

***FEEDING SAN DIEGO***

**FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

**WITH INDEPENDENT AUDITORS' REPORT**

**FEEDING SAN DIEGO  
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JUNE 30, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors of  
Feeding San Diego  
San Diego, California

We have audited the accompanying financial statements of Feeding San Diego (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to 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.

### **Auditors' 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. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 Feeding San Diego as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, in June 2015, the Organization received a conditional pledge from one donor in the amount of \$15,000,000, in which the donor will pay \$3,000,000 per year for a period of five years starting in July 2015. The pledge is contingent on various organizational goals and factors that must be measured and met, many of which are possible, but not certain. Accordingly, the Organization has recorded deferred revenue of \$3,000,000 as of June 30, 2017 and 2016, and did not record the remaining \$6,000,000 of the pledge as of June 30, 2017, as the necessary conditions to be met are still uncertain. Our opinion is not modified with respect to that matter.

*White Nelson Dick Evans LLP*

Irvine, California  
June 7, 2018

**FEEDING SAN DIEGO**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

**ASSETS**

	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 1,466,671	\$ 1,443,533
Accounts receivable, net	19,405	25,384
Pledges receivable	3,108,905	3,320,794
Inventory	1,181,734	998,438
Prepaid expenses and other current assets	162,517	146,286
Total Current Assets	5,939,232	5,934,435
Property and Equipment, at Net Book Value	853,098	564,099
Other Assets:		
Deposits	56,670	58,941
Total Assets	\$ 6,849,000	\$ 6,557,475

**LIABILITIES AND NET ASSETS**

Current Liabilities:		
Accounts payable	\$ 226,975	\$ 171,104
Accrued expenses	173,642	175,958
Deferred donations	3,000,000	3,000,000
Total Current Liabilities	3,400,617	3,347,062
Long-Term Liabilities:		
Deferred rent	106,446	108,850
Total Liabilities	3,507,063	3,455,912
Net Assets:		
Unrestricted	2,960,473	2,205,632
Temporarily restricted	381,464	895,931
Total Net Assets	3,341,937	3,101,563
Total Liabilities and Net Assets	\$ 6,849,000	\$ 6,557,475

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

**FEEDING SAN DIEGO**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Community Support:				
Donated food products and merchandise	\$ 40,978,448	\$ -	\$ -	\$ 40,978,448
Grants and awards	3,621,923	366,048	-	3,987,971
Contributions	1,659,844	962,546	-	2,622,390
In-kind contributions	102,673	-	-	102,673
Total Community Support	46,362,888	1,328,594	-	47,691,482
Shared Maintenance Fees	151,217	-	-	151,217
Other Income	6,593	-	-	6,593
Net Assets Released from Restrictions	1,843,061	(1,843,061)	-	-
Total Support and Revenue	48,363,759	(514,467)	-	47,849,292
Expenses:				
Program:				
Program expenses	45,498,017	-	-	45,498,017
Total Program Expenses	45,498,017	-	-	45,498,017
Support:				
General and administrative	740,815	-	-	740,815
Development	1,370,086	-	-	1,370,086
Total Support Expenses	2,110,901	-	-	2,110,901
Total Expenses	47,608,918	-	-	47,608,918
Change in Net Assets	754,841	(514,467)	-	240,374
Total Net Assets, Beginning of Year	2,205,632	895,931	-	3,101,563
Total Net Asset, End of Year	\$ 2,960,473	\$ 381,464	\$ -	\$ 3,341,937

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

**FEEDING SAN DIEGO**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Community Support:				
Donated food products and merchandise	\$ 35,691,113	\$ -	\$ -	\$ 35,691,113
Grants and awards	3,657,069	222,240	-	3,879,309
Contributions	1,893,978	1,117,669	-	3,011,647
In-kind contributions	232,995	-	-	232,995
Total Community Support	41,475,155	1,339,909	-	42,815,064
Shared Maintenance Fees	145,036	-	-	145,036
Other Income	10,461	-	-	10,461
Net Assets Released from Restrictions	1,151,119	(1,151,119)	-	-
Total Support and Revenue	42,781,771	188,790	-	42,970,561
Expenses:				
Program:				
Program expenses	40,004,582	-	-	40,004,582
Total Program Expenses	40,004,582	-	-	40,004,582
Support:				
General and administrative	720,246	-	-	720,246
Development	1,279,749	-	-	1,279,749
Total Support Expenses	1,999,995	-	-	1,999,995
Total Expenses	42,004,577	-	-	42,004,577
Change in Net Assets	777,194	188,790	-	965,984
Total Net Assets, Beginning of Year	1,428,438	707,141	-	2,135,579
Total Net Asset, End of Year	\$ 2,205,632	\$ 895,931	\$ -	\$ 3,101,563

