

FEEDING SAN DIEGO
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

WITH INDEPENDENT AUDITORS' REPORT

**FEEDING SAN DIEGO
TABLE OF CONTENTS
JUNE 30, 2018 AND 2017**

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows.....	6
Statements of Functional Expenses	7
Notes to Financial Statements.....	9

INDEPENDENT AUDITORS' REPORT

Board of Directors
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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, but did not record the remaining \$3,000,000 of the pledge as of June 30, 2018, as the necessary conditions to be met are still uncertain. Our opinion is not modified with respect to this matter.

White Nelson Dick Evans LLP

Irvine, California
December 17, 2018

FEEDING SAN DIEGO
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
Current Assets:		
Cash	\$ 1,660,850	\$ 1,466,671
Accounts receivable	25,353	19,405
Pledges receivable	3,396,072	3,108,905
Inventory	598,104	1,181,734
Prepaid expenses and other current assets	163,293	162,517
Total Current Assets	5,843,672	5,939,232
Property and Equipment, at Net Book Value	709,389	853,098
Other Assets:		
Deposits	60,670	56,670
Total Assets	\$ 6,613,731	\$ 6,849,000

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 224,426	\$ 226,975
Accrued expenses	293,683	173,642
Deferred donations	3,000,000	3,000,000
Total Current Liabilities	3,518,109	3,400,617
Long-Term Liabilities:		
Deferred rent	91,108	106,446
Total Liabilities	3,609,217	3,507,063
Net Assets:		
Unrestricted	2,798,481	2,960,473
Temporarily restricted	206,033	381,464
Total Net Assets	3,004,514	3,341,937
Total Liabilities and Net Assets	\$ 6,613,731	\$ 6,849,000

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, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue:				
Community Support:				
Donated food products and merchandise	\$ 46,300,462	\$ -	\$ -	\$ 46,300,462
Grants and awards	3,920,607	-	-	3,920,607
Contributions	2,904,662	441,814	-	3,346,476
In-kind contributions	90,746	-	-	90,746
Total Community Support	<u>53,216,477</u>	<u>441,814</u>	<u>-</u>	<u>53,658,291</u>
Shared Maintenance Fees	161,909	-	-	161,909
Other Income	5,659	-	-	5,659
Net Assets Released from Restrictions	617,245	(617,245)	-	-
Total Support and Revenue	<u>54,001,290</u>	<u>(175,431)</u>	<u>-</u>	<u>53,825,859</u>
Expenses:				
Program:				
Program expenses	51,596,792	-	-	51,596,792
Total Program Expenses	<u>51,596,792</u>	<u>-</u>	<u>-</u>	<u>51,596,792</u>
Support:				
General and administrative	942,994	-	-	942,994
Development	1,623,496	-	-	1,623,496
Total Support Expenses	<u>2,566,490</u>	<u>-</u>	<u>-</u>	<u>2,566,490</u>
Total Expenses	<u>54,163,282</u>	<u>-</u>	<u>-</u>	<u>54,163,282</u>
Change in Net Assets	(161,992)	(175,431)	-	(337,423)
Total Net Assets, Beginning of Year	<u>2,960,473</u>	<u>381,464</u>	<u>-</u>	<u>3,341,937</u>
Total Net Asset, End of Year	<u>\$ 2,798,481</u>	<u>\$ 206,033</u>	<u>\$ -</u>	<u>\$ 3,004,514</u>

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	<u>46,362,888</u>	<u>1,328,594</u>	<u>-</u>	<u>47,691,482</u>
Shared Maintenance Fees	151,217	-	-	151,217
Other Income	6,593	-	-	6,593
Net Assets Released from Restrictions	<u>1,843,061</u>	<u>(1,843,061)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>48,363,759</u>	<u>(514,467)</u>	<u>-</u>	<u>47,849,292</u>
Expenses:				
Program:				
Program expenses	<u>45,498,017</u>	<u>-</u>	<u>-</u>	<u>45,498,017</u>
Total Program Expenses	<u>45,498,017</u>	<u>-</u>	<u>-</u>	<u>45,498,017</u>
Support:				
General and administrative	740,815	-	-	740,815
Development	<u>1,370,086</u>	<u>-</u>	<u>-</u>	<u>1,370,086</u>
Total Support Expenses	<u>2,110,901</u>	<u>-</u>	<u>-</u>	<u>2,110,901</u>
Total Expenses	<u>47,608,918</u>	<u>-</u>	<u>-</u>	<u>47,608,918</u>
Change in Net Assets	754,841	(514,467)	-	240,374
Total Net Assets, Beginning of Year	<u>2,205,632</u>	<u>895,931</u>	<u>-</u>	<u>3,101,563</u>
Total Net Asset, End of Year	<u>\$ 2,960,473</u>	<u>\$ 381,464</u>	<u>\$ -</u>	<u>\$ 3,341,937</u>

