

CENTRAL PENNSYLVANIA FOOD BANK

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND INFORMATION ON FEDERAL AWARDS

YEARS ENDED JUNE 30, 2020 AND 2019
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"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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, 2020 and 2019, 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 Schedule of Expenditures of Federal Awards 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 13, 2020, 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 13, 2020

CENTRAL PENNSYLVANIA FOOD BANK

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 9,877,569	\$ 971,482
Short-term investments	107,399	105,503
Promises to give	737,152	528,334
Accounts receivable, net	561,160	537,185
Accounts receivable - PASS	823,516	-
Grants, storage fees, and reimbursements receivable	1,620,995	1,452,597
Gift cards	214,791	34,271
Donated food and grocery product inventory	6,024,112	5,500,526
Purchased food and grocery product inventory	1,059,673	688,150
Prepaid expenses	145,413	238,988
	<u>21,171,780</u>	<u>10,057,036</u>
Total current assets		
	80,090	120,768
Promises to give		
Investments	11,605,856	11,658,732
Property and equipment, net	10,188,424	10,609,764
	<u>\$ 43,046,150</u>	<u>\$ 32,446,300</u>
Total assets		

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

LIABILITIES AND NET ASSETS

	2020	2019
Current liabilities		
Accounts payable	\$ 721,648	\$ 383,905
Accrued payroll and taxes	822,694	614,085
County advances and grants	191,638	200,727
Accrued expenses	971,002	166,799
Refundable advances	249,499	40,494
Contributions payable	5,500	27,109
Current portion of capital leases	301,379	300,902
Total current liabilities	3,263,360	1,734,021
Capital lease obligations	842,107	1,143,352
Total liabilities	4,105,467	2,877,373
Net assets		
Net assets without donor restrictions		
Operating	14,717,327	7,795,266
Food and grocery product inventory	7,083,785	6,188,676
Board designated		
Reserve fund	8,080,738	7,994,534
Funded depreciation	5,886,438	5,439,236
Total net assets without donor restrictions	35,768,288	27,417,712
Net assets with donor restrictions	3,172,395	2,151,215
Total net assets	38,940,683	29,568,927
Total liabilities and net assets	\$ 43,046,150	\$ 32,446,300

CENTRAL PENNSYLVANIA FOOD BANK

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue						
Food and grocery product contributions	\$ 89,459,810	\$ -	\$ 89,459,810	\$ 80,427,479	\$ -	\$ 80,427,479
Purchased product sales	6,250,582	-	6,250,582	5,740,532	-	5,740,532
Shared maintenance contributions	1,811,395	-	1,811,395	1,704,771	-	1,704,771
Contributions and gifts	8,261,083	7,719,048	15,980,131	6,850,145	295,163	7,145,308
Promises to give	714,259	120,000	834,259	-	30,000	30,000
PASS reimbursements	216,942	-	216,942	287,533	-	287,533
Federal support, Kids' Café program	827,320	-	827,320	1,014,434	-	1,014,434
Federal support, Commodity Supplemental Food Program	359,588	-	359,588	380,099	-	380,099
Federal support, Trade Mitigation Program	1,344,256	-	1,344,256	449,500	-	449,500
Supplemental Nutrition Assistance Program	192,247	-	192,247	69,940	-	69,940
Commodity storage	1,424,000	-	1,424,000	64,887	-	64,887
Other	246,597	-	246,597	72,215	-	72,215
Net investment return	350,364	52,403	402,767	497,473	63,273	560,746
Appropriation of endowment assets for expenditure	50,000	(50,000)	-	50,000	(50,000)	-
Net assets released from restrictions	6,820,271	(6,820,271)	-	821,871	(821,871)	-
Total support and revenue	118,328,714	1,021,180	119,349,894	98,430,879	(483,435)	97,947,444
Expenses						
Program services						
Food and grocery product distributions	88,903,787	-	88,903,787	77,892,883	-	77,892,883
Purchase product distributions	7,207,362	-	7,207,362	5,384,479	-	5,384,479
Operations	6,955,896	-	6,955,896	5,525,590	-	5,525,590
Community programs	3,633,011	-	3,633,011	3,179,219	-	3,179,219
Management and general	1,615,329	-	1,615,329	1,323,526	-	1,323,526
Development (fundraising)	1,662,753	-	1,662,753	1,870,027	-	1,870,027
Total expenses	109,978,138	-	109,978,138	95,175,724	-	95,175,724
Changes in net assets	\$ 8,350,576	\$ 1,021,180	\$ 9,371,756	\$ 3,255,155	\$ (483,435)	\$ 2,771,720

