

**CENTRAL PENNSYLVANIA FOOD BANK**

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
AND INFORMATION ON FEDERAL AWARDS

YEARS ENDED JUNE 30, 2019 AND 2018  
AND  
INDEPENDENT AUDITOR'S REPORT



**McKONLY & ASBURY**

# CENTRAL PENNSYLVANIA FOOD BANK

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MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES  
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



## 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", a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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.

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, 2019 and 2018, 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**

### *Emphasis of Matter*

As discussed in Note 1 to the financial statements, the Food Bank adopted the new nonprofit reporting standards as required by FASB Accounting Standards Update No. 2016-14. Our opinion is not modified with respect to this matter.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 October 3, 2019, 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  
October 3, 2019

# CENTRAL PENNSYLVANIA FOOD BANK

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

### ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 971,482	\$ 1,415,378
Short-term investments	105,503	103,158
Promises to give	528,334	1,000,939
Accounts receivable, net	537,185	425,640
Accounts receivable - PASS	-	91,800
Grants, storage fees, and reimbursements receivable	1,551,724	809,178
Gift cards	34,271	80,296
Donated food and grocery product inventory	5,500,526	2,968,664
Purchased food and grocery product inventory	688,150	658,981
Prepaid expenses	<u>238,988</u>	<u>110,730</u>
Total current assets	10,156,163	7,664,764
Promises to give	120,768	120,768
Investments	11,658,732	11,339,859
Property and equipment, net	10,609,764	10,520,749
Total assets	<u><u>\$ 32,545,427</u></u>	<u><u>\$ 29,646,140</u></u>

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

## LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable	\$ 383,905	\$ 627,344
Accrued payroll and taxes	614,085	592,410
County advances and grants	228,751	129,922
Accrued expenses	166,799	127,057
Refundable advances	111,597	125,702
Contributions payable	27,109	101,200
Current portion of capital leases	300,902	269,843
Total current liabilities	1,833,148	1,973,478
Capital lease obligations	1,143,352	875,455
Total liabilities	2,976,500	2,848,933
Net assets		
Net assets without donor restrictions		
Operating	7,795,266	7,865,680
Food and grocery product inventory	6,188,676	3,627,645
Board designated		
Reserve fund	7,994,534	7,949,384
Funded depreciation	5,439,236	4,719,848
Total net assets without donor restrictions	27,417,712	24,162,557
Net assets with donor restrictions	2,151,215	2,634,650
Total net assets	29,568,927	26,797,207
Total liabilities and net assets	\$ 32,545,427	\$ 29,646,140

# CENTRAL PENNSYLVANIA FOOD BANK

## STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and revenue</b>						
Food and grocery product contributions	\$ 80,427,479	\$ -	\$ 80,427,479	\$ 73,451,662	\$ -	\$ 73,451,662
Purchased product sales	5,740,532	-	5,740,532	5,318,762	-	5,318,762
Shared maintenance contributions	1,704,771	-	1,704,771	1,721,168	-	1,721,168
Contributions and gifts	6,850,145	295,163	7,145,308	6,541,911	175,000	6,716,911
Promises to give	-	30,000	30,000	-	997,260	997,260
Williamsport expansion capital campaign contributions	-	-	-	-	23,746	23,746
PASS reimbursements	287,533	-	287,533	211,443	-	211,443
Federal support, Kids' Café program	1,014,434	-	1,014,434	1,087,799	-	1,087,799
Federal support, Commodity Supplemental Food Program	380,099	-	380,099	366,411	-	366,411
Federal support, Trade Mitigation Program	449,500	-	449,500	-	-	-
Supplemental Nutrition Assistance Program	69,940	-	69,940	-	-	-
Commodity storage	64,887	-	64,887	60,839	-	60,839
Other	61,014	-	61,014	153,688	-	153,688
Membership fees	11,201	-	11,201	11,125	-	11,125
Loss on disposal of property and equipment	-	-	-	(76,482)	-	(76,482)
Net investment return	497,473	63,273	560,746	805,891	108,987	914,878
Appropriation of endowment assets for expenditure	50,000	(50,000)	-	80,000	(80,000)	-
Net assets released from restrictions	821,871	(821,871)	-	284,053	(284,053)	-
<b>Total support and revenue</b>	<b>98,430,879</b>	<b>(483,435)</b>	<b>97,947,444</b>	<b>90,018,270</b>	<b>940,940</b>	<b>90,959,210</b>
<b>Expenses</b>						
Program services						
Food and grocery product distributions	77,892,883	-	77,892,883	74,149,346	-	74,149,346
Purchase product distributions	5,384,479	-	5,384,479	4,945,983	-	4,945,983
Operations	5,525,590	-	5,525,590	5,489,887	-	5,489,887
Community programs	3,179,219	-	3,179,219	3,083,583	-	3,083,583
Management and general	1,323,526	-	1,323,526	1,097,923	-	1,097,923
Development (fundraising)	1,870,027	-	1,870,027	1,806,161	-	1,806,161
<b>Total expenses</b>	<b>95,175,724</b>	<b>-</b>	<b>95,175,724</b>	<b>90,572,883</b>	<b>-</b>	<b>90,572,883</b>
<b>Changes in net assets</b>	<b>\$ 3,255,155</b>	<b>\$ (483,435)</b>	<b>\$ 2,771,720</b>	<b>\$ (554,613)</b>	<b>\$ 940,940</b>	<b>\$ 386,327</b>

