

**CENTRAL PENNSYLVANIA FOOD BANK**

FINANCIAL STATEMENTS WITH  
SUPPLEMENTARY INFORMATION AND  
INFORMATION ON FEDERAL AWARDS

YEARS ENDED JUNE 30, 2018 AND 2017  
AND  
INDEPENDENT AUDITOR'S REPORT



**McKONLY & ASBURY**

# CENTRAL PENNSYLVANIA FOOD BANK

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Central Pennsylvania Food Bank  
Harrisburg, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of the Central Pennsylvania Food Bank (the "Food Bank"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, changes in net assets, and cash flows 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Pennsylvania Food Bank 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.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2018, on our consideration of the Central Pennsylvania Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Central Pennsylvania Food Bank's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Central Pennsylvania Food Bank's internal control over financial reporting and compliance.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
December 26, 2018

# CENTRAL PENNSYLVANIA FOOD BANK

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

### ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 1,415,378	\$ 1,255,488
Short-term investments	103,158	101,838
Promises to give	1,000,939	693,726
Accounts receivable, net	425,640	368,360
Accounts receivable - PASS	91,800	523,880
Grants, storage fees, and reimbursements receivable	809,178	737,800
Gift cards	80,296	10,036
Donated food and grocery product inventory	2,968,664	3,666,348
Purchased food and grocery product inventory	658,981	476,865
Prepaid expenses	<u>110,730</u>	<u>104,566</u>
Total current assets	7,664,764	7,938,907
Promises to give	120,768	224,117
Investments	11,339,859	10,633,560
Property and equipment, net	10,520,749	10,137,098
Total assets	<u>\$ 29,646,140</u>	<u>\$ 28,933,682</u>

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

## LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Accounts payable	\$ 627,344	\$ 483,644
Accrued payroll and taxes	592,410	572,805
County advances and grants	129,922	157,363
Accrued expenses	127,057	148,376
Refundable advances	125,702	122,327
Contributions payable	101,200	-
Current portion of capital leases	269,843	216,022
Line of credit	-	500,000
Total current liabilities	1,973,478	2,200,537
Capital lease obligations	875,455	322,265
Total liabilities	2,848,933	2,522,802
Net assets		
Unrestricted		
Operating	7,865,680	8,450,567
Food and grocery product inventory	3,627,645	4,143,213
Board designated		
Reserve fund	7,949,384	7,698,724
Funded depreciation	4,719,848	4,424,666
Total unrestricted	24,162,557	24,717,170
Temporarily restricted	1,672,052	731,112
Permanently restricted	962,598	962,598
Total net assets	26,797,207	26,410,880
Total liabilities and net assets	\$ 29,646,140	\$ 28,933,682

# CENTRAL PENNSYLVANIA FOOD BANK

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Changes in unrestricted net assets		
Support and revenue		
Food and grocery product contributions	\$ 73,451,662	\$ 72,934,474
Purchased product sales	5,318,762	5,135,945
Shared maintenance contributions	1,721,168	1,627,854
Contributions and gifts	6,541,911	6,231,245
PASS reimbursements	211,443	279,208
Federal support, Kids' Café program	1,087,799	888,869
Federal support, Commodity Supplemental Food Program	366,411	388,780
PA State food grant administration fees	4,235	-
Commodity storage	60,839	54,954
Other	149,453	43,302
Membership fees	11,125	10,595
Loss on disposal of property and equipment	(76,482)	(15,816)
Interest and dividends	323,326	271,386
Net realized gain on sale of investments	1,779,636	767,882
Net unrealized gain (loss) on investments	(1,259,898)	69,798
Appropriation of endowment assets for expenditure	80,000	30,000
Net assets released from restrictions	284,053	822,333
	90,055,443	89,540,809
Total support and revenue		
Expenses		
Program services		
Food and grocery product distributions	74,149,346	72,613,169
Purchase product distributions	4,945,983	4,755,033
Operations	5,536,745	5,720,983
Community programs	3,083,583	2,808,981
Management and general	1,116,648	883,856
Development (fundraising)	1,777,751	1,607,374
	90,610,056	88,389,396
Total expenses		
Changes in unrestricted net assets	(554,613)	1,151,413
Changes in temporarily restricted net assets		
Promises to give	997,260	556,040
Williamsport expansion capital campaign contributions	23,746	230,061
Contributions and gifts	175,000	-
Interest and dividends	33,875	34,441
Net realized gains on investments	369,862	7,327
Net unrealized gain (loss) on investments	(294,750)	61,017
Appropriation of endowment assets for expenditure	(80,000)	(30,000)
Net assets released from restrictions	(284,053)	(822,333)
	940,940	36,553
Changes in temporarily restricted net assets		
Changes in net assets	\$ 386,327	\$ 1,187,966

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

# CENTRAL PENNSYLVANIA FOOD BANK

## STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets, beginning	\$ 24,717,170	\$ 731,112	\$ 962,598	\$ 26,410,880
Changes in net assets	(554,613)	940,940	-	386,327
Net assets, ending	<u>\$ 24,162,557</u>	<u>\$ 1,672,052</u>	<u>\$ 962,598</u>	<u>\$ 26,797,207</u>

  

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets, beginning	\$ 23,565,757	\$ 694,559	\$ 962,598	\$ 25,222,914
Changes in net assets	1,151,413	36,553	-	1,187,966
Net assets, ending	<u>\$ 24,717,170</u>	<u>\$ 731,112</u>	<u>\$ 962,598</u>	<u>\$ 26,410,880</u>

