PHILABUNDANCE

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS
FOR SEPTEMBER 30, 2016)

CliftonLarsonAllen LLP

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Philabundance
Philadelphia, Pennsylvania

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Philabundance (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Philabundance as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Philabundance's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
January 31, 2018

PHILABUNDANCE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2016)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,141,096	$ 798,359
Restricted Cash	44,433	64,433
Investments (Note 2)	1,517,039	1,424,169
Accounts Receivable, Net	355,272	395,130
Current Portion of Pledges Receivable (Note 1)	249,500	94,719
Inventory	1,775,879	2,290,369
Other Current Assets	128,523	123,434
Prepaid Expenses, Deposits and Other	302,300	397,081
Total Current Assets	5,514,042	5,587,694
NOTE RECEIVABLE (NMTC)	5,039,250	5,039,250
PLEDGES RECEIVABLE, LESS CURRENT PORTION (NOTE 1)	56,000	50,000
PROPERTY AND EQUIPMENT, NET (NOTE 4)	10,532,951	10,606,109
INTANGIBLE ASSETS, NET	25,667	148,220
BENEFICIAL INTEREST (NOTE 5)	14,403	13,362
Total Assets	$ 21,182,313	$ 21,444,635
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Capital Leases (Note 8)	$ 67,734	$ 69,400
Current Maturities of Long-Term Debt (Note 7)	122,692	121,804
Accounts Payable and Accrued Expenses	1,013,833	1,243,506
Deferred Income	301,415	256,692
Total Current Liabilities	1,505,674	1,691,402
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Maturities (Note 7)	8,919,494	9,122,340
Capital Leases, Less Current Maturities (Note 8)	302,176	26,169
Total Long-Term Liabilities	9,221,670	9,148,509
Total Liabilities	10,727,344	10,839,911
NET ASSETS		
Unrestricted	7,990,037	8,572,008
Temporarily Restricted (Note 9)	2,080,288	1,648,072
Permanently Restricted (Note 9)	384,644	384,644
Total Net Assets	10,454,969	10,604,724
Total Liabilities and Net Assets	$ 21,182,313	$ 21,444,635

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
OPERATING REVENUE					
In-Kind Food (Note 1)	$ 37,847,888	$ -	$ -	$ 37,847,888	$ 33,905,356
In-Kind Goods and Services	146,894	-	-	146,894	294,073
Grants and Contributions	10,338,082	2,492,732	-	12,830,814	11,789,696
Fees for Service	1,377,487	-	-	1,377,487	1,461,189
Rental Income	80,094	-	-	80,094	72,278
Community Purchase Program	1,385,261	-	-	1,385,261	1,016,595
Less: Costs of Goods Sold	(1,207,847)	-	-	(1,207,847)	(824,107)
Gross Profit	177,414	-	-	177,414	192,488
Retail Grocery Sales	2,885,907	-	-	2,885,907	2,872,953
Less: Costs of Goods Sold	(2,476,642)	-	-	(2,476,642)	(2,414,528)
Gross Profit	409,265	-	-	409,265	458,425
Net Assets Released from Restrictions	2,060,516	(2,060,516)	-	-	-
Total Operating Revenue	52,437,640	432,216	-	52,869,856	48,173,505
EXPENSES					
Program Services	48,525,823	-	-	48,525,823	43,849,310
Management and General	1,969,360	-	-	1,969,360	1,937,421
Fundraising	2,783,248	-	-	2,783,248	2,626,163
Total Expenses	53,278,431	-	-	53,278,431	48,412,894
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	(840,791)	432,216	-	(408,575)	(239,389)
NONOPERATING ACTIVITIES					
Interest Income and Dividends	55,349	-	-	55,349	46,669
Change in Beneficial Interest	1,041	-	-	1,041	228
Endowment Distribution Income	38,702	-	-	38,702	37,116
Realized Gain on Investments	20,553	-	-	20,553	5,550
Unrealized Gain on Investments	76,186	-	-	76,186	80,779
Other Income	66,989	-	-	66,989	11,903
Total Nonoperating Activities	258,820	-	-	258,820	182,245
CHANGE IN NET ASSETS	(581,971)	432,216	-	(149,755)	(57,144)
Net Assets - Beginning of Year	8,572,008	1,648,072	384,644	10,604,724	10,661,868
NET ASSETS - END OF YEAR	$ 7,990,037	$ 2,080,288	$ 384,644	$ 10,454,969	$ 10,604,724