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

FEEDING SAN DIEGO
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (337,423)	\$ 240,374
Noncash Items Included in Change in Net Assets:		
Allowance for doubtful accounts	-	(8,667)
Depreciation	267,234	162,068
Deferred rent	(15,338)	(2,404)
Loss on disposal of property and equipment	-	19,639
Inventory - donated	389,048	(179,120)
Changes in:		
Accounts receivable	(5,948)	14,646
Pledges receivable	(287,167)	211,889
Inventory	194,582	(4,176)
Prepaid expenses and other current assets	(776)	(16,231)
Deposits	(4,000)	2,271
Accounts payable	(2,549)	55,871
Accrued expenses	<u>120,041</u>	<u>(2,316)</u>
Net Cash Provided by Operating Activities	317,704	493,844
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(123,525)</u>	<u>(470,706)</u>
Net Cash Used in Investing Activities	<u>(123,525)</u>	<u>(470,706)</u>
Net Change in Cash	194,179	23,138
Cash, Beginning of Year	<u>1,466,671</u>	<u>1,443,533</u>
Cash, End of Year	<u>\$ 1,660,850</u>	<u>\$ 1,466,671</u>
Supplemental Disclosure of Noncash Activities:		
Pledges receivable recorded as deferred donations	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

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

FEEDING SAN DIEGO
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Programs					Total Program Expenses	General and Administrative		Total Expenses
	Agency Distribution	Feeding Families	Feeding Kids	Feeding Seniors	Feeding Excellence		Development	Development	
In-kind food donations	\$ 32,328,216	\$ 6,060,570	\$ 7,764,198	\$ 242,777	\$ 294,333	\$ 46,690,094	\$ -	\$ -	\$ 46,690,094
Salaries	1,051,859	145,997	234,173	8,498	107,588	1,548,115	307,000	762,916	2,618,031
Food procurement	440,500	123,934	497,731	7,534	46,774	1,116,473	-	-	1,116,473
Rent	387,730	71,740	94,642	2,855	6,187	563,154	21,296	10,410	594,860
Programs	301,759	343	1,833	11	12,077	316,023	-	-	316,023
Freight and transportation	285,307	53,345	68,346	2,137	2,589	411,724	36	-	411,760
Employee benefits	153,489	23,304	36,729	1,363	10,409	225,294	47,434	73,370	346,098
Public relations and marketing	6,033	100	128	4	5	6,270	(335)	340,807	346,742
Miscellaneous expenses	70,296	13,085	17,090	774	1,836	103,081	43,631	3,363	150,075
Fundraising expense	-	-	-	-	-	-	-	226,401	226,401
Depreciation	-	-	-	-	-	-	267,234	-	267,234
Utilities	127,890	23,663	31,217	942	2,041	185,753	12,202	3,432	201,387
In-kind professional services	-	-	180	-	-	180	34,682	55,884	90,746
Outside services	53,694	9,818	12,831	393	20,889	97,625	27,848	15,326	140,799
Dues and subscriptions	25,019	3,560	4,874	143	1,443	35,039	39,622	14,879	89,540
Postage and printing	1,056	195	258	8	682	2,199	3,917	43,038	49,154
Vehicle expenses	72,880	13,370	17,129	536	649	104,564	109	-	104,673
Repairs and maintenance	36,478	6,838	8,761	274	332	52,683	-	-	52,683
Travel	15,338	2,360	7,563	1,286	12,951	39,498	11,994	4,257	55,749
Special events	-	-	-	-	-	-	-	58,052	58,052
Insurance	20,971	3,880	5,119	154	335	30,459	23,445	563	54,467
Supplies	21,367	4,004	5,136	161	201	30,869	7,998	833	39,700
Computer expenses	21,768	4,028	5,313	160	347	31,616	10,881	7,027	49,524
Bank charges	-	-	-	-	-	-	43,233	2,791	46,024
Employee events	32	6	8	-	1	47	1,645	-	1,692
Professional services	-	-	-	-	-	-	35,375	-	35,375
Training and education	4,236	724	981	29	62	6,032	2,157	147	8,336
Bad debt expense	-	-	-	-	-	-	1,590	-	1,590
	<u>\$ 35,425,918</u>	<u>\$ 6,564,864</u>	<u>\$ 8,814,240</u>	<u>\$ 270,039</u>	<u>\$ 521,731</u>	<u>\$ 51,596,792</u>	<u>\$ 942,994</u>	<u>\$ 1,623,496</u>	<u>\$ 54,163,282</u>
	<u>65.41%</u>	<u>12.12%</u>	<u>16.27%</u>	<u>0.50%</u>	<u>0.96%</u>	<u>95.26%</u>	<u>1.74%</u>	<u>3.00%</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, 2017