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



# CENTRAL PENNSYLVANIA FOOD BANK

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Changes in net assets	\$ 386,327	\$ 1,187,966
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities		
Depreciation	811,007	733,339
Forgiveness of capital lease obligations	(102,306)	-
Loss on disposal of property and equipment	76,482	15,816
Net realized and unrealized gains on investments	(594,850)	(906,024)
Allowance for doubtful accounts	-	(5,410)
(Increase) decrease in assets		
Promises to give	(203,864)	(388,855)
Accounts receivable	374,800	(279,610)
Grants, storage fees, and reimbursements receivable	(71,378)	32,391
Gift cards	(70,260)	36,651
Food and grocery product inventory	515,568	(304,057)
Prepaid expenses	(6,164)	162,329
Increase (decrease) in liabilities		
Accounts payable	143,700	(989)
Accrued payroll and taxes	19,605	(6,810)
County advances and grants	(27,441)	17,572
Accrued expenses	(21,319)	67,597
Refundable advances	3,375	1,854
Contributions payable	101,200	-
	1,334,482	363,760
Net cash and cash equivalents provided by operating activities		
Cash flows from investing activities		
Net sales (purchases) of investments	(112,769)	1,598,414
Purchase of property and equipment	(295,832)	(2,830,368)
	(408,601)	(1,231,954)
Net cash and cash equivalents used in investing activities		
Cash flows used in financing activities		
Repayment of capital leases	(265,991)	(230,526)
Net proceeds (repayments) from (on) line of credit	(500,000)	500,000
	(765,991)	269,474
Net cash and cash equivalents provided by (used in) financing activities		
Net increase (decrease) in cash and cash equivalents	159,890	(598,720)
Cash and cash equivalents, beginning	1,255,488	1,854,208
Cash and cash equivalents, ending	\$ 1,415,378	\$ 1,255,488
Supplementary cash flow information		
Interest paid	\$ 66,610	\$ 70,685
Supplementary schedule of noncash investing and financing activities		
Property and equipment acquisition with various capital leases	\$ 975,308	\$ 129,475

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

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### 1. NATURE OF OPERATIONS

#### *Organization*

Central Pennsylvania Food Bank (the "Food Bank") is a nonprofit Pennsylvania corporation that sources, warehouses, and distributes wholesome donated food for the benefit of individuals and families in need in 27 counties in Central Pennsylvania. The Food Bank operates a primary warehouse in Harrisburg, Pennsylvania and a satellite warehouse in Williamsport, Pennsylvania that distribute food in partnership with *over* 900 nonprofit member agencies that directly serve people in need. The Food Bank and its member agencies rely substantially on volunteer services to carry out their charitable activities.

The Food Bank receives donated food from growers, processors, wholesalers, retail grocers, food drives, and government programs. In recent years, consistent with national trends, increases in demand have outpaced the supply of donated food, resulting in the need for the Food Bank to supplement its distributions with purchased product.

In addition to accepting food donations, the Food Bank solicits monetary donations from individuals, businesses, and other organizations to help fund the costs of carrying out its charitable mission. Individuals in need do not pay any costs for the food provided by the Food Bank.

#### *"The Bold Journey" Capital Campaign*

In 2015, the Food Bank adopted a strategic plan that included a goal of providing access to enough nutritious food for everyone struggling with hunger in its 27 county service territory by the year 2025 (the "Bold Goal"). As part of this initiative, the Food Bank indicated the need to expand and transform the Williamsport facility into a second Healthy Food Hub. By doing so, this will greatly increase the Food Bank's capacity to not only serve more fresh and frozen food, but also function as a center for community partners to engage in nutrition education, anti-hunger advocacy efforts, and volunteer activities. The total project cost was estimated at \$3,300,000. Funding for the project came primarily in the forms of a public Capital Campaign and a \$2,000,000 line of credit as well as the Food Bank's Endowment Fund and other reserves. In total, the Capital Campaign raised \$1,193,435 in recognizable pledges and contributions, exceeding the goal of \$1,000,000 through the end of the campaign.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenue is recognized when earned and expenses are recognized when incurred.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Financial Statement Presentation*

The Food Bank's financial statement presentation includes the requirements of Accounting Standards Codification (ASC) No. 958, "Not-for-Profit Entities." Under ASC No. 958, the Food Bank is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Food Bank is required to present the statement of cash flows. Under the provisions of ASC No. 958, net assets and changes therein are classified and reported, based on the existence or absence of donor-imposed stipulations as follows:

*Unrestricted Net Assets* - Net assets that are not subject to donor-imposed stipulations. The Board of Directors may, at its discretion, designate unrestricted funds for specific purposes.

*Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that will be met either by action of the Food Bank and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the statement of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* - Net assets subject to permanent donor-imposed stipulations that they be maintained permanently by the Food Bank. Generally, the donors of such assets permit the Food Bank to use all or part of the income earned on the assets for general or specific purposes.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### *Cash and Cash Equivalents*

For purposes of reporting, the Food Bank considers all short-term investments purchased with a maturity of three months or less to be cash equivalents.

### *Investments*

The Food Bank carries investments in fixed income and equity securities at their fair market value with gains and losses included in the statements of activities. Fair market value of the investments is determined using quoted market prices of a national securities exchange.

The Food Bank's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statements of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the statements of financial position could change materially in the near term.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Food and Grocery Product Inventory*

Donated food and grocery product inventory are recorded at fair market value. Fair market value for donated inventory is determined using actual inventory weight, in pounds, multiplied by a calculated "per pound" value. The "per pound" value is calculated annually and is the composite wholesale value of a variety of products that is derived from published prices from a national food distributor. Specific valuation procedures are established by Feeding America, the nation's food bank network. The Food Bank's policy includes a detailed analysis of its donated food inventory based upon the categories established by Feeding America and each category's calculated value. USDA food and grocery product inventory is reported at fair market value which was determined by the federal government using a food commodities price index. Effective July 1, 2016, the Food Bank refined and enhanced its policy to determine the fair market value of USDA food and grocery product inventory utilizing the valuation procedures established by Feeding America similar to the method used to value donated inventory. Purchased food and grocery product inventories are stated at the lower of cost (first-in, first-out) or market.

The inventory amounts included in the financial statements are many times higher than the amount the Food Bank may ultimately receive when the product is distributed to member agencies. The Food Bank does not "charge" for donated product; instead, member agencies reimburse the Food Bank for a portion of its operating costs. On average, during the fiscal years ended June 30, 2018 and 2017, member agencies reimbursed the Food Bank less than \$0.04 per pound for distributed product.

### *Promises to Give*

Promises to give are stated at their outstanding balance. Promises to give are recognized when the Food Bank is notified of the promises. The Food Bank considers promises to give to be fully collectible. If collection becomes doubtful, an allowance for uncollectible promises to give will be established, or the accounts will be charged to income when that determination is made by management. Unpaid balances remaining after the stated payment terms are considered past due. Recoveries of previously charged off accounts are recorded when received.