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	Program Services	Management and General	Fundraising	2017 Total	2016 Total
Payroll and Related Costs	$ 5,781,271	$ 1,139,770	$ 979,088	$ 7,900,129	$ 7,771,617
Agency Support	75,389	974	-	76,363	101,413
Contract Labor	18,324	42,757	-	61,081	116,048
Credit Card and Bank Fees	-	65,686	66,812	132,498	125,345
Depreciation and Amortization	712,545	70,175	19,668	802,388	847,897
Donated Food	38,218,181	-	-	38,218,181	34,063,150
Dues and Subscriptions	46,544	39,494	7,986	94,024	72,768
Facilities	818,843	71,549	31,668	922,060	841,125
Food Acquisition	1,332,442	-	-	1,332,442	835,838
Freight	81,427	-	-	81,427	64,355
Information Technology	61,205	6,987	90,415	158,607	142,300
Interest	162,404	49,841	4,427	216,672	208,804
Mailing Services	5,172	412	789,035	794,619	852,929
Marketing and Design	54,127	-	146,077	200,204	265,558
Meetings and Training	53,901	60,884	18,638	133,423	156,258
Miscellaneous	18,547	38,618	3,360	60,525	84,501
Printing	4,339	1,480	473,166	478,985	392,923
Professional Fees	34,849	288,934	121,284	445,067	404,108
Supplies	310,857	28,349	10,171	349,377	333,548
Telephone	169,147	24,468	19,477	213,092	242,097
Temporary Help	122,562	38,982	1,976	163,520	97,357
Transportation	443,747	-	-	443,747	392,955
Total	$ 48,525,823	$ 1,969,360	$ 2,783,248	$ 53,278,431	$ 48,412,894

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (149,755)	$ (57,144)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Realized Gain on Investments	(20,553)	(5,550)
Unrealized Gain on Investments	(76,186)	(80,779)
Change in Beneficial Interest	(1,041)	(228)
Depreciation	759,982	805,491
Amortization	42,406	42,406
(Increase) Decrease in:		
Accounts Receivable	39,858	41,446
Grants Receivable	-	18,750
Pledges Receivable	(160,781)	46,535
Inventory	514,490	(33,061)
Other Current Assets	(5,089)	(33,168)
Prepaid Expenses, Deposits and Other	94,781	(118,534)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(229,673)	794
Deferred Income	44,723	25,920
Net Cash Provided by Operating Activities	853,162	652,878
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(4,010,972)	(2,268,442)
Purchase of Property and Equipment	(313,980)	(244,074)
Decrease in Restricted Cash	20,000	92,800
Proceeds from Sale of Investments	4,014,841	1,844,593
Net Cash Used by Investing Activities	(290,111)	(575,123)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(121,811)	(122,197)
Principal Payments on Capital Lease	(98,503)	(99,530)
Net Cash Used by Financing Activities	(220,314)	(221,727)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	342,737	(143,972)
Cash and Cash Equivalents - Beginning of Year	798,359	942,331
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,141,096	$ 798,359
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ 216,672	$ 208,804
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Vehicles Acquired through Capital Leases	$ 372,844	$ -

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

Philabundance is a Pennsylvania nonprofit hunger relief organization that provides an array of programs designed to end hunger and malnutrition in the Delaware Valley and is striving to build a coalition to make hunger unacceptable. The core program is acquiring food from food industry sources and distributing the food through organizations serving people in need and through Philabundance's direct service programs, such as Fresh for All. Philabundance also maintains kitchen operations that produce meals which are provided to the City of Philadelphia and to other organizations for distribution to those in need. As an adjunct to the meal production program, Philabundance conducts a job training program that prepares people for jobs in the food service industry. Philabundance also directly provides on-site meal service to the City of Philadelphia's Woodstock Shelter for Women and Children. In addition to the in-kind donations of food, revenues are also primarily derived from contributions (largely from individual donors), grants, and fees for services provided, including government contracts.

Philabundance also operates a nonprofit grocery store in the City of Chester, Pennsylvania. F&S Chester, RE, Inc., is a Pennsylvania nonprofit corporation that owns the real estate and improvements and Fare & Square, LLC serves as the store operator.