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

**CENTRAL PENNSYLVANIA FOOD BANK**

**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2019

	Program Services					Total
	Food and Grocery Product Distributions	Operations	Community Programs	Management and General	Development (Fundraising)	
Food and grocery product distributions	\$ 77,892,883	\$ -	\$ -	\$ -	\$ -	\$ 77,892,883
Purchased product distributions	5,384,479	-	-	-	-	5,384,479
Salaries	-	2,454,825	1,128,968	721,825	763,664	5,069,282
Payroll taxes	-	206,881	93,872	55,019	63,952	419,724
Employee benefits	-	614,843	225,339	142,338	139,442	1,121,962
Staff development	-	3,294	3,977	4,969	7,267	19,507
Building occupancy and utilities	-	340,281	127,194	487	-	467,962
Printing and publications	-	7,525	13,516	744	682,078	703,863
Food purchases	-	-	1,157,382	-	-	1,157,382
Depreciation	-	858,924	-	21,102	31,099	911,125
Transportation	-	552,910	-	8	-	552,918
Professional fees and services	-	123,645	87,264	242,905	45,148	498,962
Postage	-	15,913	710	2,303	19,829	38,755
Office supplies/equipment	-	220,953	59,246	32,446	24,233	336,878
Meetings and events	-	1,554	51,214	3,420	29,455	85,643
Public relations and awards	-	8,433	4,533	3,115	44,068	60,149
Agency assistance	-	-	161,409	-	-	161,409
Miscellaneous	-	13,609	3,147	22,512	240	39,508
Travel	-	27,352	47,945	9,470	13,934	98,701
Dues	-	7,123	13,503	60,863	5,618	87,107
Interest	-	67,525	-	-	-	67,525
	<u>\$ 83,277,362</u>	<u>\$ 5,525,590</u>	<u>\$ 3,179,219</u>	<u>\$ 1,323,526</u>	<u>\$ 1,870,027</u>	<u>\$ 95,175,724</u>

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



**CENTRAL PENNSYLVANIA FOOD BANK**

**STATEMENT 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	-	764,149	-	18,448	28,410	811,007
Transportation	-	551,878	-	10	-	551,888
Professional fees and services	-	248,138	50,401	201,381	-	499,920
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>\$ 5,489,887</u>	<u>\$ 3,083,583</u>	<u>\$ 1,097,923</u>	<u>\$ 1,806,161</u>	<u>\$ 90,572,883</u>

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, 2019 AND 2018

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning	\$ 24,162,557	\$ 2,634,650	\$ 26,797,207
Changes in net assets	<u>3,255,155</u>	<u>(483,435)</u>	<u>2,771,720</u>
Net assets, ending	<u>\$ 27,417,712</u>	<u>\$ 2,151,215</u>	<u>\$ 29,568,927</u>

  

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning	\$ 24,717,170	\$ 1,693,710	\$ 26,410,880
Changes in net assets	<u>(554,613)</u>	<u>940,940</u>	<u>386,327</u>
Net assets, ending	<u>\$ 24,162,557</u>	<u>\$ 2,634,650</u>	<u>\$ 26,797,207</u>