### *Accounts Receivable*

Accounts receivable is stated at outstanding balances, less an allowance for doubtful accounts. An allowance for doubtful accounts is established through provisions charged against income. Accounts deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on past experience, aging of the receivables, adverse situations that may affect a customer's ability to pay, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires estimates that may be susceptible to significant change. Unpaid balances remaining after the stated payment terms are considered past due. The allowance for doubtful accounts totaled \$5,410 as of June 30, 2018 and 2017, respectively.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Property and Equipment*

Property and equipment are recorded at cost for all items purchased, and fair market value at date of receipt for contributed property and equipment. Depreciation is provided on the straight-line method over the estimated useful lives. Construction period interest is included as part of the cost of the building. Construction in progress is not depreciated until completion of construction. The Food Bank's policy is to review all invoices in excess of \$1,000 to determine if they should be capitalized. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statement of activities.

### *Food and Grocery Product Contributions*

The Food Bank reports food and grocery production donations as unrestricted support when received.

### *Purchased Product Sales*

The Food Bank recognizes revenue from the sale of purchased product upon distribution and delivery of the product to its member agencies.

### *Contributions*

The Food Bank reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Food Bank reports gifts of property and equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Food Bank reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

### *Contributed Services*

The Food Bank receives donated services on a continuing basis from a variety of volunteers who help the Food Bank fulfill its mission. The value of these services has not been reported in the financial statements, as such value is not easily susceptible to objective measurement.

### *Lease Agreements*

Annual rentals pertaining to leases which merely convey the right to use property are charged to current operations. Lease agreements which are substantially installment purchases of property are recorded as assets in property and equipment and depreciated over their estimated useful lives.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Income Tax Status*

The Food Bank is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related activities pursuant to Section 509(a) of the Internal Revenue Code. In addition, the Food Bank was organized under the Pennsylvania Nonprofit Corporation law and is exempt from state income taxes.

The Food Bank adheres to the provisions of ASC 740, *Income Taxes*. ASC 740 establishes rules for recognizing and measuring tax positions taken in an income tax return, including disclosures of uncertain tax positions (UTPs). ASC 740 mandates that companies evaluate all material income tax positions for periods that remain open under applicable statutes of limitation, as well as positions expected to be taken in future returns. The UTP rules then impose a recognition threshold on each tax position.

A company can recognize an income tax benefit only if the position has a “more likely than not” (i.e., more than 50 percent) chance of being sustained on the technical merits. For the years ended June 30, 2018 and 2017, the Food Bank has taken no material tax positions on its applicable tax filings that do not meet the more likely than not threshold. As a result, no amount for uncertain tax positions has been included in the financial statements.

The Food Bank's federal exempt organization business income tax returns are no longer subject to examination by the appropriate taxing authorities for years prior to 2015.

### *Recently Issued Accounting Pronouncements*

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU include two classes of net asset classifications, options for presenting cash flow from operations, and many additional disclosure requirements. The changes became effective for the Food Bank on July 1, 2018. Management has not determined the impact of the changes on the Food Bank's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The pronouncement, and related subsequent pronouncements, requires an entity to recognize revenue to depict the transfer of promised 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. The changes become effective for the Food Bank on July 1, 2019. Management has not determined the impact of these changes on the Food Bank's financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash (Topic 230)*. The changes associated with this ASU include the requirement for amounts generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The changes become effective for the Food Bank on July 1, 2019. Management has not determined the impact of these changes on the Food Bank's financial statements.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The changes associated with this ASU include the requirement for lessees to recognize the underlying assets and liabilities associated with all operating leases with terms greater than 12 months. The changes become effective for the Food Bank on July 1, 2020. Management has not determined the impact of these changes on the Food Bank's financial statements.

### *Subsequent Events*

The Food Bank has evaluated subsequent events through December 26, 2018, the date the financial statements were available to be issued.

### **3. FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under ASC 820, *Fair Value Measurements and Disclosures*, are described as follows:

Level 1            Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Food Bank has the ability to access.

Level 2            Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3            Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

*Short-term investments:* Valued at cost, which approximates fair value, due to the short-term nature of these instruments.

*Mutual funds and exchange traded funds (ETFs):* Valued at the daily closing price as reported by the fund. These investments are open-end investments that are registered with the Securities and Exchange Commission. These investments are required to publish their daily net asset value (NAV) and to transact at that price. These investments are deemed to be actively traded.

*Common stock:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Fixed income securities:* Valued on the basis of market valuations primarily furnished by an independent pricing service that employs various evaluation methods. Such market valuations may represent one of the following: (i) the last quoted price on the securities' major trading exchange, (ii) quotes received from dealers or market makers in the relevant securities, or (iii) matrix pricing.

The following table sets forth by level, within the fair value hierarchy, the Food Bank's investments at fair value as of June 30, 2018 and 2017:

Reported at Fair Value	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Short-term investments				
Certificates of deposit	\$ 103,158	\$ -	\$ -	\$ 103,158
Investments				
Mutual funds and ETFs				
S&P small to large cap index funds	282,431	-	-	282,431
Small cap	964,188	-	-	964,188
Large cap	4,299,581	-	-	4,299,581
Fixed income	2,531,913	-	-	2,531,913
International value, blended, and growth funds	2,380,013	-	-	2,380,013
Other funds	106,531	-	-	106,531
Total mutual funds and ETFs	10,564,657	-	-	10,564,657

(continued)



# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Reported at Fair Value	June 30, 2018			Total
	Level 1	Level 2	Level 3	
Fixed income securities				
U.S. Government and agencies	-	90,144	-	90,144
Corporate bonds, BBB+ to AAA	-	488,004	-	488,004
Municipal Obligations	197,054	-	-	197,054
Total fixed income securities	197,054	578,148	-	775,202
Total investments	10,761,711	578,148	-	11,339,859
	\$10,864,869	\$ 578,148	\$ -	\$11,443,017
Reported at Fair Value	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Short-term investments				
Certificates of deposit	\$ 101,838	\$ -	\$ -	\$ 101,838
Investments				
Mutual funds and ETFs				
S&P small to large cap index funds	226,135	-	-	226,135
NASDAQ Index Funds	206,460	-	-	206,460
Sector ETF's	64,920	-	-	64,920
Small cap	254,442	-	-	254,442
Large cap	1,425,656	-	-	1,425,656
Fixed income	2,019,251	-	-	2,019,251
International value, blended, and growth funds	1,207,772	-	-	1,207,772
Other funds	169,894	-	-	169,894
Total mutual funds and ETFs	5,574,530	-	-	5,574,530