The accompanying consolidated financial statements include the accounts of Philabundance, F&S Chester, RE, Inc., and Fare & Square, LLC and are collectively referred to as the Organization. All intercompany transactions and balances have been eliminated in consolidation.

Basis of Financial Statements

The accompanying financial statements are accounted for on the accrual method of accounting in accordance with U.S. generally accepted accounting principles.

Basis of Presentation

Activities are recorded according to three categories of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Unrestricted net assets consist of normal operations and are not subject to donor-imposed stipulations. Temporarily restricted net assets consist of contributions specifically restricted by a donor. Upon meeting the restriction (either a stipulated time period ends or a purpose restriction is accomplished), these temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Permanently restricted net assets consist of contributions specifically restricted by the donor to be held in perpetuity.

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Contributions

The Organization distinguishes between contributions that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.

Revenue Recognition

Unrestricted grants and contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made.

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

The Organization considers all government awards to be exchange transactions in which each party receives and sacrifices commensurate value. Accordingly, government awards do not affect temporarily restricted net assets, and funds received in advance are deferred revenue, and funds disbursed and not reimbursed represent receivables.

Retail grocery sales from customers are recognized as revenue at the time they occur, net of any coupons or member incentives.

Community Purchase Program sales are recognized as revenue at the time they occur.

Rental income is recognized as rent becomes due. All leases between the Organization and the tenants of the property are operating leases.

Fees for Services

The Organization provides food access and delivery services for other nonprofit food distribution organizations on a fee basis. Revenue from these services is recognized as earned on the date of delivery.

Valuation of In-Kind Donations

Entities receiving contributions are to recognize them at the estimated fair value of the assets received. The estimated fair value of donated food is based on the average wholesale value per pound of donated product type as determined by an independent annual survey commissioned by Feeding America, a national hunger relief, public policy, and advocacy organization.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of In-Kind Donations (Continued)

Details of the estimated food value donations for the years ended September 30, 2017 and 2016 are shown in the following table:

	Year Ended September 30, 2017			Year Ended September 30, 2016		
	Value per Pound	Total Pounds	Total Value	Value per Pound	Total Pounds	Total Value
Nonfood	$ 11.49	226,170	$ 2,598,693	$ 5.16	265,917	$ 1,372,132
Beverage	0.58	207,998	120,639	0.83	269,392	223,595
Bread/Bakery	2.09	2,002,467	4,185,156	2.38	2,010,349	4,784,631
Cereal	3.19	107,610	343,276	3.00	92,380	277,140
Meals, Soups, Entrees	1.83	154,051	281,913	1.95	220,162	429,316
Dairy	1.58	1,774,948	2,804,418	2.02	984,051	1,987,783
Dessert	2.14	14,200	30,388	2.12	13,719	29,084
Dough-Uncooked	1.74	600	1,044	1.58	-	-
Dressing	2.53	1,411	3,570	1.97	2,925	5,762
Fresh Fruits/Vegetables	0.53	18,513,980	9,812,409	0.67	7,631,125	5,112,854
Fruit: Canned and Frozen	1.33	151,111	200,978	0.95	52,887	50,243
Grain	1.35	13,118	17,709	0.87	-	-
Health/Beauty	33.01	-	-	14.24	22,857	325,484
Juice	1.03	708,732	729,994	0.93	653,609	607,856
Meat	2.89	3,285,864	9,496,147	2.98	3,181,607	9,481,189
*Mixed Foods	1.73	3,135,204	5,423,903	1.67	4,514,242	7,538,784
Nondairy	2.00	33,000	66,000	1.07	188,795	202,011
Nutritional Aid	5.89	1,269	7,474	4.12	14,115	58,154
Paper-Household	2.67	-	-	1.50	576	864
Pasta	1.24	89,624	111,134	1.89	157,966	298,556
Prepared and Perishable Food	1.73	286,743	496,065	1.67	-	-
Protein	1.19	58,220	69,282	1.48	118,225	174,973
Rice	1.99	30,680	61,053	1.50	-	-
Snack Food	3.70	116,761	432,016	3.01	169,532	510,291
Condiments	1.80	92,929	167,272	1.65	2,080	3,432
Vegetables-Canned and Frozen	1.33	259,299	344,868	1.22	353,461	431,222
Average Value of all Categories	1.73	24,559	42,487	-	-	-
Total	1.21	31,290,548	$ 37,847,888	1.62	20,919,972	$ 33,905,356

* Mixed food: Philabundance receives substantial donations (such as from canned food drives) which are received in a mixed state and later sorted into individual categories prior to distribution.