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

**FEEDING SAN DIEGO**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Change in Total Net Assets	\$ 240,374	\$ 965,984
Noncash Items Included in Change in Total Net Assets:		
Allowance for doubtful accounts	(8,667)	2,504
Depreciation	162,068	154,953
Deferred rent	(2,404)	87,177
Loss on disposal of property and equipment	19,639	-
Changes in:		
Accounts receivable	14,646	(9,928)
Pledges receivable	211,889	3,401
Inventory	(183,296)	(14,531)
Prepaid expenses and other current assets	(16,231)	(38,874)
Deposits	2,271	4,967
Accounts payable	55,871	(972)
Accrued expenses	(2,316)	(117,046)
Net Cash and Cash Equivalents Provided by Operating Activities	<u>493,844</u>	<u>1,037,635</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(470,706)</u>	<u>(179,943)</u>
Net Cash and Cash Equivalents Used in Investing Activities	(470,706)	(179,943)
Cash Flows from Financing Activities:		
Payments on long-term debt	<u>-</u>	<u>(25,000)</u>
Net Cash and Cash Equivalents Used in Financing Activities	<u>-</u>	<u>(25,000)</u>
Net Change in Cash and Cash Equivalents	23,138	832,692
Cash and Cash Equivalents, Beginning of Year	<u>1,443,533</u>	<u>610,841</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,466,671</u></u>	<u><u>\$ 1,443,533</u></u>
Supplemental Disclosure of Noncash Activities:		
Pledges receivable recorded as deferred donations	<u><u>\$ 3,000,000</u></u>	<u><u>\$ 3,000,000</u></u>

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



**FEEDING SAN DIEGO**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2017**

	<b>Programs</b>					<b>Total Program Expenses</b>	<b>General and Administrative</b>	<b>Development</b>	<b>Total Expenses</b>
	<b>Agency Distribution</b>	<b>Feeding Families</b>	<b>Feeding Kids</b>	<b>Feeding Seniors</b>	<b>Feeding Excellence</b>				
In-kind food donations	\$ 34,656,878	\$ 2,358,974	\$ 3,404,343	\$ 81,344	\$ 170,822	\$ 40,672,361	\$ -	\$ -	\$ 40,672,361
Salaries	1,029,714	73,029	140,832	6,106	114,112	1,363,793	240,551	581,917	2,186,261
Food procurement	707,980	68,630	519,198	12,075	45,741	1,353,624	-	-	1,353,624
Rent	473,887	31,934	46,016	1,061	4,949	557,847	21,034	10,309	589,190
Programs	294,365	480	3,170	50,000	18,570	366,585	-	-	366,585
Freight and transportation	308,923	21,028	30,345	725	1,523	362,544	-	-	362,544
Employee benefits	163,076	11,161	19,858	764	12,531	207,390	31,294	62,430	301,114
Public relations and marketing	43	3	4	-	67	117	-	297,720	297,837
Miscellaneous expenses	59,133	2,532	5,714	141	2,490	70,010	143,383	12,989	226,382
Fundraising expense	62	4	6	-	-	72	-	167,726	167,798
Depreciation	-	-	-	-	-	-	162,068	-	162,068
Utilities	116,656	7,860	11,326	261	1,218	137,321	5,177	2,538	145,036
In-kind professional services	-	-	-	-	-	-	16,284	75,030	91,314
Outside services	32,130	2,123	3,060	71	329	37,713	52,409	921	91,043
Dues and subscriptions	58,789	4,947	5,669	126	409	69,940	584	13,044	83,568
Postage and printing	182	11	15	-	1,734	1,942	5,874	67,054	74,870
Vehicle expenses	61,873	4,246	6,050	145	304	72,618	-	-	72,618
Repairs and maintenance	53,438	3,637	5,249	125	263	62,712	-	-	62,712
Travel	11,051	947	3,660	1,959	24,785	42,402	8,140	11,347	61,889
Special events	-	-	-	-	-	-	-	57,321	57,321
Insurance	37,784	2,546	3,669	85	395	44,479	1,677	822	46,978
Supplies	34,447	2,340	3,376	80	192	40,435	1,829	542	42,806
Computer expenses	26,669	1,797	2,590	60	279	31,395	1,757	6,580	39,732
Bank charges	3	-	-	-	-	3	33,078	323	33,404
Employee events	892	60	87	2	9	1,050	6,379	44	7,473
Professional services	-	-	-	-	-	-	6,520	-	6,520
Training and education	1,386	94	146	3	7	1,636	2,704	1,429	5,769
Bad debt expense (recovery)	-	-	-	-	-	-	73	-	73
Repack expense	24	2	2	-	-	28	-	-	28
	<u>\$ 38,129,385</u>	<u>\$ 2,598,385</u>	<u>\$ 4,214,385</u>	<u>\$ 155,133</u>	<u>\$ 400,729</u>	<u>\$ 45,498,017</u>	<u>\$ 740,815</u>	<u>\$ 1,370,086</u>	<u>\$ 47,608,918</u>
	<u>80.09%</u>	<u>5.46%</u>	<u>8.85%</u>	<u>0.33%</u>	<u>0.84%</u>	<u>95.57%</u>	<u>1.56%</u>	<u>2.88%</u>	<u>100.00%</u>