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Reported at Fair Value	June 30, 2017			Total
	Level 1	Level 2	Level 3	
Common stocks, domestic and international				
Consumer	707,244	-	-	707,244
Energy	213,399	-	-	213,399
Financials	303,680	-	-	303,680
Healthcare	1,104,573	-	-	1,104,573
Industrials	202,999	-	-	202,999
Information technology	863,519	-	-	863,519
Materials	27,131	-	-	27,131
Telecommunications	48,009	-	-	48,009
Utilities	134,065	-	-	134,065
	3,604,619	-	-	3,604,619
Total common stocks, domestic and international				
Fixed income securities				
U.S. Government and agencies	-	101,645	-	101,645
Corporate bonds, BBB+ to AAA	-	1,152,263	-	1,152,263
Municipal Obligations	200,503	-	-	200,503
	200,503	1,253,908	-	1,454,411
Total fixed income securities				
Total investments	9,379,652	1,253,908	-	10,633,560
	\$ 9,481,490	\$ 1,253,908	\$ -	\$10,735,398

Investment income for 2018 and 2017 was comprised of the following:

	2018	2017
Interest and dividends	\$ 357,201	\$ 305,827
Net realized gain on sale of investments	2,149,498	775,209
Net unrealized gain (loss) on investments	(1,554,648)	130,815
Total	\$ 952,051	\$ 1,211,851

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### 4. PROMISES TO GIVE

Promises to give consist of the following as of June 30:

	2018	2017
Temporarily restricted for Williamsport expansion	\$ 252,437	\$ 347,356
Unconditional promises to give	869,270	570,487
Total promises to give	\$ 1,121,707	\$ 917,843
Current portion	\$ 1,000,939	\$ 693,726
Long-term portion	120,768	224,117
Total promises to give	\$ 1,121,707	\$ 917,843

The due dates of promises to give, assuming no change in current terms, consist of the following as of June 30:

	2018	2017
Receivables in less than one year	\$ 1,000,939	\$ 693,726
Receivables in one to five years	120,768	224,117
Total	\$ 1,121,707	\$ 917,843

Amounts due in one to five years have not been discounted by the Food Bank at June 30, 2018 and 2017.

### 5. PROPERTY AND EQUIPMENT

Major classifications of property and equipment and their respective depreciable lives consist of the following as of June 30:

	2018	2017	Depreciable Lives
Land	\$ 349,322	\$ 349,322	
Building and building improvements	10,716,484	10,678,982	15 – 40 years
Office furniture and equipment	573,933	474,144	2 – 10 years
Warehouse equipment	1,079,143	1,051,590	2 – 10 years
Vehicles	2,521,715	2,007,726	5 – 10 years
	15,240,597	14,561,764	
Accumulated depreciation	(4,719,848)	(4,424,666)	
	\$10,520,749	\$10,137,098	

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

The Food Bank leases vehicles and office equipment under the terms of various capital leases disclosed in Note 6 to the financial statements.

Property and equipment held under capital leases consists of the following as of June 30:

	2018	2017
Vehicles	\$ 1,596,871	\$ 1,213,870
Office furniture and equipment	122,988	122,988
	1,719,859	1,336,858
Accumulated depreciation	(643,593)	(922,007)
	\$ 1,076,266	\$ 414,851

Depreciation expense amounted to \$811,007 and \$733,339 for the years ended June 30, 2018 and 2017, respectively.

### 6. CAPITAL LEASES

Capital leases consist of the following as of June 30:

	2018	2017
Capital lease agreement for a 2012 Hino truck; payable in monthly installments of \$1,795, including interest at 3.41%. The lease was terminated and forgiven October 2017.	\$ -	14,830
Capital lease agreement for a 2012 Hino truck; payable in monthly installments of \$1,795, including interest at 3.41%. The lease was terminated and forgiven October 2017.	-	14,830
Capital lease agreement for a 2012 Freightliner tractor; payable in monthly installments of \$1,692, including interest at 4.75%; matures December 2018.	8,952	28,328
Capital lease agreement for a 2012 Great Dane trailer; payable in monthly installments of \$996, including interest at 4.76%; matures May 2019.	10,700	21,852
Capital lease agreement for a 2013 Hino truck; payable in monthly installments of \$1,845, including interest at 3.62%. The lease was terminated and forgiven October 2017.	-	29,881

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

	2018	2017
Capital lease agreement for a 2013 Hino truck; payable in monthly installments of \$1,845, including interest at 3.62%. The lease was terminated and forgiven October 2017.	-	29,595
Capital lease agreement for a 2013 Hino truck; payable in monthly installments of \$1,858, including interest at 3.54%. The lease was terminated and forgiven October 2017.	-	39,520
Capital lease agreement for a printer; payable in monthly installments of \$105, including interest at 4.26%; matures June 2019.	1,132	2,317
Capital lease agreement for a 2016 International truck; payable in monthly installments of \$1,807, including interest at 3.98%; matures May 2021.	49,883	69,163
Capital lease agreement for a 2016 International truck; payable in monthly installments of \$1,807, including interest at 3.98%; matures May 2021.	59,619	78,520
Capital lease agreement for a 2016 International truck; payable in monthly installments of \$1,186, including interest at 7.10%; matures May 2021.	38,353	49,431
Capital lease agreement for office equipment; payable in monthly installments of \$2,239, including interest at 16.58%; matures June 2019.	24,608	45,480
Capital lease agreement for a 2017 Hino truck; payable in monthly installments of \$1,968, including interest at 3.01%; matures September 2022.	94,095	114,540
Capital lease agreement for a 2018 International 4300 Truck; payable in monthly installments of \$1,903, including interest at 11.88%; matures June 2023.	85,795	-
Capital lease agreement for a 2018 International 4300 Truck; payable in monthly installments of \$1,903, including interest at 11.88%; matures June 2023.	85,795	-
Capital lease agreement for a 2018 Hino Truck; payable in monthly installments of \$1,899, including interest at 1.81%; matures September 2023.	114,048	-