Contributed services meeting certain criteria are recognized at fair value.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and otherwise would be purchased by the Organization. During the year ended September 30, 2017, the Organization received $65,699 in donated services.

The Organization also receives donations of various goods throughout the year. The value of all other in-kind donations was $81,195.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers all highly liquid investments in traditional bank accounts, money market funds, and certificates of deposit with a maturity of three months or less when purchased to be cash equivalents. At times, cash in bank may exceed Federal Deposit Insurance Corporation (FDIC) insurable limits.

Accounts Receivable

The Organization uses the allowance method to provide for losses on accounts receivable which is based on management's judgment considering historical information. Services are provided on an unsecured basis. Past due accounts are reviewed for collectibility and written off as necessary. In addition, an allowance is provided for other accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At September 30, 2017 the allowance for uncollectible accounts was $4,975.

Fair Value of Financial Instruments

The Organization follows the fair value measurements standard. This standard applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Investments

Investments are recorded at fair value. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for credit rating, prepayment assumptions, and other factors such as credit loss assumptions.

The investments in shares of mutual funds are valued at the net asset value of shares held by the Organization at year-end.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near-term and that such changes could be material.

Pledges Receivable

Pledges that are expected to be collected within one year are recorded at their net realizable value. Pledges that are expected to be collected beyond one year are recorded at their net present value of estimated future cash funds. Due to the current average potential earnings, recognition of a discount to net present value is deemed unnecessary due to its immateriality.

As of September 30, 2017, pledges receivable consisted of:

Year Ending September 30,	Amount
2018	$ 249,500
2019	56,000
Total	$ 305,500

Philabundance provides for uncollectible pledges using the allowance method, which is based on management's judgment concerning analysis of individual pledges. Past due pledges receivable are individually analyzed for collectibility and written off when all efforts have been exhausted. As of September 30, 2017 all pledges receivable are deemed collectible.

Inventory

Donated inventory is recorded at the estimated fair value as determined by Feeding America and consists primarily of food available for distribution. Purchased inventory is recorded at the lower of average cost or market.

Property and Equipment and Depreciation

Physical property and equipment are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Philabundance capitalizes all fixed assets over $2,500 with an estimated life greater than one year. Donated equipment with a nominal value at the date of donation, which will be distributed or disposed of, is not recorded. Property and equipment has useful lives as follows:

Building and Improvements	40 Years
Vehicles	5 – 7 Years
Computers	3 – 5 Years
Equipment	5 Years
Furniture and Fixtures	5 Years

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses

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

Income Taxes

Philabundance is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Philabundance has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the maximum charitable contributions deduction for individual donors. F&S Chester, RE Inc. is a taxable Pennsylvania corporation. Fare & Square LLC is a single member Pennsylvania limited liability corporation with Philabundance as the single member. As such, Fare & Square LLC is exempt from income taxes and qualifies for the maximum charitable contributions deduction for individual donors.

The Organization follows the income tax standard for uncertain tax positions. The Organization believes there are no uncertain tax positions that need to be disclosed in the financial statements. The Organization is not aware of any activities that would jeopardize its tax-exempt status.

Comparative Financial Information

The consolidated financial statements include certain prior year summarized comparative totals which do not include detail by net asset classification and detailed expenses by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's September 30, 2016 financial statements, from which the comparative totals were derived.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 31, 2018, the date the financial statements were available to be issued.

NOTE 2 INVESTMENTS

Investments consist of the following at September 30, 2017:

	Cost	Fair Value
Equity Mutual Funds	$ 301,594	$ 748,070
Fixed Income Mutual Funds	727,478	767,969
Preferred Stock	1,000	1,000
Total	$ 1,030,072	$ 1,517,039

NOTE 3 FAIR VALUE MEASUREMENTS

Philabundance uses fair value measurements to record fair value adjustments to investments and the beneficial interest. For additional information on how Philabundance measures fair value, refer to Note 1 – Summary of Significant Accounting Policies.