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

CENTRAL PENNSYLVANIA FOOD BANK

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services					Total
	Food and Grocery Product Distributions	Operations	Community Programs	Management and General	Development (Fundraising)	
Food and grocery product distributions	\$ 88,903,787	\$ -	\$ -	\$ -	\$ -	\$ 88,903,787
Purchased product distributions	7,207,362	-	-	-	-	7,207,362
Salaries	-	2,871,061	1,236,304	884,218	778,244	5,769,827
Payroll taxes	-	224,514	95,958	65,487	57,853	443,812
Employee benefits	-	666,508	266,058	162,815	115,670	1,211,051
Staff development	-	5,403	1,566	7,434	12,616	27,019
Building occupancy and utilities	-	1,030,026	123,298	-	-	1,153,324
Printing and publications	-	23,282	11,810	14,877	390,982	440,951
Food purchases	-	-	983,657	-	-	983,657
Depreciation	-	916,281	-	20,256	25,679	962,216
Transportation	-	508,831	-	87	-	508,918
Professional fees and services	-	123,870	89,826	312,428	53,587	579,711
Office supplies/equipment	-	452,006	37,062	50,108	77,652	616,828
Meetings and events	-	1,402	2,850	2,275	18,622	25,149
Public relations and awards	-	2,953	2,407	160	118,297	123,817
Agency assistance	-	-	740,780	-	-	740,780
Miscellaneous	-	10,718	1,439	33,825	1,340	47,322
Travel	-	23,165	24,408	6,376	6,590	60,539
Dues	-	10,892	15,588	54,983	5,621	87,084
Interest	-	84,984	-	-	-	84,984
	\$ 96,111,149	\$ 6,955,896	\$ 3,633,011	\$ 1,615,329	\$ 1,662,753	\$ 109,978,138

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	-	340,280	127,194	487	-	467,961
Printing and publications	-	7,525	13,516	744	682,078	703,863
Food purchases	-	-	1,157,382	-	-	1,157,382
Depreciation	-	858,925	-	21,102	31,099	911,126
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

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning	\$ 27,417,712	\$ 2,151,215	\$ 29,568,927
Changes in net assets	<u>8,350,576</u>	<u>1,021,180</u>	<u>9,371,756</u>
Net assets, ending	<u>\$ 35,768,288</u>	<u>\$ 3,172,395</u>	<u>\$ 38,940,683</u>

	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>

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

CENTRAL PENNSYLVANIA FOOD BANK

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash flows from operating activities		
Changes in net assets	\$ 9,371,756	\$ 2,771,720
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities		
Depreciation	962,216	911,126
Forgiveness of capital lease obligations	-	(3,874)
Loss on disposal of property and equipment	1,216	-
Net realized and unrealized gains on investments	(207,470)	(364,786)
(Increase) decrease in assets		
Promises to give	(168,140)	472,605
Accounts receivable, net	(23,975)	(111,545)
Accounts receivable - PASS	(823,516)	91,800
Grants, storage fees, and reimbursements receivable	(168,398)	(742,546)
Gift cards	(180,520)	46,025
Food and grocery product inventory	(895,109)	(2,561,031)
Prepaid expenses	93,575	(128,258)
Increase (decrease) in liabilities		
Accounts payable	337,743	(243,439)
Accrued payroll and taxes	208,609	21,675
County advances and grants	(9,089)	98,829
Accrued expenses	804,203	39,742
Refundable advances	209,005	(14,105)
Contributions payable	(21,609)	(74,091)
	9,490,497	209,847
Net cash and cash equivalents provided by operating activities		
Cash flows from investing activities		
Net sales (purchases) of investments	258,450	43,568
Proceeds from disposition of property and equipment	15,500	-
Purchase of property and equipment	(557,592)	(404,790)
	(283,642)	(361,222)
Net cash and cash equivalents used in investing activities		
Cash flows used in financing activities		
Repayment of capital leases	(300,768)	(292,521)
	(300,768)	(292,521)
Net cash and cash equivalents used in financing activities		
Net increase (decrease) in cash and cash equivalents	8,906,087	(443,896)
Cash and cash equivalents, beginning	971,482	1,415,378
Cash and cash equivalents, ending	\$ 9,877,569	\$ 971,482
Supplementary cash flow information		
Interest paid	\$ 84,984	\$ 67,525
Supplementary schedule of noncash investing and financing activities		
Property and equipment acquisition with various capital leases	\$ -	\$ 595,351

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* 1,100 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).