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

**FEEDING SAN DIEGO**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2016**

	<u>Programs</u>					<u>Total Program Expenses</u>	<u>General and Administrative</u>		<u>Total Expenses</u>
	<u>Agency Distribution</u>	<u>Feeding Families</u>	<u>Feeding Kids</u>	<u>Feeding Seniors</u>	<u>Feeding Excellence</u>		<u>Development</u>	<u>Development</u>	
In-kind food donations	\$ 30,738,072	\$ 2,492,990	\$ 2,657,416	\$ 34,212	\$ 37,916	\$ 35,960,606	\$ -	\$ -	\$ 35,960,606
Salaries	1,033,227	80,058	176,497	7,296	124,261	1,421,339	171,597	480,444	2,073,380
Food procurement	146,908	92,502	666,733	6,019	27,275	939,437	-	-	939,437
Rent	407,185	28,647	47,490	1,634	5,974	490,930	11,643	8,068	510,641
Fundraising expense	10	-	-	-	-	10	-	312,984	312,994
Employee benefits	151,312	11,661	24,351	1,011	13,317	201,652	26,216	58,012	285,880
Freight and transportation	231,105	15,514	24,681	547	1,779	273,626	-	-	273,626
In-kind professional services	-	-	-	-	-	-	183,384	49,612	232,996
Public relations and marketing	13	-	269	-	-	282	7,178	213,779	221,239
Depreciation	-	-	-	-	-	-	154,953	-	154,953
Miscellaneous expenses	63,657	4,265	9,162	160	7,058	84,302	43,973	14,475	142,750
Utilities	106,671	7,505	12,441	428	2,464	129,509	3,050	2,515	135,074
Programs	98,065	340	10,523	12	16,034	124,974	-	-	124,974
Outside services	21,491	2,102	13,358	52	10,880	47,883	34,652	14,744	97,279
Dues and subscriptions	58,789	4,947	5,669	126	409	69,940	584	13,044	83,568
Travel	14,764	720	5,136	158	15,503	36,281	16,118	5,126	57,525
Vehicle expenses	47,012	3,149	5,009	111	361	55,642	-	-	55,642
Special events	-	-	-	-	-	-	-	54,746	54,746
Repairs and maintenance	44,729	3,003	4,777	106	344	52,959	-	-	52,959
Postage and printing	5,116	428	894	10	2,413	8,861	2,197	40,360	51,418
Supplies	37,301	2,525	4,141	88	456	44,511	2,074	856	47,441
Insurance	33,219	2,337	3,874	133	488	40,051	950	658	41,659
Bank charges	-	-	-	-	-	-	34,029	1,428	35,457
Computer expenses	13,407	1,065	2,382	28	1,440	18,322	4,651	7,122	30,095
Professional services	3,021	538	257	6	332	4,154	9,630	1,382	15,166
Training and education	4,322	290	462	10	33	5,117	3,133	394	8,644
Bad debt expense (recovery)	(6,897)	-	-	-	-	(6,897)	9,401	-	2,504
Repack expense	921	62	99	2	7	1,091	-	-	1,091
Employee events	-	-	-	-	-	-	661	-	661
Interest expense	-	-	-	-	-	-	172	-	172
	<u>\$ 33,253,420</u>	<u>\$ 2,754,648</u>	<u>\$ 3,675,621</u>	<u>\$ 52,149</u>	<u>\$ 268,744</u>	<u>\$ 40,004,582</u>	<u>\$ 720,246</u>	<u>\$ 1,279,749</u>	<u>\$ 42,004,577</u>
	<u>79.17%</u>	<u>6.56%</u>	<u>8.75%</u>	<u>0.11%</u>	<u>0.64%</u>	<u>95.24%</u>	<u>1.71%</u>	<u>3.05%</u>	<u>100.00%</u>