The following table presents Philabundance's fair value hierarchy for those assets measured at fair value on a recurring basis as of September 30, 2017.

	Level 1	Level 2	Level 3	Total
Marketable Securities:				
Equity Mutual Funds	$ 748,070	$ -	$ -	$ 748,070
Fixed Income Mutual Funds	767,969	-	-	767,969
Preferred Stock	1,000	-	-	1,000
Total Investments	1,517,039	-	-	1,517,039
Beneficial Interest	-	-	14,403	14,403
Total	$ 1,517,039	$ -	$ 14,403	$ 1,531,442

The change in Level 3 assets for the year ended September 30, 2017 is as follows:

	Beneficial Interest
Balance - October 1, 2016	$ 13,362
Change in Value of Beneficial Interest	1,041
Balance - September 30, 2017	$ 14,403

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2017:

	Amount
Land	$ 541,830
Buildings and Improvements	12,012,533
Leasehold Improvements	6,704
Furniture and Fixtures	464,785
Equipment	2,902,384
Computer Hardware and Software	2,063,545
Vehicles	1,492,701
Total	19,484,482
Less: Accumulated Depreciation	8,951,531
Total Property and Equipment	$ 10,532,951

NOTE 5 BENEFICIAL INTEREST

During the year ended September 30, 2003, Philabundance transferred $10,000 of unrestricted funds to The Philadelphia Foundation (a community foundation). Under the terms of organizational endowment fund agreement, the community foundation will provide an annual distribution to Philabundance as long as Philabundance maintains its present 501(c)(3) status. Accordingly, the projected income is classified as part of unrestricted net assets at September 30, 2017. Given the nature of the promises as well as the inability to compute the present value of the income stream, the beneficial interest has been recorded on the consolidated statement of financial position at the market value of Philabundance's proportionate share. As of September 30, 2017, the value of the beneficial interest was $14,403. The increase in the beneficial interest of $1,041 is recorded in the consolidated statement of activities as a change in unrestricted net assets for the year ended September 30, 2017.

NOTE 6 LINE OF CREDIT

On October 16, 2009, Philabundance negotiated financing for its construction project (see Note 7). As part of the financing, a $500,000 operating line of credit was made available. On April 13, 2017, the availability on the line of credit was increased to $1,000,000. The line of credit is unsecured but is supported by a negative pledge on the property located at 302 West Berks Street, Philadelphia, Pennsylvania. Any advances are payable on demand and accrue interest at a rate equal to 30 day LIBOR (1.23% at September 30, 2017) plus 1.75%. As of September 30, 2017, no amount was outstanding on the line of credit. The line will be reviewed by the bank for renewal on April 12, 2018.

NOTE 7 LONG-TERM DEBT

Construction/Permanent Mortgage

On October 16, 2009, Philabundance entered into a $4,000,000 construction/permanent mortgage loan with Citizens Bank to refinance existing term debt and fund building renovations. The loan included a 24-month interest only drawdown period during construction of which $1,948,401 was borrowed (maximum available was $2,000,000). The $1,948,401 borrowed was repaid in full during fiscal 2011. The remaining portion of the construction loan was converted to a $2,000,000 permanent mortgage to be amortized over a 20-year period beginning October 16, 2011, with a call option beginning at the end of years 5, 10, and 15. The call option was not exercised at the end of year 5. The note includes various restrictive covenants and required interest only payments during the initial 24-month drawdown period for building renovations during which the loan served as a nonrevolving construction line of credit.

The loan requires monthly installments of principal in equal amounts to cause the permanent mortgage loan to be fully amortized between the conversion date and the loan maturity date and interest at the 30-day LIBOR rate (1.23% at September 30, 2017) plus 2.25%. The loan is collateralized by real property owned by Philabundance at 3600-3614, 3616-3640 and 3642-3644 South Galloway Street, Philadelphia, Pennsylvania. The outstanding balance on the loan was $1,408,334 as of September 30, 2017.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Subordinate Financing

A second loan, in the amount of $1,000,000, was also negotiated on October 16, 2009 with The Reinvestment Fund. The loan is a 22-year note which required interest only payments for the first 24 months and thereafter carries a fixed rate of 4% for the remaining 20 years. After the initial interest only period, monthly installments of principal and interest, in the amount of $4,774 will be due on the outstanding principal balance during the preceding month and based upon a hypothetical term of 240 months. A balloon payment of $468,605 is due on September 30, 2031, which is the maturity date. The lender has call options at the end of years 10 and 15. The outstanding balance on the loan was $873,999 as of September 30, 2017.