The Bold Goal 2025

The Food Bank's "Bold Goal" is: "By 2025, our collaborative network will provide access to enough nutritious food for everyone struggling with hunger in each of the 27 counties we serve, and we will convene and nurture partnerships to make progress toward ending hunger". The Food Bank established its related Bold Goal Strategic Plan in 2015 and refreshed its Plan in 2018, and the Food Bank continued to meet or exceed all key Plan milestones as of June 30, 2020.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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.

Financial Statement Presentation

The Food Bank's financial statement presentation includes the requirements of the Financial Accounting Standards Board (FASB) 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.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

Investments

The Food Bank carries investments in certificates of deposit, mutual funds and exchange traded funds, and fixed income 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.

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, 2020 and 2019, member agencies reimbursed the Food Bank less than \$0.04 per pound for distributed product.

During 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, 2020 and 2019. Under PASS, \$1,948,516 and \$1,500,000 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, 2020 and 2019, the Food Bank purchased and distributed \$1,696,374 and \$1,260,596 of food products.

Of the \$3,255,373 appropriated for PASS, a maximum of 15% may be used for administrative purposes. During the years ended June 30, 2020 and 2019, the Food Bank recognized \$122,014 and \$160,631 as reimbursement for these administrative costs. As of June 30, 2020 and 2019, \$823,516 and zero is due from PDA for services performed under the PASS program.

(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, 2020 and 2019, 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 statements 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 statements 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.

In-Kind Contributions

Donated in-kind contributions are recorded at fair value at the time of receipt. These contributions are recognized as both support and expenses in the statements of activities.

During the year ended June 30, 2020, the Food Bank received a donation of building space to be used for operations as well as a donation of transportation services in the amount of \$717,122. This amount is included in contributions and gifts on the statements of activities and building occupancy and utilities and transportation in the statements of functional expenses.

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.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019, 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 income tax returns are no longer subject to examination by the appropriate taxing authorities for years prior to 2017.

Recently Adopted Accounting Pronouncements

During 2020, the Food Bank adopted FASB 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 statements of cash flows. The changes became effective for the Food Bank on July 1, 2019, and were applied retrospectively. There was no impact on the Food Bank's financial statements as a result of adopting this standard.

During 2020, the Food Bank adopted FASB 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 Food Bank on July 1, 2019, and were applied on a modified prospective basis. Management has determined that the impact of these changes on the Food Bank's financial statements was minimal and have been incorporated in the current year.

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, 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

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, 2022. Management has not determined the impact of these changes on the Food Bank's financial statements.

Subsequent Events

Management evaluated subsequent events through October 13, 2020, the date the financial statements were available to be issued.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets as of June 30, 2020 and 2019, available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 9,877,569	\$ 971,482
Short-term investments	107,399	105,503
Promises to give, current	737,152	528,334
Accounts receivable, net	561,160	537,185
Accounts receivable – PASS	823,516	-
Grants, storage fees, and reimbursements receivable	1,620,995	1,452,597
Investments	11,605,856	11,658,732
Less: board designated reserve fund	(8,080,738)	(7,994,534)
Less: net assets with donor restrictions	<u>(3,172,395)</u>	<u>(2,151,215)</u>
Total	<u>\$ 14,080,514</u>	<u>\$ 5,108,084</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, 2020 and 2019.

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, 2020 and 2019:

<u>Reported at Fair Value</u>	June 30, 2020			<u>Total</u>
	Level 1	Level 2	Level 3	
Short-term investments				
Certificates of deposit	\$ 107,399	\$ -	\$ -	\$ 107,399
Investments				
Mutual funds and ETFs				
Small cap	820,483	-	-	820,483
Large cap	3,876,619	-	-	3,876,619
Fixed income	3,384,152	-	-	3,384,152
International value, blended, and growth funds	2,985,128	-	-	2,985,128
Other funds	133,167	-	-	133,167
Total mutual funds and ETFs	11,199,549	-	-	11,199,549
Fixed income securities				
U.S. Government and agencies	-	25,526	-	25,526
Corporate bonds, BBB+ to AAA	-	254,924	-	254,924
Municipal Obligations	125,857	-	-	125,857
Total fixed income securities	125,857	280,450	-	406,307
Total investments	11,325,406	280,450	-	11,605,856
	\$11,432,805	\$ 280,450	\$ -	\$11,713,255

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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	\$ 434,596	\$ -	\$11,764,235

Net investment return for 2020 and 2019 was comprised of the following:

	2020	2019
Interest and dividends	\$ 254,586	\$ 252,776
Net realized gain (loss) on sale of investments	(8,214)	522,987
Net unrealized gain (loss) on investments	215,684	(158,201)
Investment fees	(59,289)	(56,816)
Total	\$ 402,767	\$ 560,746

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

5. PROMISES TO GIVE

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

	2020	2019
Restricted for Williamsport expansion	\$ 82,090	\$ 139,128
Unconditional promises to give	735,152	509,974
Total promises to give	\$ 817,242	\$ 649,102

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

	2020	2019
Receivables in less than one year	\$ 737,152	\$ 528,334
Receivables in one to five years	80,090	120,768
Total	\$ 817,242	\$ 649,102

Amounts due in one to five years have not been discounted by the Food Bank at June 30, 2020 and 2019.

6. PROPERTY AND EQUIPMENT

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

	2020	2019	Depreciable Lives
Land	\$ 349,322	\$ 349,322	
Building and building improvements	11,134,738	11,037,989	15 – 40 years
Office furniture and equipment	484,360	594,069	2 – 10 years
Warehouse equipment	1,297,605	1,110,355	2 – 10 years
Vehicles	2,802,635	2,947,920	5 – 10 years
Construction in progress	6,202	9,345	
	16,074,862	16,049,000	
Accumulated depreciation	(5,886,438)	(5,439,236)	
	\$10,188,424	\$10,609,764	

The Food Bank leases vehicles and office equipment under the terms of various capital leases disclosed in Note 7 to the financial statements.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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

	2020	2019
Vehicles	\$ 2,000,484	\$ 2,000,484
Office furniture and equipment	-	122,988
	2,000,484	2,123,472
Accumulated depreciation	(933,730)	(745,845)
	\$ 1,066,754	\$ 1,377,627

Depreciation expense amounted to \$962,216 and \$911,126 for the years ended June 30, 2020 and 2019, respectively.

7. CAPITAL LEASES

Capital leases consist of the following as of June 30:

	2020	2019
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.	\$ 1,143,486	\$ 1,444,254
Current portion	1,143,486 (301,379)	1,444,254 (300,902)
	\$ 842,107	\$ 1,143,352

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

2021	\$ 362,223
2022	319,531
2023	301,378
2024	151,227
2025	113,307
Thereafter	66,096
	1,313,762
Amount representing interest	(170,276)
	\$ 1,143,486

Interest expense on capital leases amounted to \$84,984 and \$67,525 for the years ended June 30, 2020 and 2019, respectively.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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 (3.25% as of June 30, 2020, and 5.50% as of June 30, 2019). 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, 2020 and 2019.

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.

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

	June 30, 2020		
	Board- Designated Reserve Fund	Donor- Restricted Endowment Fund	Total
Endowment net assets, beginning of year	\$ 7,994,534	\$ 1,388,614	\$ 9,383,148
Investment return			
Investment income	133,936	22,151	156,087
Realized loss	(63,872)	(11,509)	(75,381)
Unrealized gain	216,140	41,761	257,901
Total investment income	286,204	52,403	338,607
Appropriation of endowment assets for expenditure	(200,000)	(50,000)	(250,000)
Endowment net assets, end of year	\$ 8,080,738	\$ 1,391,017	\$ 9,471,755

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

	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

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.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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 \$250,000 and \$400,000 were paid during the years ended June 30, 2020 and 2019, respectively.

10. NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Promises to give - time-restricted	\$ 80,090	\$ 163,128
Promises to give - purpose-restricted	122,544	260,994
Contributions and gifts	1,578,744	338,479
Donor-restricted endowment fund	<u>1,391,017</u>	<u>1,388,614</u>
	<u>\$ 3,172,395</u>	<u>\$ 2,151,215</u>

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

	<u>2020</u>	<u>2019</u>
Promises to give	\$ 341,488	\$ 690,188
Contributions and gifts	6,478,783	131,683
Appropriation of endowment assets for expenditure	<u>50,000</u>	<u>50,000</u>
	<u>\$ 6,870,271</u>	<u>\$ 871,871</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.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019, the Food Bank received \$26,432,009 and \$13,589,730 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 \$2.8 million of its revenue during the years ended June 30, 2020 and 2019, 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 statements of functional expenses present the natural classification detail of expenses by function.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries	Time and effort
Payroll taxes	Percentage of salaries
Employee benefits	Percentage of salaries
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.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

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, 2020 and 2019, this difference amounted to \$61,099 and \$63,624, 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:

2021	\$ 59,896
2022	44,839
2023	45,510
2024	46,191
2025	46,883
Thereafter	<u>427,983</u>
	<u><u>\$ 671,302</u></u>

Total rental expense under operating leases charged to operations amounted to \$107,155 and \$103,417 for the years ended June 30, 2020 and 2019, respectively.