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

**FEEDING SAN DIEGO  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Feeding San Diego (the “Organization”) was established in 2007 to efficiently gather, warehouse, and distribute shelf-stable food and produce to over 150 nonprofit agencies, including food pantries, after-school and senior programs, and congregate feeding programs that operate their own distribution sites to meet the needs of food-insecure people in San Diego County. The Organization also operates rural food distribution sites through the Mobile Pantry Program, as well as partners with schools, health clinics, and senior-specific sites, which directly distribute food to those in need. The mission of the Organization is as follows: “We are committed to a culture of responsibility and dignity and to leading our local community in the fight against hunger by efficiently providing access to food and nutritious meals. Feeding San Diego builds local and national partnerships with purpose.” The Organization strives to provide the highest possible service to those in need. During the year ended June 30, 2017, the Organization distributed over 25.2 million pounds of food, serving 63,000 children, families, and seniors each week.

**Program Services**

The Organization has four initiatives to capture the nature of the programs that it operates in furtherance of its mission. The initiatives focus on each target population and the over-arching vision of a hunger-free and healthy San Diego.

*Feeding Families*

**Partner Agencies:** The Organization works closely with more than 150 partner agencies to provide food and resources to individuals and families across San Diego. According to research by Feeding America, 26 percent of those served by partner agencies are under the age of 18 and 10 percent are under the age of 5. Nonprofit agency partners are held to a strict set of guidelines and governing procedures that ensure food is distributed safely in accordance with state and federal laws.

**Mobile Pantry:** Serving predominantly rural areas, especially in the North and East Counties of San Diego, the Mobile Pantry delivers food to underserved neighborhoods that have a high incidence of poverty and lack consistent access to transportation to reach grocery stores or other sources of fresh, healthy food. Families have access to this farmer’s market style distribution at sites across the county twice per month, often paired with nutrition education, CalFresh outreach, or other community resources.

**Military Families:** San Diego is home to several military bases and thousands of currently serving and retired service members. As a part of the San Diego community, and in partnership with local military organizations, the Organization seeks to serve and support members of the military and veterans when they face hard times. To meet this need, the Organization provides food to partner agencies and schools who serve members of the military, veterans, and their families.

**FEEDING SAN DIEGO  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Program Services (Continued)**

*Feeding Kids*

**BackPack:** The BackPack program aims to meet the nutritional needs of food-insecure children over weekends. Typically, each child receives an easy-to-carry bag filled with nutritious staple items and two to three pounds of fresh produce when leaving school on Thursday or Friday afternoons.

**School Pantry:** The School Pantry program helps alleviate child hunger in San Diego County by providing nutritious, healthy food to low-income students and their families. Distribution sites set up in a farmer's market style are consistently in the same locations at each campus, have routine distribution schedules, and provide access to nutrition education and additional community resources. When food is provided at locations a family already visits, parents and guardians do not have to give up more of their valuable time and transportation budget to put food on the table.

- **Regional School Break Distribution Sites** reach children outside of the school setting by providing produce and healthy staple items to children and their families in a convenient location when school is out.

**CACFP and SFSP:** The Child and Adult Care Food Program (CACFP) and the Summer Food Service Program (SFSP) are federal, child-focused nutrition programs that contribute to the wellness, healthy growth, and development of children and youth by providing healthy meals and snacks. The Organization sponsors CACFP at after-school sites throughout the year and SFSP during the summer to meet the increased need when children are not receiving school meals. Over the summer of 2017, the Organization sponsored a Mobile Meals program providing meals to children in rural areas of San Diego County.