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

	2018	2017
Capital lease agreement for a 2018 Hino Truck; payable in monthly installments of \$1,899, including interest at 1.81%; matures September 2023.	114,048	-
Capital lease agreement for a 2018 Hino Truck; payable in monthly installments of \$1,899, including interest at 1.81%; matures September 2023.	114,048	-
Capital lease agreement for a 2018 Hino Truck; payable in monthly installments of \$1,899, including interest at 1.84%; matures September 2023.	113,364	-
Capital lease agreement for a 2018 Hino Truck; payable in monthly installments of \$1,899, including interest at 1.84%; matures September 2023.	113,364	-
Capital lease agreement for a 2018 Hino Truck; payable in monthly installments of \$1,899, including interest at 1.81%; matures November 2023.	117,494	-
Current portion	1,145,298 (269,843)	538,287 (216,022)
	\$ 875,455	\$ 322,265
Future minimum lease payments under capital leases consist of the following for the five years ending June 30:		
2019		\$ 308,001
2020		270,789
2021		248,926
2022		215,820
2023		188,070
Thereafter		37,920
Amount representing interest		1,269,526 (124,228)
		\$ 1,145,298

Interest expense on capital leases amounted to \$51,987 and \$22,218 for the years ended June 30, 2018 and 2017, respectively.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### 7. BANK LINE OF CREDIT

The Food Bank has an unsecured working capital line of credit arrangement with M&T Bank at the bank's prime rate (5.00% as of June 30, 2018, and 4.25% as of June 30, 2017). Under this arrangement, the Food Bank may borrow up to \$2,000,000. Interest is payable monthly and principal is due upon demand. The outstanding balance on the line of credit is zero and \$500,000 at June 30, 2018 and 2017.

### 8. FOOD DONATED, PURCHASED, AND DISTRIBUTED

Food donated, purchased, and distributed inclusive of the Pennsylvania State Food Grant and the United States Department of Agriculture (USDA) program consist of the following for the years ended June 30:

	2018		2017	
	Pounds	Value	Pounds	Value
Donated inventory, beginning	2,119,969	\$3,666,348	3,060,384	\$3,345,043
Purchased product inventory, beginning	<u>788,627</u>	<u>476,865</u>	<u>863,732</u>	<u>494,113</u>
Total inventory, beginning	<u>2,908,596</u>	<u>4,143,213</u>	<u>3,924,116</u>	<u>3,839,156</u>
Received				
Donated food	42,332,662	73,533,279	44,792,865	74,172,560
Purchased products	<u>13,184,931</u>	<u>5,055,824</u>	<u>12,505,916</u>	<u>4,701,974</u>
	<u>55,517,593</u>	<u>78,589,103</u>	<u>57,298,781</u>	<u>78,874,534</u>
Available for distribution	<u>58,426,189</u>	<u>82,732,316</u>	<u>61,222,897</u>	<u>82,713,690</u>
Less				
Food distributed to agencies and affiliates	46,517,793	69,393,577	48,142,524	68,266,296
Distributed to other food banks	8,110,878	8,775,503	9,490,818	9,622,845
Spoilage	<u>1,046,627</u>	<u>935,591</u>	<u>680,959</u>	<u>681,336</u>
	<u>55,675,298</u>	<u>79,104,671</u>	<u>58,314,301</u>	<u>78,570,477</u>
Donated inventory, ending	1,639,469	2,968,664	2,119,969	3,666,348
Purchased product inventory, ending	<u>1,111,422</u>	<u>658,981</u>	<u>788,627</u>	<u>476,865</u>
	<u>2,750,891</u>	<u>\$3,627,645</u>	<u>2,908,596</u>	<u>\$4,143,213</u>

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Pennsylvania Agricultural Surplus System*

During the year ended June 30, 2016, the Food Bank was contracted by the Pennsylvania Department of Agriculture (PDA) to operate its State Food Purchase Program in accordance with the Pennsylvania Agricultural Surplus System (PASS) Act. The contract was renewed during the years ended June 30, 2018 and 2017. Under PASS, \$1,000,000 was provided to PDA in each of the three fiscal years to acquire and distribute local food products to the charitable food organizations in existence within the State of Pennsylvania. As of June 30, 2018 and 2017, the Food Bank purchased and distributed \$1,043,129 and \$1,250,632 of food products.

Of the \$2,000,000 appropriated for PASS, a maximum of 15% may be used for administrative purposes. During the years ended June 30, 2018 and 2017, the Food Bank recognized \$188,608 and \$217,549 as reimbursement for these administrative costs. As of June 30, 2018 and 2017, \$91,800 and \$523,880 is due from PDA for services performed under the PASS program. \$47,702 and \$302,220 remained from the total appropriated amount to be earned during the years ended June 30, 2019 and 2018.

## **9. ENDOWMENT AND RESERVE FUNDS**

The Food Bank has a Board-Designated Reserve Fund and a Donor-Restricted Endowment Fund for which the income can be used for general operations. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Interpretation of Relevant Law*

The Board of Directors has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Food Bank classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) enhancements or diminishments of the fund after amounts deemed income under Pennsylvania law.