	Programs					Total Program Expenses	General and Administrative	Development	Total Expenses
	Agency Distribution	Feeding Families	Feeding Kids	Feeding Seniors	Feeding Excellence				
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	-	-	-	-	-	-	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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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, 2018, the Organization distributed over 26.9 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. 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, 2018 AND 2017**

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 three to four 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 when school is in session by providing produce and healthy staple items to children and their families in a convenient location, often the same schools that operate School Pantries during the school year, 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.

Feeding Seniors

The Organization addresses a growing need to provide healthy meals to food-insecure seniors in San Diego County through strategic partnerships. To best serve seniors in San Diego, the Organization has developed strategic partnerships with senior housing facilities, Meals on Wheels, and community centers.

**FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

Program Services (Continued)

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. Chronic diseases and health issues linked to hunger are prevalent among those served by the Organization. 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 United States Department of Agriculture 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.

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.

CalFresh Outreach: The Organization's CalFresh (SNAP) team enrolls eligible clients, dispels myths about CalFresh 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 locations like large-scale food distribution sites, health clinics, and community colleges. 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, the CalFresh team helped 884 clients complete their CalFresh application, generating an estimated \$3,900,000 into San Diego County.

**FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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

Program Services (Continued)

Feeding Excellence (Continued)

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.

Advocacy: In order to achieve a hunger-free and healthy community, the Organization advocates for changes to the food system and improvements for accessing food for food-insecure individuals 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 testimonials 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.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Basis of Presentation (Continued)

- 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 to be maintained permanently by the Organization. The Organization had no assets with such stipulations at June 30, 2018 and 2017.

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.

Cash

For purposes of reporting cash flows, cash includes 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 that 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, 2018 and 2017. Bad debt expense for the years ended June 30, 2018 and 2017, amounted to \$1,590 and \$73, 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, 2018 and 2017, is valued at \$1.68 and \$1.73 per pound, respectively, based on an annual cost study conducted for Feeding America's national office. Purchased food is valued at its historical cost.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Property and Equipment

Property and equipment are recorded at cost or estimated fair value if the items are donated. 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 the lesser of the lease term or the estimated useful life 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, 2018 and 2017, amounted to \$267,234 and \$162,068, 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, 2018 and 2017, no impairment losses have been recorded.

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, 2018 and 2017, is \$84,800 and \$62,196, 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, 2018 and 2017, the Organization’s total deferred rent liabilities are \$91,108 and \$106,446, respectively, and are included within deferred rent in the accompanying statements of financial position.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

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 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, 2018 and 2017, is valued at \$1.68 and \$1.73 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.
- 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 \$0.014 per pound. Total shared maintenance fees for the years ended June 30, 2018 and 2017, were \$161,909 and \$151,217, 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.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

Fundraising Costs

For the years ended June 30, 2018 and 2017, the Organization conducted activities that included appeals for contributions and incurred costs of \$284,453 and \$225,119, respectively. For the years ended June 30, 2018 and 2017, these activities included costs from direct mail campaigns totaling \$226,401 and \$167,798, respectively, and special event costs totaling \$58,052 and \$57,321, 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, 2018 and 2017, totaled \$346,742 and \$297,837, 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 costs of hosting a large-scale fundraising gala during the years ended June 30, 2018 and 2017. A large expense such as this would not have been possible without the generosity of this donor, thereby 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.