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

# CENTRAL PENNSYLVANIA FOOD BANK

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Changes in net assets	\$ 2,771,720	\$ 386,327
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities		
Depreciation	911,126	811,007
Forgiveness of capital lease obligations	(3,874)	(102,306)
Loss on disposal of property and equipment	-	76,482
Net realized and unrealized gains on investments	(364,786)	(594,850)
(Increase) decrease in assets		
Promises to give	472,605	(203,864)
Accounts receivable	(19,745)	374,800
Grants, storage fees, and reimbursements receivable	(742,546)	(71,378)
Gift cards	46,025	(70,260)
Food and grocery product inventory	(2,561,031)	515,568
Prepaid expenses	(128,258)	(6,164)
Increase (decrease) in liabilities		
Accounts payable	(243,439)	143,700
Accrued payroll and taxes	21,675	19,605
County advances and grants	98,829	(27,441)
Accrued expenses	39,742	(21,319)
Refundable advances	(14,105)	3,375
Contributions payable	(74,091)	101,200
Net cash and cash equivalents provided by operating activities	209,847	1,334,482
Cash flows from investing activities		
Net sales (purchases) of investments	43,568	(112,769)
Purchase of property and equipment	(404,790)	(295,832)
Net cash and cash equivalents used in investing activities	(361,222)	(408,601)
Cash flows used in financing activities		
Repayment of capital leases	(292,521)	(265,991)
Net repayments on line of credit	-	(500,000)
Net cash and cash equivalents used in financing activities	(292,521)	(765,991)
Net increase (decrease) in cash and cash equivalents	(443,896)	159,890
Cash and cash equivalents, beginning	1,415,378	1,255,488
Cash and cash equivalents, ending	\$ 971,482	\$ 1,415,378
Supplementary cash flow information		
Interest paid	\$ 67,525	\$ 66,610
Supplementary schedule of noncash investing and financing activities		
Property and equipment acquisition with various capital leases	\$ 595,351	\$ 975,308

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 Food Bank also advocates for policies that protect individuals and families from hunger. The Food Bank is committed to protecting the funding and structure of the federal nutrition programs by continually urging Congress to support programs such as the Supplemental Nutrition Assistance Program (SNAP), The Emergency Food Assistance Program (TEFAP), and the Commodity Supplemental Food Program (CSFP). Further, the Food Bank works closely with the Pennsylvania General Assembly to advocate for anti-hunger programs at the State level which include the State Food Purchase Program (SFPP) and the Pennsylvania Agricultural Surplus System (PASS).

In addition to advocating for federal and state nutrition programs, the Food Bank also administers several of these community programs including CSFP in 26 counties throughout Pennsylvania and TEFAP in 3 counties. The Food Bank also operates a SNAP Outreach program that provides assistance in applying for benefits and several youth programs aimed at providing nutritious meals and nutrition education to low-income children and families in need. These programs include the Kids Café, BackPack program, and the Summer Food Service Program (SFSP).

### 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* and the provisions of Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires the Food Bank to report information regarding its financial position and activities according to two classes of net assets that are based on the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

*Net Assets without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. The Board of Directors may, at its discretion, designate funds for specific purposes.

The Board of Directors has designated, from net assets without donor restrictions, net assets for a board-designated reserve fund. See Note 9 for further details. Amounts have also been designated for funded depreciation.

*Net Assets with Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

### ***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.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

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.

### *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 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, 2019 and 2018, member agencies reimbursed the Food Bank less than \$0.04 per pound for distributed product.

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, 2019 and 2018. Under PASS, \$1,500,000 and \$1,000,000 was provided to PDA to acquire and distribute local food products to the charitable food organizations in existence within the State of Pennsylvania. As of June 30, 2019 and 2018, the Food Bank purchased and distributed \$1,260,596 and \$1,043,129 of food products.

Of the \$2,500,000 appropriated for PASS, a maximum of 15% may be used for administrative purposes. During the years ended June 30, 2019 and 2018, the Food Bank recognized \$160,631 and \$188,608 as reimbursement for these administrative costs. As of June 30, 2019 and 2018, zero and \$91,800 is due from PDA for services performed under the PASS program. Zero and \$47,702 remained from the total appropriated amount to be earned during the years ended June 30, 2020 and 2019.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *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, 2019 and 2018, respectively.

### *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.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *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), net assets with donor restrictions are reclassified as net assets without donor restrictions 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.

### *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, 2019 and 2018, 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.

(continued)



# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO 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 2016.

### ***Recently Adopted Accounting Pronouncements***

In August 2016, the FASB issued ASU 2016-14, *Not-For-profit Entities (Topic 958): 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 disclosure requirements related to liquidity and availability of resources, expenses, and investment return. The guidance was effective for the Food Bank on July 1, 2018, and was applied retrospectively. Total net assets did not change as a result of this new standard, however net assets are now reported as net assets with donor restrictions or without donor restrictions.