The following schedule represents the changes in reserve fund and endowment net assets for the year ended:

(continued)



# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

	June 30, 2018			
	Board- Designated Reserve Fund	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 7,698,724	\$ 383,756	\$ 962,598	\$9,045,078
Investment return				
Investment income	219,276	33,875	-	253,151
Realized gain	1,741,779	369,862	-	2,111,641
Unrealized loss	(1,240,395)	(294,750)	-	(1,535,145)
Total investment income	720,660	108,987	-	829,647
Appropriation of endowment assets for expenditure	(470,000)	(80,000)	-	(550,000)
Endowment net assets, end of year	\$ 7,949,384	\$ 412,743	\$ 962,598	\$9,324,725
	June 30, 2017			
	Board- Designated Reserve Fund	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 7,456,105	\$ 310,971	\$ 962,598	\$8,729,674
Investment return				
Investment income	173,277	34,441	-	207,718
Realized gain	322,044	7,327	-	329,371
Unrealized gain	267,298	61,017	-	328,315
Total investment income	762,619	102,785	-	865,404
Appropriation of endowment assets for expenditure	(520,000)	(30,000)	-	(550,000)
Endowment net assets, end of year	\$ 7,698,724	\$ 383,756	\$ 962,598	\$9,045,078

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Return Objectives and Risk Parameters*

The Board of Directors has established an Investment Committee that has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. The primary asset management objective is to achieve a long-term total return commensurate with prudent risk sufficient to provide a stable rate of inflation-adjusted return while preserving the inflation-adjusted real value of the principal of the fund. The return for this purpose means a return derived from both capital appreciation or earnings and distributions with respect to capital, or both.

### *Strategies Employed for Achieving Objectives*

The Investment Committee has established an allocation range of sector and security diversification. The Committee may engage one or more recognized investment managers to advise the Committee on the asset allocation of the fund. The Committee shall periodically review the performance of the investment manager(s) and the asset allocations with the expectation of superior performance over time. The Committee will meet as appropriate to review economic outlook; current investment performance, investment strategy and asset allocation; pending plans for purchase and sale of securities; and the reasons for changes in the portfolio since its last meeting.

### *Reserve Fund and Endowment Spending Policies and How the Investment Objectives Relate to the Spending Policies*

The spending rate from the reserve fund and the endowment shall be no less than two percent (2%), nor more than seven percent (7%), of the three year average of the fiscal year-end market values of the fund assets. The Committee will review the actual spending policies annually. General appropriations of \$550,000 were paid during the years ended June 30, 2018 and 2017, respectively.

## **10. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes as of June 30:

	2018	2017
Promises to give - time-restricted	\$ 751,067	\$ 347,356
Promises to give - purpose-restricted	333,242	-
Contributions and gifts	175,000	-
Endowment fund	412,743	383,756
	<u>\$ 1,672,052</u>	<u>\$ 731,112</u>

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Temporarily restricted net assets were released for the following purposes as of June 30:

	<u>2018</u>	<u>2017</u>
Promises to give	\$ 260,307	\$ 549,549
Williamsport capital campaign contributions	23,746	272,784
Appropriation of endowment assets for expenditure	<u>80,000</u>	<u>30,000</u>
	<u>\$ 364,053</u>	<u>\$ 852,333</u>

### 11. ECONOMIC DEPENDENCY

The Food Bank is a certified member of Feeding America. One of the primary benefits of this membership is the availability of contributions of food from national companies, which are solicited by Feeding America. Should the Food Bank no longer be affiliated with Feeding America, its access to food contributions would be diminished and the effect on operations and the financial statements would be material.

Locally and regionally, the Food Bank is dependent on food donations from a variety of sources. Most of these sources are located in Central Pennsylvania; however, donors do exist in other states. Donors include farmers, food processors, food retailers, wholesalers, individuals, and government agencies. The Food Bank solicits and maintains ongoing relationships with donors and attempts to obtain sufficient and suitable donations to meet the nutritional needs of the hungry. If food donations decrease significantly, the Food Bank's ability to continue current distribution levels would be impaired. Likewise, the corresponding effects on the financial statements would be significant.

The Food Bank receives a portion of its revenues (directly and indirectly) from governmental sources and, accordingly, is subject to governmental legislative process and change. During the years ended June 30, 2018 and 2017, the Food Bank received \$4,613,300 and \$10,789,939 in grant awards under federal programs. The Food Bank also receives substantial revenues from Member Agencies that are funded through Pennsylvania's State Food Purchase Program (SFPP), which is administered by the Pennsylvania Department of Agriculture and contracted through Pennsylvania's 67 counties. Management estimates that between \$2.1 million and \$2.7 million of its revenue during the years ended June 30, 2018 and 2017, was dependent on SFPP funding.

### 12. OPERATING LEASES

The Food Bank currently holds an operating lease with the County of Dauphin, Pennsylvania to rent facilities to operate a food pantry. The lease, which commenced on January 1, 2009, is for a period of twenty-five years ending on December 31, 2033.

The lease agreement contains provisions for an annual rent payment which is subject to future rent increases as defined in the lease agreement.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

On October 1, 2015, the Food Bank entered into another lease agreement to rent facilities for office personnel. The lease was for a period of three years ending on October 31, 2018. During 2018, the lease period was extended to October 31, 2020. The lease agreement contains provisions for an annual rent payment which is subject to future rent increases as defined in the lease agreement.

In accordance with accounting principles generally accepted in the United States of America, the Food Bank records annual rent expense equal to the total of the payments due over the lease term, divided by the number of years of the lease term. The difference between rental expense recorded on this straight-line basis, and the amount actually paid, is credited or charged to rent payable. As of June 30, 2018 and 2017, this difference amounted to \$63,690 and \$58,068, respectively, and is included in accrued expenses on the statements of financial position.

Future minimum rental payments under non-cancelable operating leases having remaining terms in excess of one year consist of the following for the five years ending June 30 and thereafter:

2019	\$ 103,483
2020	105,942
2021	59,896
2022	44,839
2023	45,510
Thereafter	<u>521,057</u>
	<u>\$ 880,727</u>

Total rental expense under operating leases charged to operations amounted to \$101,109 and \$106,762 for the years ended June 30, 2018 and 2017, respectively.

### 13. RELATED PARTY TRANSACTIONS

Several members of the Board of Directors are involved with entities that transact the following business with the Food Bank:

A member of a Board subcommittee is an attorney at a law firm with whom the Food Bank used for legal consulting purposes. Amounts paid to this firm amounted to \$522 and zero during the years ended June 30, 2018 and 2017.

Several Board members are involved with organizations that donate food and make contributions to the Food Bank.