*Feeding Seniors*

According to research conducted by Feeding America and the National Foundation to End Senior Hunger, 5.4 million seniors in America or 1 in 12 seniors were food-insecure in 2015, including 8.4 percent of seniors living in California.

**FEEDING SAN DIEGO  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Program Services (Continued)**

*Feeding Seniors (Continued)*

The Organization addresses this growing need by providing healthy meals to food-insecure seniors in San Diego County through strategic partnerships. In San Diego, 10 percent of those served by Feeding San Diego partner agencies, or approximately 5,000 individuals each week, are over the age of 60. To best serve seniors in San Diego, the Organization has developed strategic partnerships with senior housing facilities, Meals on Wheels, and community centers.

*Feeding Excellence*

**Health and Nutrition:** With more than one-third of San Diego residents considered overweight or obese, those facing hunger not only need more food to eat, they need healthier food. Other chronic diseases and health issues linked to hunger are prevalent among those served by the Organization, including 32 percent of households containing a member with diabetes and 40 percent lacking health insurance. To reduce the risk and impact of these health factors for those served, the Organization focuses on distributing healthy and fresh foods along with appropriate nutrition education.

- **Nutrition Policies:** The Organization is committed to meeting the nutritional needs of the people it serves by establishing nutrition standards for food it purchases as well as recommendations for food accepted through donations. This position is driven by the Organization's values and a belief that it must responsibly manage monetary donations, make decisions that benefit the public it serves, and distribute nutrient-dense food products that enhance the quality of life for the individuals it serves. Each policy uses the USDA's MyPlate nutritional guidelines for reference and was developed by the Organization's Nutrition Policy Council, a group of nutrition and health professionals convened for the purpose of designing these policies.
- **Healthy Cook Program:** The Healthy Cook program is a six-part nutrition course including hands-on training and cooking demonstrations targeted at improving the health of clients at specific distribution sites. The Organization gauges the impact of the program through client surveys that capture client eating habits and measure health behaviors.

**Agency Capacity Building:** Through close communication and regular evaluation, the Organization works to build the capacity of its network in the areas of advocacy, CalFresh outreach, and nutrition education and volunteer programs, as well as the safe and effective distribution of nutritious foods.

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Program Services (Continued)**

*Feeding Excellence (Continued)*

**CalFresh Outreach:** The Organization's CalFresh team enrolls eligible clients, dispels myths about food stamp assistance, and helps eliminate the stigma surrounding the program. The outreach model is designed to move clients toward self-sufficiency and provide support throughout the complex application process. The CalFresh team conducts outreach at large-scale food distribution sites, pantries, and community events. In a partnership with the County of San Diego CalFresh eligibility workers, the Organization piloted and is now expanding highly successful same-day application workshops. Last year, 798 clients were helped to complete their CalFresh application, generating an estimated \$3,300,000 into San Diego County.

**Health-Care Partnerships:** With the growing understanding of the link between hunger and health, the Organization has developed strategic partnerships with health-care providers to improve the health of the community. The latest community health needs assessment conducted jointly by hospitals throughout San Diego County identified food security and access to food as the number one social determinant of health for San Diegans. By screening patients for food insecurity and integrating food assistance and nutrition education into health-care, the Organization can increase food access to those in need and reduce the health implications of food insecurity. Partnerships with health-care organizations have resulted in on-site food pantries, food security screenings, nutrition education, and nutritious food for patients.

- **Diabetes Wellness Project:** Launched in February 2015, the Diabetes Wellness Project is an effort to reduce the effects and cost of diabetes for those struggling with food insecurity. In partnership with University of California, San Diego Student-Run Free Clinic, Third Avenue Charitable Organization, and Baker Elementary, the project is the Organization's first research study and was approved by the University of California, San Diego Institutional Review Board. Patients with type 2 diabetes who face food insecurity enroll in a six-month diabetes-specific nutrition course and receive food from the Organization to help them manage their diabetes.

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Program Services (Continued)**

*Feeding Excellence (Continued)*

**Advocacy:** In order to achieve a hunger-free and healthy community, the Organization advocates for the rights of the food-insecure on a federal, state, and local level. Through a variety of partnerships, the Organization educates the community and elected officials on the issues impacting clients and distribution partners. When appropriate, the Organization gives clients and partner agencies the opportunity to share their stories with elected officials and give a testimony of how specific legislation will affect their lives and those of their clients.

**Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting. Contributions, including unconditional promises to give, are recognized as revenues in the period in which they are received, and expenses are recorded as they are incurred.

**Basis of Presentation**

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with accounting principles generally accepted in the United States of America (“US GAAP”), the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted Net Assets – Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization.
- Temporarily Restricted Net Assets – Temporarily restricted net assets include resources expendable only in the manner specified by the donor or grantor. The restrictions are satisfied either by the passage of time or by actions of the Organization.
- Permanently Restricted Net Assets – Permanently restricted net assets include resources subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no assets with such stipulations at June 30, 2017 and 2016.

**Use of Estimates**

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include petty cash funds, bank checking accounts used for operating purposes, and investments with maturities of three months or less from the original purchase dates.

**Accounts Receivable**

Accounts receivable represent amounts due from affiliated agencies and are stated at the amount the Organization expects to collect for partner agency income and federally funded programs administered by states. Provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Organization determines that payments will not be received. Any subsequent receipts are credited to the allowance. There was no allowance for doubtful accounts at June 30, 2017. At June 30, 2016, the Organization recorded an allowance for doubtful accounts totaling \$8,667. Bad debt expense for the years ended June 30, 2017 and 2016, amounted to \$73 and \$2,504, respectively.

**Inventory**

Inventory consists of donated, nongovernment food and grocery items, purchased food, and emergency food boxes stored in the event of a disaster. Donated food for the years ended June 30, 2017 and 2016, is valued at \$1.73 and \$1.67 per pound, respectively, based on an annual cost study conducted for Feeding America's national office. Purchased food is valued at its historical cost.

**Property and Equipment**

Property and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 6 years for vehicles, office furniture, and equipment, and 15 years for cold storage and leasehold improvements. Equipment purchases over \$1,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets, and the expense is charged to the activity benefiting from the use of the facilities or equipment. Depreciation expense for the years ended June 30, 2017 and 2016, amounted to \$162,068 and \$154,953, respectively.

**Long-Lived Assets and Asset Impairment**

The Organization accounts for impairment and disposition of long-lived assets in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 360-10, *Property, Plant, and Equipment*. FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. At June 30, 2017 and 2016, no impairment losses have been recorded.



**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Accrued Paid Time Off**

Accrued paid time off represents time earned but not taken as of June 30. The maximum paid time off that can be accrued and carried over to the next year is 160 hours. The accrued paid time off balance as of June 30, 2017 and 2016, is \$62,196 and \$61,080, respectively, and has been included in accrued expenses in the accompanying statements of financial position.

**Deferred Rent**

Rent expense is recognized in compliance with FASB ASC 840-10, *Accounting for Leases*, whereby the expense is accrued ratably over the life of the subject lease with the intent to even out the effect of rent holidays and scheduled rent increases. At June 30, 2017 and 2016, the Organization's total deferred rent liabilities are \$106,446 and \$108,850, respectively, and are included within deferred rent in the accompanying statements of financial position.

**Support and Revenue**

The Organization relies on grants and awards from public and private foundations and contributions from individuals, corporations, government programs, and other miscellaneous organizations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, 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.

- **Contributions** - Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily unrestricted net assets depending on the nature of the restrictions. Unconditional promises to give are recorded as contributions receivable and contribution revenue when received. Pledges are recorded at their net realizable value if expected to be collected in one year and at their fair value if expected to be collected in more than one year. Conditional promises to give, if any, are not included as support until the conditions on which they depend are substantially met.
- **In-Kind Contributions** - As stated above, donated food for the years ended June 30, 2017 and 2016 is valued at \$1.73 and \$1.67 per pound, respectively, based on an annual cost study conducted for Feeding America's national office. Donated equipment and other goods are recorded at their estimated fair market value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. While these contributed services are not reflected in the financial statements, the estimated value of these services is disclosed in Note 8.

**FEEDING SAN DIEGO  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Support and Revenue (Continued)**

- Shared Maintenance Fees - The Organization receives fees from participating agencies to assist in the costs of distributing food. These fees are based on predetermined rates from \$0 to \$0.19 per pound or an average of \$.014 per pound. Total shared maintenance fees for the years ended June 30, 2017 and 2016, were \$151,217 and \$145,036, respectively.