### ***Recently Issued Accounting Pronouncements***

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 became 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 June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction, and how an entity determines whether a resource provider is participating in an exchange transaction. The amendments also require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promiser's obligation to transfer assets is present. The changes became effective for the Organization on July 1, 2019. Management has not determined the impact of these changes on the Organization'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 became 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 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.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Reclassification*

Certain items in the prior year financial statements have been reclassified to conform to the presentation of the current year financial statements. The Food Bank's prior year expenses have been reclassified to be presented on the functional and natural classification basis on the statement of functional expenses for the year ended June 30, 2018.

### *Subsequent Events*

The Food Bank has evaluated subsequent events through October 3, 2019, the date the financial statements were available to be issued.

### 3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets as of June 30, 2019, available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 971,482
Short-term investments	105,503
Promises to give, current	528,334
Accounts receivable, net	537,185
Grants, storage fees, and reimbursements receivable	1,551,724
Investments	11,658,732
Less: board designated reserve fund	(7,994,534)
Less: net assets with donor restrictions	<u>(2,151,215)</u>
Total	<u>\$ 5,207,211</u>

The Food Bank manages its liquidity and cash reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. As part of the Food Bank's liquidity management plan, the Food Bank invests cash in excess of daily requirements in short-term investments and money market funds. The Food Bank forecasts its future cash flows and monitors its liquidity and cash balances on a monthly basis.

To help manage unanticipated liquidity needs, the Food Bank has available a line of credit in the amount of \$2,000,000, which it could draw upon as further disclosed in Note 8.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### 4. 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.

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, 2019 and 2018.

*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.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

*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, 2019 and 2018:

Reported at Fair Value	June 30, 2019			Total
	Level 1	Level 2	Level 3	
Short-term investments				
Certificates of deposit	\$ 105,503	\$ -	\$ -	\$ 105,503
Investments				
Mutual funds and ETFs				
Small cap	1,138,395	-	-	1,138,395
Large cap	3,818,620	-	-	3,818,620
Fixed income	3,119,206	-	-	3,119,206
International value, blended, and growth funds	2,808,133	-	-	2,808,133
Other funds	138,848	-	-	138,848
Total mutual funds and ETFs	11,023,202	-	-	11,023,202
Fixed income securities				
U.S. Government and agencies	-	91,413	-	91,413
Corporate bonds, BBB+ to AAA	-	343,183	-	343,183
Municipal Obligations	200,934	-	-	200,934
Total fixed income securities	200,934	434,596	-	635,530
Total investments	11,224,136	434,596	-	11,658,732
	\$11,329,639	\$ 434,599	\$ -	\$11,764,235

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Reported at Fair Value	June 30, 2018			Total
	Level 1	Level 2	Level 3	
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
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

Net investment return for 2019 and 2018 was comprised of the following:

	2019	2018
Interest and dividends	\$ 252,776	\$ 357,201
Net realized gain on sale of investments	522,987	2,149,498
Net unrealized loss on investments	(158,201)	(1,554,648)
Investment fees	(56,816)	(37,173)
Total	\$ 560,746	\$ 914,878

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### 5. PROMISES TO GIVE

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

	2019	2018
Temporarily restricted for Williamsport expansion	\$ 139,128	\$ 258,437
Unconditional promises to give	509,974	863,270
Total promises to give	\$ 649,102	\$ 1,121,707

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

	2019	2018
Receivables in less than one year	\$ 528,334	\$ 1,000,939
Receivables in one to five years	120,768	120,768
Total	\$ 649,102	\$ 1,121,707

Amounts due in one to five years have not been discounted by the Food Bank at June 30, 2019 and 2018.

### 6. PROPERTY AND EQUIPMENT

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

	2019	2018	Depreciable Lives
Land	\$ 349,322	\$ 349,322	
Building and building improvements	11,037,989	10,716,484	15 – 40 years
Office furniture and equipment	594,069	573,933	2 – 10 years
Warehouse equipment	1,110,355	1,079,143	2 – 10 years
Vehicles	2,947,920	2,521,715	5 – 10 years
Construction in progress	9,345	-	
	16,049,000	15,240,597	
Accumulated depreciation	(5,439,236)	(4,719,848)	
	\$10,609,764	\$10,520,749	

(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 7 to the financial statements.