The Executive Director of the Food Bank serves as a Board Member of another not-for-profit organization that utilizes office space and personnel of the Food Bank. The Food Bank leases office space to the organization at fair market value, and a Food Bank staff member also performs internal accounting services for the organization. The Food Bank also pays certain operating expenses on behalf of the organization, which are 100% reimbursable to the Food Bank. Amounts received from this organization for rent and services amounted to \$9,600 during the year ended June 30, 2017. Effective July 1, 2017, the office lease and services agreement was amended to provide the Food Bank \$9,900 for rent and services. There was \$3,047 and \$4,081 of outstanding receivables due to the Food Bank for reimbursable expenses as of June 30, 2018 and 2017.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

The Pennsylvania Association of Regional Food Banks dba Hunger-Free Pennsylvania (“Hunger-Free PA”) is the sub distributing agency designated by PDA to act on its behalf in entering into agreements with eligible recipient agencies under which commodities are made available through the Commodity Supplemental Food Program (“CSFP”). Hunger-Free PA has entered into an agreement with the Food Bank to act as the local lead agency for Central Pennsylvania. As local lead agency, the Food Bank administers the CSFP at the local level and receives administrative funds for doing so. The Executive Director of the Food Bank is a volunteer member of the Board of Directors and the Executive Committee of Hunger-Free PA. For the years ended June 30, 2018 and 2017, the Food Bank received \$366,411 and \$388,780 in administrative funds from Hunger-Free PA.

The Food Bank's bylaws establish policy for handling potential conflicts of interest.

### **14. CONCENTRATIONS OF CREDIT AND MARKET RISK**

Financial instruments which subject the Food Bank to concentrations of credit risk consist primarily of cash and cash equivalents and short-term investments (such as certificates of deposit).

The Food Bank typically maintains cash and cash equivalents in local banks, which, at times may exceed the amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Food Bank has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes that it is not subject to any significant credit risk on its cash accounts. Common stocks, mutual funds, and fixed income funds are uninsured.

### **15. RETIREMENT PLAN**

The Food Bank has a 401(k) plan to provide retirement and incidental benefits for its employees. Employees may contribute 0% to 50% of their annual compensation to the plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Food Bank matches 50% of employee pre-tax contributions, up to a maximum of 5% of employee compensation deferral. Matching contributions are 100% vested upon completion of three years of service. In addition, the plan provides for discretionary employer contributions determined by the Board of Directors. Such contributions to the plan are allocated among eligible participants in proportion to their salaries. Retirement plan expenses amounted to \$167,332 and \$162,896 for the years ended June 30, 2018 and 2017, respectively.

**SUPPLEMENTARY INFORMATION**

**CENTRAL PENNSYLVANIA FOOD BANK**

**SCHEDULES OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2018

	Program Services					Total
	Food and Grocery Product Distributions	Operations	Community Programs	Management and General	Development (Fundraising)	
Food and grocery product distributions	\$ 74,149,346	\$ -	\$ -	\$ -	\$ -	\$ 74,149,346
Purchased product distributions	4,945,983	-	-	-	-	4,945,983
Salaries	-	2,290,010	1,037,343	599,054	701,090	4,627,497
Payroll taxes	-	229,402	79,069	40,394	52,990	401,855
Employee benefits	-	582,019	172,423	117,696	119,604	991,742
Staff development	-	5,753	3,970	3,410	3,278	16,411
Building occupancy and utilities	-	357,238	117,306	-	-	474,544
Printing and publications	-	10,485	10,862	50	517,567	538,964
Food purchases	-	-	1,268,520	-	-	1,268,520
Depreciation	-	811,007	-	-	-	811,007
Transportation	-	551,878	-	10	-	551,888
Professional fees and services	-	248,138	50,401	238,554	-	537,093
Postage	-	32,511	462	37	279,622	312,632
Office supplies/equipment	-	269,770	77,568	25,770	31,470	404,578
Meetings and events	-	746	12,508	42,823	41,752	97,829
Public relations and awards	-	11,998	31,774	2,702	17,381	63,855
Agency assistance	-	-	182,647	-	-	182,647
Miscellaneous	-	14,682	112	11,365	32	26,191
Travel	-	24,516	37,619	7,590	7,555	77,280
Dues	-	29,982	999	27,193	5,410	63,584
Interest	-	66,610	-	-	-	66,610
	<u>\$ 79,095,329</u>	<u>\$ 5,536,745</u>	<u>\$ 3,083,583</u>	<u>\$ 1,116,648</u>	<u>\$ 1,777,751</u>	<u>\$ 90,610,056</u>

(continued)

**CENTRAL PENNSYLVANIA FOOD BANK**

SCHEDULES OF FUNCTIONAL EXPENSES (Cont'd)

YEAR ENDED JUNE 30, 2017

	Program Services					Total
	Food and Grocery Product Distributions	Operations	Community Programs	Management and General	Development (Fundraising)	
Food and grocery product distributions	\$ 72,613,169	\$ -	\$ -	\$ -	\$ -	\$ 72,613,169
Purchased product distributions	4,755,033	-	-	-	-	4,755,033
Salaries	-	2,482,600	750,031	390,413	609,348	4,232,392
Payroll taxes	-	240,080	55,647	36,825	40,153	372,705
Employee benefits	-	664,371	139,210	102,365	108,292	1,014,238
Staff development	-	8,413	7,303	4,101	6,911	26,728
Building occupancy and utilities	-	508,350	122,962	147	-	631,459
Printing and publications	-	6,029	12,644	1,927	499,317	519,917
Food purchases	-	-	995,858	-	-	995,858
Depreciation	-	733,339	-	-	-	733,339
Transportation	-	585,829	-	-	-	585,829
Professional fees and services	-	155,777	82,870	215,337	-	453,984
Postage	-	34,219	644	900	251,665	287,428
Office supplies/equipment	-	71,450	90,420	713	2,714	165,297
Meetings and events	-	6,252	31,197	4,861	45,160	87,470
Public relations and awards	-	17,511	101,224	1,635	27,083	147,453
Agency assistance	-	-	223,418	-	-	223,418
Miscellaneous	-	30,209	168,177	42,421	1,374	242,181
Travel	-	31,493	26,900	17,530	8,745	84,668
Dues	-	33,291	250	32,075	6,612	72,228
Insurance	-	41,085	226	32,606	-	73,917
Interest	-	70,685	-	-	-	70,685
	<u>\$ 77,368,202</u>	<u>\$ 5,720,983</u>	<u>\$ 2,808,981</u>	<u>\$ 883,856</u>	<u>\$ 1,607,374</u>	<u>\$ 88,389,396</u>