**Functional Allocation of Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Allocation of Joint Costs**

For the years ended June 30, 2017 and 2016, the Organization conducted activities that included appeals for contributions and incurred joint costs of \$225,120 and \$367,740, respectively. For the years ended June 30, 2017 and 2016, these activities included costs from direct mail campaigns totaling \$167,799 and \$312,994, respectively, and special event costs totaling \$57,321 and \$54,746, respectively.

**Public Relations and Marketing Costs**

Public relations and marketing costs are charged to operations when incurred. Public relations and marketing costs charged to operations for the years ended June 30, 2017 and 2016, totaled \$297,837 and \$221,239, respectively.

**Special Events**

To increase the financial viability and impact of the Organization now and in the future, a private donor underwrote the majority of the cost of hosting a large-scale fundraising gala during the years ended June 30, 2017 and 2016. A large expense such as this would not have been possible without the generosity of this donor, enabling the Organization to increase awareness of hunger relief in new philanthropic communities through the education of 300 guests.

**Income Taxes**

The Organization is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code and is classified as an organization other than a private foundation. Accordingly, there is no provision for income taxes in the accompanying financial statements.

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**Income Taxes (Continued)**

The Organization accounts for the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, and under these provisions, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions, and accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties. The Organization's tax years from 2014 to 2016 are open to review for federal tax purposes, and tax years from 2013 to 2016 are open to review for state income tax purposes.

**New Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958)*. ASU 2016-14 requires improved presentation and disclosures to help not-for-profit entities provide more relevant information about their resources to donors, grantors, creditors, and other users. These improvements apply to qualitative and quantitative requirements in net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-14 on the presentation of its financial statements.

**Note 2: Pledges Receivable**

In June 2015, the Organization received a conditional pledge from one donor in the amount of \$15,000,000, in which the donor will pay \$3,000,000 per year for a period of five years starting in July 2015. The pledge is contingent on various organizational goals and factors that must be measured and met, many of which are possible, but not certain. Subsequent to the years ended June 30, 2017 and 2016, the Organization received the first quarterly installment payments totaling \$750,000 in July 2017 and July 2016 as a result of meeting the annual requirements set forth in the conditional pledge. Thus, the Organization has recorded a pledge receivable and corresponding deferred pledge revenue of \$3,000,000 for the years ended June 30, 2017 and 2016. The Organization did not record the remaining \$6,000,000 of the pledge as of June 30, 2017, as the necessary conditions for remaining periods to be met are still uncertain.

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 3: Inventory**

Inventory consists of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donated food	\$ 733,277	\$ 432,992
Purchased commodities	281,210	277,034
Produce inventory	<u>167,247</u>	<u>288,412</u>
Total Inventory	<u>\$ 1,181,734</u>	<u>\$ 998,438</u>

**Note 4: Donations**

The Organization receives substantial donations of food (which includes personal hygiene items and other staples), equipment and volunteer services. Contributions of food and equipment are recorded at their estimated fair values in the period received.

Food distribution activity during the year ended June 30, 2017 was as follows (in pounds) (unaudited):

	<u>Donated</u>	<u>Purchased</u>	<u>Total</u>
Food held for distribution, beginning of year	431,978	404,727	836,705
Food received	24,884,877	912,234	25,797,111
Food distributed and unusable product	<u>(24,796,321)</u>	<u>(869,087)</u>	<u>(25,665,408)</u>
Food Held for Distribution, End of Year	<u>520,534</u>	<u>447,874</u>	<u>968,408</u>

Food distribution activity during the year ended June 30, 2016 was as follows (in pounds) (unaudited):

	<u>Donated</u>	<u>Purchased</u>	<u>Total</u>
Food held for distribution, beginning of year	467,071	247,491	714,562
Food received	21,016,378	1,163,376	22,179,754
Food distributed and unusable product	<u>(21,051,471)</u>	<u>(1,006,140)</u>	<u>(22,057,611)</u>
Food Held for Distribution, End of Year	<u>431,978</u>	<u>404,727</u>	<u>836,705</u>

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 5: Property and Equipment**

At June 30, 2017 and 2016, property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Machinery, equipment, and vehicles	\$ 1,307,533	\$ 889,480
Cold storage and leasehold improvements	357,741	357,741
Furniture and fixtures	118,674	92,873
Computer equipment	<u>198,979</u>	<u>174,626</u>
Total property and equipment, at cost	1,982,927	1,514,720
Less: Accumulated depreciation	<u>(1,129,829)</u>	<u>(969,604)</u>
	853,098	545,116
Construction in progress	<u>-</u>	<u>18,983</u>
Property and Equipment, at Net Book Value	<u>\$ 853,098</u>	<u>\$ 564,099</u>