The Organization adopted the provisions of FASB ASC 740-10-25, *Income Taxes (Topic 740)*. In accordance with ASC 740-10-25, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not that the position will be sustained. The implementation of ASC 740-10-25 had no impact on the Organization's financial statements. The Organization does not believe that 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.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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

New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize on their balance sheet a right-of-use asset and a lease liability for all operating leases with a term of more than 12 months. 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 the right-of-use asset and lease liability. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019; however, early adoption is permitted. The Organization anticipates recognizing a right-of-use asset and a lease liability on the statement of financial position for the discounted value of future lease payments from the adoption of this ASU. The Organization is currently evaluating the full 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): Presentation of Financial Statements of Not-for-Profit Entities*. 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.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU establishes new revenue recognition guidance (“ASC 606”), which replaces the current revenue recognition guidance. ASC 606 is a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance, such as the real estate, construction, and software industries. The core principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 is effective for nonpublic companies for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted, but no earlier than periods beginning after December 15, 2016. The Organization is currently evaluating the impact of the provisions of ASC 606 on the presentation of its financial statements.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017, the Organization received the first quarterly installment payments totaling \$750,000 in July 2018 and July 2017 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, 2018 and 2017. The Organization did not record the remaining \$3,000,000 of the pledge as of June 30, 2018, as the necessary conditions for remaining periods to be met are still uncertain.

Note 3: Inventory

Inventory consists of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Donated food	\$ 397,300	\$ 733,277
Purchased commodities	86,628	281,210
Produce inventory	<u>114,176</u>	<u>167,247</u>
Total Inventory	<u>\$ 598,104</u>	<u>\$ 1,181,734</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, 2018, was as follows (in pounds) (unaudited):

	<u>Donated</u>	<u>Purchased</u>	<u>Total</u>
Food held for distribution, beginning of year	520,534	447,874	968,408
Food received	26,763,273	661,861	27,425,134
Food distributed and unusable product	<u>(26,979,357)</u>	<u>(960,654)</u>	<u>(27,940,011)</u>
Food Held for Distribution, End of Year	<u>304,450</u>	<u>149,081</u>	<u>453,531</u>

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 4: Donations (Continued)

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>

Note 5: Property and Equipment

At June 30, 2018 and 2017, property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Machinery, equipment, and vehicles	\$ 1,316,490	\$ 1,307,533
Cold storage and leasehold improvements	374,581	357,741
Furniture and fixtures	135,061	118,674
Computer equipment	<u>233,041</u>	<u>198,979</u>
 Total property and equipment, at cost	 2,059,173	 1,982,927
Less: Accumulated depreciation	<u>(1,349,784)</u>	<u>(1,129,829)</u>
 Property and Equipment, at Net Book Value	 <u>\$ 709,389</u>	 <u>\$ 853,098</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, 2018 and 2017, employer contributions were \$58,271 and \$52,666, respectively. 401(k) Plan administrative expenses for the years ended June 30, 2018 and 2017, were approximately \$2,100 and \$4,800, respectively.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets consist of future expenditures for various programs, initiatives, and asset purchases. Temporarily restricted net assets as of June 30, 2018 and 2017, consist of the following by Organization initiative:

	<u>2018</u>	<u>2017</u>
Feeding Kids	\$ 20,000	\$ 100,500
Feeding Seniors	-	54,061
Feeding Excellence	-	51,700
Operations/Food Sourcing	141,580	132,620
Feeding Families	44,453	8,583
Facilities	<u>-</u>	<u>34,000</u>
 Total Temporarily Restricted Net Assets	 <u>\$ 206,033</u>	 <u>\$ 381,464</u>

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 years ended June 30, 2018 and 2017, there were no donated services that qualify 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, 2018 and 2017, was calculated using the California minimum wage, which amounted to approximately \$633,000 and \$654,000, 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 a final decision regarding any action that might affect their related company or organization.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 10: Risks and Uncertainties

The Organization received 41 percent and 45 percent of its monetary support via one contributor for the years ended June 30, 2018 and 2017, respectively.

The Organization maintains cash balances at one financial institution. At June 30, 2018 and 2017, 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, 2018 and 2017, totaled approximately \$1,598,000 and \$1,266,000, 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, 2018 and 2017. The interest rate is 1.0 percent above the prime rate. The line of credit is secured by substantially all the Organization's assets. The line of credit expires July 2019.

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, 2018 and 2017, amounted to \$594,860 and \$589,190, respectively. Future aggregate minimum annual rental payments under these noncancelable leases as of June 30, 2018, are as follows:

2019	\$ 471,675
2020	485,396
2021	213,001
2022	<u>10,128</u>
Total Future Minimum Lease Payments	<u>\$ 1,180,200</u>

Note 13: Reclassifications

Certain reclassifications have been made to the 2017 financial statements in order to conform with the current-year presentation. These reclassifications had no effect on the change in net assets.

FEEDING SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 14: Subsequent Events

As discussed in Note 2, in July 2018, the Organization received the first quarterly installment totaling \$750,000 for year four of its pledge receivable. In September 2018, the Organization received the second quarterly installment.

Other events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of December 17, 2018, which is the date the financial statements were available to be issued.