14. RELATED PARTY TRANSACTIONS

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 the Food Bank provides internal accounting and information technology 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 due from this organization for rent and services amounted to \$9,900 during the years ended June 30, 2020 and 2019. There was \$11,664 and \$3,889 of outstanding receivables due to the Food Bank for reimbursable expenses as of June 30, 2020 and 2019.

(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, 2020 and 2019, the Food Bank received \$359,588 and \$380,099 in administrative funds from Hunger-Free PA.

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

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 \$218,017 and \$177,236 for the years ended June 30, 2020 and 2019, respectively.

17. VETERANS' TRUST FUND

In 2020 and 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 statements of activities for the years ended June 30, 2020 and 2019.

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

NOTES TO FINANCIAL STATEMENTS

The funds were utilized by the Food Bank for the following expenses which are included in Community Programs in the statements of functional expenses for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Salaries	\$ 5,000	\$ 5,000
Employee travel	500	500
Employee training	500	500
Building occupancy and utilities	4,000	4,036
Transportation	5,000	3,964
Supplies	<u>35,000</u>	<u>35,000</u>
	<u>\$ 50,000</u>	<u>\$ 50,000</u>

18. RISKS AND UNCERTAINTIES

The COVID-19 pandemic and resulting regulatory and operating restrictions have caused disruption of many businesses which is resulting in significant economic uncertainties. The extent of the impact of COVID-19 on the Food Bank's operational and functional performance will depend on certain developments, including the duration and spread of the outbreak, and its effect on the Food Bank's donors, employees, and vendors. All of these factors are uncertain and cannot be predicted. At this time, the extent to which COVID-19 may impact the Food Bank's financial condition or results of operations is unknown.

SUPPLEMENTARY INFORMATION

CENTRAL PENNSYLVANIA FOOD BANK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Agriculture Passed through the Commonwealth of Pennsylvania Department of Agriculture Bureau of Food Distribution Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178	8-06-22-090	\$ -	\$ 591,445
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	-	359,588
The Emergency Food Assistance Program (Administrative Costs)	10.568	8-06-22-090	-	841,834
COVID-19 – The Emergency Food Assistance Program (Administrative Costs)	10.568	8-06-22-090	-	1,334,977
The Emergency Food Assistance Program (Food Commodities)	10.569	8-06-22-090	21,716,498	21,716,498
COVID-19 - The Emergency Food Assistance Program (Food Commodities)	10.569	8-06-22-090	<u>627,538</u>	<u>627,538</u>
Total U.S. Department of Agriculture programs in cluster			<u>22,344,036</u>	<u>24,880,435</u>
Total Food Distribution Cluster			<u>22,344,036</u>	<u>24,880,435</u>
Passed through the Pennsylvania Department of Education Child Nutrition Cluster Summer Food Service Program for Children	10.559	300-22-185-5	-	413,678
Total Child Nutrition Cluster			-	413,678
Child and Adult Care Food Program	10.558	300-22-185-5	-	413,642
Passed through the Pennsylvania Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	23-6003113	-	132,809
Total SNAP Cluster			-	132,809
Total expenditures of federal awards			<u>\$ 22,344,036</u>	<u>\$ 26,432,009</u>

(continued)

CENTRAL PENNSYLVANIA FOOD BANK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

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, 2020. 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.

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 \$21,120,674 of USDA commodities (CFDA #10.569) during the year ended June 30, 2020. The remaining \$1,223,362 was distributed from donated food and grocery product inventory at June 30, 2019.

MEMBERS

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INDEPENDENT MEMBER OF



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

Independent Auditor's Report

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, 2020, 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 13, 2020.

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 13, 2020

MEMBERS

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor's Report

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, 2020. 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* (CFR) 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, 2020.

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 13, 2020

CENTRAL PENNSYLVANIA FOOD BANK

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

None.

CENTRAL PENNSYLVANIA FOOD BANK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiencies identified?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

Yes No

Significant deficiencies identified?

Yes None reported

Type of auditors’ report issued on compliance for major federal programs?

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)?

Yes No

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

10.565

Commodity Supplemental Food Program

10.568

The Emergency Assistance Food Program

10.569

The Emergency Assistance Food Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$792,960

Auditee qualified as low-risk auditee?

Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported



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