The loan is collateralized by a second priority Mortgage, Security Agreement, and Fixture Filing covering real property owned by Philabundance at 3600-3614, 3616-3640 and 3642-3644 South Galloway Street, Philadelphia, Pennsylvania.

Interest expense for the above loans amounted to $89,234 for the year ended September 30, 2017.

New Market Tax Credit (NMTC) Financing

On October 19, 2012, Philabundance entered into a New Market Tax Credit (NMTC) financing transaction to provide the funding to acquire real estate and develop a nonprofit grocery store in Chester, Pennsylvania. As part of this transaction, Philabundance made a loan of $5,039,250 to 481 Investment Fund LLC Fund (the Fund). The loan is due February 1, 2042 and carries an annual interest rate of 1%.

In conjunction with Philabundance’s loan, 481 Corporation, a Maine corporation, contributed $2,115,750 to the Fund. 481 Corporation received NMTC’s in return for its investment in the Fund. The Fund used the collective proceeds to fund two Community Development Entities (CDE), TRF NMTC Fund, XXI, LP and NFF New Markets Fund XVIII, LLC.

F&S Chester, RE, Inc. entered into a $3,000,000 loan agreement with TRF NMTC Fund, XXI, LP and a $3,840,000 loan agreement with NFF New Markets Fund XVIII, LLC. The TRF loan consists of two tranches, Loan A and Loan B, both of which have an interest rate of 2.064%, simple interest, each maturing on November 1, 2019. The NFF loan also consists of two tranches, Loan A and Loan B, both of which have an interest rate of 1.275%, simple interest, each maturing on November 1, 2019. As of September 30, 2017, unamortized loan fees of $80,147 are presented on the consolidated statement of financial position as a direct deduction from the principal balance of the loans.

The NMTCs were allocated in this transaction pursuant to Section 45D of the Internal Revenue Code. After the seven-year NMTC period expires on October 19, 2019, it is anticipated that 481 Corporation will exercise its put option to sell its ownership interest in the Fund to Philabundance, or Philabundance will exercise its call option to buy 481 Corporation’s ownership interest, for $1,000 and the Fund will be liquidated and its assets distributed to Philabundance. In conjunction with this event, the CDE’s will be liquidated and

NOTE 7 LONG-TERM DEBT (CONTINUED)

New Market Tax Credit (NMTC) Financing (Continued)

their assets distributed to the fund. Immediately after the exit transactions are completed, Philabundance will be the holder of F&S Chester, RE, Inc.'s notes payable and, as such the loan will be eliminated in the consolidated financial statements. It is anticipated that the loans will be discharged.

The interest income to Philabundance on its loan to the fund is approximately $50,400 per year. For the year ended September 30, 2017, the interest expense for F&S Chester, RE, Inc. for the TRF loan was $61,920 and for the NFF loan was $48,960.

Principal amounts due for the mortgages and loans for the next five years and thereafter are as follows:

Year Ending September 30,	Citizens	The Reinvestment Fund	NMTC	Total
2018	$ 100,000	$ 22,692	$ -	$ 122,692
2019	100,000	23,617	-	123,617
2020	100,000	24,580	-	124,580
2021	100,000	25,581	-	125,581
2022	100,000	26,623	-	126,623
Thereafter	908,334	750,906	6,840,000	8,499,240
Total	$ 1,408,334	$ 873,999	$ 6,840,000	$ 9,122,333

NOTE 8 CAPITAL LEASE OBLIGATION

Philabundance leases vehicles that meet the provisions of a capital lease. These leases vary in term from three years to seven years. The fair value of the related vehicles was recorded as assets and is being amortized over the life of the related leases. The leased vehicles have the following book value at September 30, 2017:

Vehicles	$ 470,035
Less: Accumulated Depreciation	(122,876)
Total	$ 347,159

NOTE 8 CAPITAL LEASE OBLIGATION (CONTINUED)

The future minimum payments for the terms of these capital leases as of September 30, 2017 are as follows:

Year Ending September 30,		Amount
2018	$	84,358
2019		74,614
2020		65,323
2021		65,323
2022		65,323
Thereafter		68,773
Total Minimum Lease Payments		423,714
Less: Amount Representing Interest		(53,804)
Present Value of Minimum Lease Payments	$	369,910

NOTE 9 RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2017 are available for the following purposes:

		Amount
Building	$	352,780
Capital Needs and Other Programs		223,470
Children and Seniors		142,791
Direct Service Programs		593,665
Fare & Square		45,770
Food Purchases		314,503
Fuel		407,309
Total	$	2,080,288

The income from permanently restricted net assets is to be used for operations. Permanently restricted net assets as of September 30, 2017 are $384,644.

NOTE 10 ENDOWMENT

Philabundance's endowment consists of a fund restricted in perpetuity to continue the purpose of the organization. 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.

Philabundance considers the following factors when making a determination to appropriate or accumulate donor-restricted endowment funds; the duration and preservation of the fund, the purposes of Philabundance and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from

NOTE 10 ENDOWMENT (CONTINUED)

income, and the appreciation of investments and the investment policies of Philabundance. In addition Philabundance is guided in its total return policy by Commonwealth of Pennsylvania Act 141, which dictates the amount of allowable distributions to be made from a restricted endowment. The act states that the annual distribution cannot exceed 7% of the principal (value of the principal is the fair market value of the endowment assets averaged over a period of three or more preceding years).

Endowment activity and investment balances for the year ended September 30, 2017 are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment Net Assets:			
October 1, 2016	$ 415,850	$ 384,644	$ 800,494
Investment Income	20,795	-	20,795
Net Realized and Unrealized Gains	96,739	-	96,739
Distribution of Endowment Income	(38,702)	-	(38,702)
September 30, 2017	$ 494,682	$ 384,644	$ 879,326

NOTE 11 OPERATING LEASE COMMITMENTS

Philabundance leases office equipment under operating leases. Expenses for these leases amounted to $31,752 for the year ended September 30, 2017. Future minimum payments on all operating leases having a noncancelable term exceeding one year as of September 30, 2017 are as follows:

Year Ending September 30,	Amount
2018	$ 31,752
2019	22,842
2020	10,368
2021	4,320
Total	$ 69,282

NOTE 12 RETIREMENT PLAN

Philabundance has a qualified retirement plan under Internal Revenue Code Section 403(b) covering eligible employees. Philabundance provides a 50% employer match on voluntary employee contributions up to 4% of the employee’s salary. In addition, Philabundance contributes 1% of each employee’s salary amount. These contributions are made after each payroll. Contributions by Philabundance for the year ended September 30, 2017 were $123,698.

NOTE 13 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of this ASU is that an entity should 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. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers: Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 by one year. The provisions of ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted, but not before the original effective date, annual periods beginning after December 15, 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU establishes guidance that will result in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions. The new guidance will result in fewer opportunities for organizations to structure leasing transactions to achieve a particular accounting outcome on the statement of financial position and will improve the understanding and comparability of lessees' financial commitments regardless of the manner they choose to finance the assets used in their businesses. The provisions of ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The main provisions of this ASU require not-for-profit organizations to:

- Present on the face of the statement of financial position amounts for two classes of net assets, rather than for the currently required three classes
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets rather than that of the currently required three classes
- Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting
- Provide enhanced disclosures about:
  - Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period
  - Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources
  - Qualitative information that communicates how a not-for-profit manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date

NOTE 13 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

  - Quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date
  - Amounts of expenses by both their natural classification and functional classification
  - Method(s) used to allocate costs among program and support functions
  - Underwater endowment funds, which include certain required disclosures

- Report investment return net of external and direct internal investment expenses and no longer require disclosure of those netted expenses
- Use the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

The provisions of ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments in ASU 2016-14 should be applied on a retrospective basis in the year the ASU is first applied. However, if presenting comparative financial statements, a not-for-profit organization has the option to omit the following information for any periods presented before the period of adoption: (1) analysis of expenses by both natural classification and functional classification and (2) disclosures about liquidity and availability of resources.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. The ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should 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. Entities will also be required to disclose the nature of any restrictions. The provisions of ASU 2016-18 are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

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