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

	2019	2018
Vehicles	\$ 2,000,484	\$ 1,596,871
Office furniture and equipment	122,988	122,988
	2,123,472	1,719,859
Accumulated depreciation	(745,845)	(643,593)
	\$ 1,377,627	\$ 1,076,266

Depreciation expense amounted to \$911,126 and \$811,007 for the years ended June 30, 2019 and 2018, respectively.

### 7. CAPITAL LEASES

Capital leases consist of the following as of June 30:

	2019	2018
Capital lease agreements for various vehicles; payable in monthly installments ranging from \$984 to \$2,068, including interest from 1.81% to 11.88%. Agreements mature in 2021 through 2026.	\$ 1,444,254	\$ 1,108,858
Capital lease agreement for a 2012 Great Dane trailer; payable in monthly installments of \$996, including interest at 4.76%. The lease was terminated and forgiven in January 2019.	-	10,700
Capital lease agreements for various office furniture and equipment; payable in monthly installments ranged from \$105 to \$2,239, including interest from 4.26% to 16.58%. Agreements matured in 2019.	-	25,740
	1,444,254	1,145,298
Current portion	(300,902)	(269,843)
	\$ 1,143,352	\$ 875,455

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Future minimum lease payments under capital leases consist of the following for the five years ending June 30:

2020	\$ 376,810
2021	362,354
2022	319,210
2023	301,498
2024	151,227
Thereafter	<u>178,886</u>
	1,689,985
Amount representing interest	<u>(245,731)</u>
	<u>\$ 1,444,254</u>

Interest expense on capital leases amounted to \$67,525 and \$66,610 for the years ended June 30, 2019 and 2018, respectively.

### 8. 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 (5.50% as of June 30, 2019, and 5.00% as of June 30, 2018). 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 at 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 assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) enhancements or diminishments of the fund after amounts deemed income under Pennsylvania law.

(continued)



# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

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

	June 30, 2019		
	Board- Designated Reserve Fund	Donor- Restricted Endowment Fund	Total
Endowment net assets, beginning of year	\$ 7,949,384	\$ 1,375,341	\$ 9,324,725
Investment return			
Investment income	133,909	21,461	155,370
Realized gain	302,809	28,029	330,838
Unrealized gain (loss)	(41,568)	13,783	(27,785)
Total investment income	395,150	63,273	458,423
Appropriation of endowment assets for expenditure	(350,000)	(50,000)	(400,000)
Endowment net assets, end of year	\$ 7,994,534	\$ 1,388,614	\$ 9,383,148
	June 30, 2018		
	Board- Designated Reserve Fund	Donor- Restricted Endowment Fund	Total
Endowment net assets, beginning of year	\$ 7,698,724	\$ 1,346,354	\$ 9,045,078
Investment return			
Investment income	219,276	33,875	253,151
Realized gain	1,741,779	369,862	2,111,641
Unrealized gain	(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	\$ 1,375,341	\$ 9,324,725

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### *Return Objectives and Risk Parameters*

The Board of Directors 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 Board of Directors has subsequently assigned this responsibility to the Finance Committee. 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 Finance 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 \$400,000 and \$550,000 were paid during the years ended June 30, 2019 and 2018, respectively.

## **10. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes as of June 30:

	2019	2018
Promises to give - time-restricted	\$ 163,128	\$ 751,067
Promises to give - purpose-restricted	260,994	333,242
Contributions and gifts	338,479	175,000
Donor-restricted endowment fund	1,388,614	1,375,341
	<u>\$ 2,151,215</u>	<u>\$ 2,634,650</u>

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Net assets with donor restrictions were released for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Promises to give	\$ 690,188	\$ 260,307
Contributions and gifts	131,683	-
Williamsport capital campaign contributions	-	23,746
Appropriation of endowment assets for expenditure	<u>50,000</u>	<u>80,000</u>
	<u>\$ 871,871</u>	<u>\$ 364,053</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, 2019 and 2018, the Food Bank received \$13,589,730 and \$4,613,300 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 \$2.2 million and \$2.7 million of its revenue during the years ended June 30, 2019 and 2018, was dependent on SFPP funding.

