bank began a capital campaign to build a new operating facility in New Braunfels, Texas to be named the New Braunfels Food Bank. The construction of the New Braunfels building was completed on August 4, 2017. A total of \$294,164 was in accounts payable at June 30, 2017. There were no other unpaid commitments at June 30, 2017.

Supplementary Information

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

Combined Schedule of Functional Expenses

Year Ended June 30, 2017

(With Summarized Financial Information for the Year Ended June 30, 2016)

| | Program Expenses | Supporting Services | | Total | |
|--|-----------------------|--------------------------------|-------------------------------|-----------------------|-----------------------|
| | | Fundraising and Development | General and Administration | 2017 | 2016 |
| Distributed food | \$ 111,618,093 | \$ - | \$ - | \$ 111,618,093 | \$ 101,527,840 |
| Salaries | 7,735,636 | 657,276 | 803,708 | 9,196,620 | 8,547,226 |
| Benefits | 1,488,793 | 39,339 | 58,093 | 1,586,225 | 1,335,201 |
| Taxes and workers' compensation | 602,203 | 59,009 | 63,481 | 724,693 | 700,933 |
| Total salaries and benefits | 9,826,632 | 755,624 | 925,282 | 11,507,538 | 10,583,360 |
| Affiliation dues | 72,974 | 6,903 | 18,737 | 98,614 | 63,384 |
| Depreciation and amortization | 847,007 | 15,686 | 705,840 | 1,568,533 | 1,540,765 |
| Insurance | 194,385 | 18,387 | 49,910 | 262,682 | 289,290 |
| Interest | 219,135 | 20,729 | 56,265 | 296,129 | 196,685 |
| Occupancy and product storage | 867,505 | 67,133 | 24,410 | 959,048 | 904,393 |
| Other expenses | 872,352 | 82,520 | 156,277 | 1,111,149 | 1,046,200 |
| Postage and shipping | 13,895 | 46,574 | 340 | 60,809 | 128,060 |
| Printing and publications | 369,936 | 27,933 | 1,169 | 399,038 | 543,766 |
| Professional fees and dues | 71,982 | 14,396 | 57,585 | 143,963 | 156,779 |
| Rental and maintenance of equipment | 791,859 | 38,817 | 12,250 | 842,926 | 698,611 |
| Supplies and food items | 752,132 | 32,021 | 114,091 | 898,244 | 887,801 |
| Telephone | 112,998 | 10,689 | 29,013 | 152,700 | 117,766 |
| Travel and transportation | 181,600 | 17,178 | 46,627 | 245,405 | 239,700 |
| | \$ 126,812,485 | \$ 1,154,590 | \$ 2,197,796 | \$ 130,164,871 | \$ 118,924,400 |