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors  
Central Pennsylvania Food Bank  
Harrisburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Central Pennsylvania Food Bank (the "Food Bank"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Food Bank's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Food Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Central Pennsylvania Food Bank's Response to Findings**

The Central Pennsylvania Food Bank's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Central Pennsylvania Food Bank's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Food Bank's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Food Bank's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
December 26, 2018

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors  
Central Pennsylvania Food Bank  
Harrisburg, Pennsylvania

### **Report on Compliance for Each Major Federal Program**

We have audited the Central Pennsylvania Food Bank's (the "Food Bank") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Food Bank's major federal programs for the year ended June 30, 2018. The Food Bank's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Food Bank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Food Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

(continued)

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Food Bank's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Food Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of the Food Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Food Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Food Bank's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
December 26, 2018

# CENTRAL PENNSYLVANIA FOOD BANK

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture Food Distribution Cluster				
Passed through the Commonwealth of Pennsylvania Department of Agriculture Bureau of Food Distribution				
Commodity Supplemental Food Program	10.565	8-06-22-090	\$ -	\$ 366,411
The Emergency Food Assistance Program (Administrative Costs)	10.568	8-06-22-090	-	60,839
The Emergency Food Assistance Program (Food Commodities)	10.569	8-06-22-090	<u>3,098,251</u>	<u>3,098,251</u>
Total U.S. Department of Agriculture programs in cluster			<u>3,098,251</u>	<u>3,525,501</u>
Total Food Distribution Cluster			3,098,251	3,525,501
Passed through the Pennsylvania Department of Education Child Nutrition Cluster				
Summer Food Service Program	10.559	300-22-185-5	-	<u>320,342</u>
Total Child Nutrition Cluster			-	320,342
Child and Adult Care Food Program	10.558	300-22-185-5	-	<u>767,457</u>
Total expenditures of federal awards			<u>\$ 3,098,251</u>	<u>\$ 4,613,300</u>

**NOTES:**

**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Central Pennsylvania Food Bank (the "Food Bank") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Food Bank, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Food Bank.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(continued)

# **CENTRAL PENNSYLVANIA FOOD BANK**

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**YEAR ENDED JUNE 30, 2018**

### **3. INDIRECT COST RATE**

The Food Bank has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

### **4. FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed.

### **5. COMMODITY RECEIVED**

Central Pennsylvania Food Bank received \$2,998,729 of USDA commodities (CFDA #10.569) during the year ended June 30, 2018. The remaining \$99,522 was distributed from donated food and grocery product inventory at June 30, 2017.

**CENTRAL PENNSYLVANIA FOOD BANK**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2018

**Prior Year Findings**

None.

# CENTRAL PENNSYLVANIA FOOD BANK

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

### SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of the Central Pennsylvania Food Bank were prepared in accordance with GAAP.
2. A significant deficiency was identified during the audit of the financial statements and reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Central Pennsylvania Food Bank, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs and reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the Central Pennsylvania Food Bank expresses an unmodified opinion on all major federal programs.
6. There are no findings required to be reported in accordance with 2 CFR section 200.516 (a).
7. The programs tested as major programs were:
  - a. The Food Distribution Cluster:
    - i. Commodity Supplemental Food Program (CFDA #10.565)
    - ii. The Emergency Assistance Food Program (CFDA #10.568)
    - iii. The Emergency Assistance Food Program (CFDA #10.569)
  - b. Summer Food Service Program for Children (CFDA #10.559)
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The Central Pennsylvania Food Bank was determined to be a low-risk auditee.

(continued)



# CENTRAL PENNSYLVANIA FOOD BANK

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

### FINDINGS – FINANCIAL STATEMENT AUDIT

#### *Significant Deficiency*

#### **Finding 2018-001: Period-End Close Process**

**Condition:** The period-end closing processes in place at the Food Bank did not timely identify adjustments needed to the general ledger in the areas of investments and inventory.

**Criteria:** Supporting documentation and sub-ledger reports should be reconciled to the general ledger and reviewed on a recurring basis. Any necessary adjustments should be identified and posted to the general ledger in a timely manner prior to the external audit.

**Cause:** Management reconciled investments and inventory during its period-end closing processes. However, these processes failed to timely identify certain reconciling items between the general ledger and the related supporting documentation and sub-ledger reports. These amounts were identified as a result of the external audit process.

**Effect:** Significant audit adjustments were required to be made to investments and inventory for year-end financial reporting.

**Recommendation:** Management should implement a process to reconcile PASS inventory activity on a recurring basis, rather than only at year-end. This will ensure significant adjustments are identified and posted in a timely and accurate manner. Furthermore, management should refine its close process to ensure investment activity related to donated stock reported in the monthly investment statements is reconciled to, and reported in, the general ledger.

**Management's Corrective Action Plan:** Management acknowledges that adjustments were made during audit fieldwork based on reconciliation work that should have occurred prior to the start of the audit. Specifically, the donated investment asset balance and the PASS inventory activity were not reconciled timely. Corrective actions will be implemented and will include the following steps:

- A process is being implemented to reconcile the Primarius system to the general ledger on a monthly basis, which includes the review of each individual purchased product receipt transaction between the Primarius system and the general ledger in order to identify errors and adjust for discrepancies. Adjustments will be made monthly to correct these discrepancies, as well as to accrue unrecorded liabilities for purchased product received but not yet invoiced. This reconciliation will be prepared on a monthly basis by the Accounting Clerk and will be reviewed by the Director of Finance and Accounting.
- The monthly investment reconciliation prepared by the Senior Accountant will be reviewed by the Director of Finance and Accounting, including review of all investment contributions for proper valuation and accounting treatment.
- All PASS program activity will be reconciled on a monthly basis by the Director of Finance and Accounting, with assistance from the Management Support Analyst and Senior Accountant. This reconciliation will include the transactional flow of PASS-related purchased product inventory, subcontractor grant spending activity, and accounts receivable activity between CPFEB and the PA Department of Agriculture.

(continued)

**CENTRAL PENNSYLVANIA FOOD BANK**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2018**

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None.

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