**Note 6: Employee Benefit Plan**

The Organization has a qualified defined benefit contributory 401(k) plan, whereby eligible employees may contribute a percentage of compensation, and the Organization contributes a discretionary match. The Organization began contributing a discretionary match beginning in February 2012. For the years ended June 30, 2017 and 2016, employer contributions were \$52,666 and \$41,774, respectively. Pension administrative expenses for the years ended June 30, 2017 and 2016, were approximately \$4,800 and \$2,900, respectively.

**Note 7: Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of to be used for future expenditures in relation to various programs, initiatives, and asset purchases. Temporarily restricted net assets as of June 30, 2017 and 2016, consist of the following by Organization initiative:

	<u>2017</u>	<u>2016</u>
Feeding Kids	\$ 100,500	\$ 129,714
Feeding Seniors	54,061	-
Feeding Excellence	51,700	27,083
Operations/Food Sourcing	132,620	485,500
Feeding Families	8,583	135,134
Facilities	34,000	110,000
Marketing	<u>-</u>	<u>8,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 381,464</u>	<u>\$ 895,931</u>

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 8: Contributed Services**

A substantial number of volunteers have donated significant amounts of time in the operation of the Organization's various programs and initiatives at the food bank. Legal, accounting, engineering, counseling, and medical services meet the criteria of FASB ASC 958-605, *Accounting for Contributions Received*. For the year ended June 30, 2017, there were no donated services that qualify under FASB ASC 958-605. For the year ended June 30, 2016, there were \$1,468 of donated services that qualified under FASB ASC 958-605.

Substantial volunteer time does not meet the criteria for FASB ASC 958-605 and accordingly has not been reflected in the accompanying financial statements. However, the tasks performed by these volunteers are central to the Organization's operations. The unaudited estimated value of such volunteer time for the years ended June 30, 2017 and 2016, was calculated using the California minimum wage and amounted to approximately \$654,000 and \$626,000, respectively.

**Note 9: Conflict of Interest**

Included among the Organization's Board of Directors are volunteers from the community who provide valuable assistance to the Organization in the development of policies and programs and in the evaluation of business transactions. The Organization has adopted a conflict of interest policy whereby board members are disqualified from participation in the final decision regarding any action that might affect their related company or organization.

**Note 10: Risks and Uncertainties**

The Organization received 49 percent and 45 percent of its monetary support via one contributor for the years ended June 30, 2017 and 2016, respectively.

The Organization maintains cash and cash equivalent balances at one financial institution. At June 30, 2017 and 2016, accounts at this institution are insured by the Federal Deposit Insurance Corporation for up to \$250,000. The Organization's cash balances at this institution in excess of federally insured limits at June 30, 2017 and 2016 totaled approximately \$1,266,000 and \$1,311,000, respectively.

**Note 11: Line of Credit**

The Organization has available a revolving line of credit for up to \$500,000. There were no balances outstanding at June 30, 2017 and 2016. Monthly interest payments are made at 1.0 percent above the prime rate. The line of credit is secured by substantially all of the Organization's assets. The line of credit expires in June 2018.

**FEEDING SAN DIEGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017 AND 2016**

**Note 12: Commitments and Contingencies**

**Operating Leases**

The Organization leases warehouse and office space and office equipment expiring through March 2022. Total rent expense related to such operating leases for the years ended June 30, 2017 and 2016, amounted to \$589,189 and \$510,641, respectively. Future aggregate minimum annual rent payments under these noncancelable leases as of June 30, 2017, are as follows:

2018	\$ 458,353
2019	471,675
2020	485,396
2021	213,001
2022	<u>10,128</u>
Total Future Minimum Lease Payments	<u>\$ 1,638,553</u>

**Litigation**

The Organization experiences litigation during the normal course of its operations. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

**Note 13: Subsequent Events**

As discussed in Note 2, the Organization has received the first quarterly installment for year three totaling \$750,000 of its pledge receivable recorded. Additionally, the Organization has met the required conditions and has also received the second and third quarterly installment for a total of \$2,250,000 received of the pledge receivable subsequent to the year ended June 30, 2017. Other events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of June 7, 2018, which is the date the financial statements were available to be issued.