### 12. FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to one or more program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The statement of functional expenses presents the natural classification detail of expenses by function.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries	Time and effort
Payroll taxes	Percentage of salaries
Employee benefits	Time and effort
Building occupancy and utilities	Direct allocation
Printing and publications	Direct allocation
Depreciation	Square footage and direct allocation
Transportation	Direct allocation
Professional fees and services	Direct allocation
Office supplies/equipment	Direct allocation

### 13. 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.

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, 2019 and 2018, this difference amounted to \$63,624 and \$63,690, 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:

2020	\$ 105,942
2021	59,896
2022	44,839
2023	45,510
2024	46,191
Thereafter	<u>474,865</u>
	<u>\$ 777,243</u>

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

Total rental expense under operating leases charged to operations amounted to \$103,417 and \$101,109 for the years ended June 30, 2019 and 2018, respectively.

### 14. RELATED PARTY TRANSACTIONS

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

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 \$9,900 during the years ended June 30, 2019 and 2018. The office lease and services agreement was amended to provide the Food Bank \$9,900 for rent and services. There was \$3,889 and \$3,047 of outstanding receivables due to the Food Bank for reimbursable expenses as of June 30, 2019 and 2018.

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, 2019 and 2018, the Food Bank received \$380,099 and \$366,411 in administrative funds from Hunger-Free PA.

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

### 15. 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.

(continued)

# CENTRAL PENNSYLVANIA FOOD BANK

## NOTES TO FINANCIAL STATEMENTS

### 16. 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 \$177,236 and \$167,332 for the years ended June 30, 2019 and 2018, respectively.

### 17. VETERANS' TRUST FUND

In 2019, the Food Bank received a grant of \$50,000 awarded by the Pennsylvania Department of Military and Veterans Affairs for the purpose of providing healthy and nutritious food to military families in need through its MilitaryShare program. This amount is included in contributions and gifts in the statement of activities for the year ended June 30, 2019.

The funds were utilized by the Food Bank for the following expenses which are included in Community Programs in the statement of functional expenses for the year ended June 30, 2019:

	<u>Amount</u>
Salaries	\$ 5,000
Employee travel	500
Employee training	500
Building occupancy and utilities	4,036
Transportation	3,964
Supplies	<u>35,000</u>
	<u>\$ 50,000</u>

**SUPPLEMENTARY INFORMATION**

# CENTRAL PENNSYLVANIA FOOD BANK

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

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	\$ -	\$ 380,099
The Emergency Food Assistance Program (Administrative Costs)	10.568	8-06-22-090	-	514,387
The Emergency Food Assistance Program (Food Commodities)	10.569	8-06-22-090	<u>11,628,704</u>	<u>11,628,704</u>
Total U.S. Department of Agriculture programs in cluster			<u>11,628,704</u>	<u>12,523,190</u>
Total Food Distribution Cluster			<u>11,628,704</u>	<u>12,523,190</u>
Passed through the Pennsylvania Department of Education				
Child Nutrition Cluster				
Summer Food Service Program	10.559	300-22-185-5	<u>-</u>	<u>357,269</u>
Total Child Nutrition Cluster			<u>-</u>	<u>357,269</u>
Child and Adult Care Food Program	10.558	300-22-185-5	<u>-</u>	<u>657,165</u>
Passed through the Pennsylvania Department of Human Services				
SNAP Cluster				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	23-6003113	<u>-</u>	<u>52,106</u>
Total SNAP Cluster			<u>-</u>	<u>52,106</u>
Total expenditures of federal awards			<u>\$ 11,628,704</u>	<u>\$ 13,589,730</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, 2019. 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.

(continued)



# **CENTRAL PENNSYLVANIA FOOD BANK**

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

**YEAR ENDED JUNE 30, 2019**

### **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.

### **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 \$13,467,060 of USDA commodities (CFDA #10.569) during the year ended June 30, 2019. The remaining \$1,838,356 was included in donated food and grocery product inventory at June 30, 2019.

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## 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, 2019, and the related statements of activities, functional expenses, 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 October 3, 2019.

### 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **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*.

### **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  
October 3, 2019

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## 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, 2019. 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, 2019.

### **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  
October 3, 2019

**CENTRAL PENNSYLVANIA FOOD BANK**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**YEAR ENDED JUNE 30, 2019**

***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.

***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.

***Current Status:***

The recommendations were implemented during the fiscal year ended June 30, 2019. No similar findings were noted in the 2019 audit.

# CENTRAL PENNSYLVANIA FOOD BANK

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

### 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. No material weaknesses were 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)
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.

### FINDINGS – FINANCIAL STATEMENT AUDIT

None.

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

None.



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