

PHILABUNDANCE
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY AND SINGLE AUDIT
INFORMATION

YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS
FOR SEPTEMBER 30, 2017)

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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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, 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the City of Philadelphia Subrecipient Audit Guide. Those standards and the City of Philadelphia Subrecipient Audit Guide 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, 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, management has elected to adopt Accounting Standards Update (ASU) 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited Philabundance's 2017 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated January 31, 2018. In connection with the adoption of ASU 2016-02, certain amounts have been reclassified in the 2017 summarized comparative information now presented. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities and Fare & Square, LLC and affiliate consolidating statements of financial position, activities, and cash flows are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the City of Philadelphia Subrecipient Audit Guide, is also presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating statements of financial position and activities and Fare & Square, LLC and affiliate consolidating statements of financial position, activities, and cash flows and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Board of Directors
Philabundance

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2019, on our consideration of Philabundance'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 result of that testing, and not to provide an opinion on the effectiveness of Philabundance'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 Philabundance's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
March 7, 2019

PHILABUNDANCE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017)

ASSETS	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,954,026	\$ 1,044,609
Restricted Cash	919,129	269,443
Investments (Note 2)	1,729,121	1,517,039
Accounts Receivable, Net	521,504	355,272
Current Portion of Pledges Receivable (Note 1)	1,189,000	249,500
Inventory	1,196,219	1,775,879
Other Current Assets	12,025	-
Prepaid Expenses, Deposits and Other	383,104	302,300
Total Current Assets	7,904,128	5,514,042
NOTE RECEIVABLE (NMTC)	5,039,250	5,039,250
PLEDGES RECEIVABLE, LESS CURRENT PORTION (NOTE 1)	263,000	56,000
PROPERTY AND EQUIPMENT, NET (NOTE 4)	9,502,140	10,163,041
INTANGIBLE ASSETS, NET	-	25,667
OPERATING LEASE RIGHT-OF-USE ASSETS	613,980	617,680
BENEFICIAL INTEREST (NOTE 5)	14,999	14,403
Total Assets	\$ 23,337,497	\$ 21,430,083
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt (Note 7)	\$ 122,693	\$ 122,692
Current Portion of Operating Lease Liabilities (Note 11)	108,853	99,071
Accounts Payable and Accrued Expenses	1,135,378	1,013,833
Security Deposit	20,000	-
Deferred Income	224,131	301,415
Total Current Liabilities	1,611,055	1,537,011
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Maturities (Note 7)	8,837,076	8,919,494
Operating Lease Liabilities, Net of Current Portion (Note 11)	505,127	518,609
Total Long-Term Liabilities	9,342,203	9,438,103
Total Liabilities	10,953,258	10,975,114
NET ASSETS		
Unrestricted	7,877,821	7,990,037
Temporarily Restricted (Note 8)	3,521,774	2,080,288
Permanently Restricted (Note 8)	984,644	384,644
Total Net Assets	12,384,239	10,454,969
Total Liabilities and Net Assets	\$ 23,337,497	\$ 21,430,083

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
OPERATING REVENUE					
In-Kind Food (Note 1)	\$ 38,834,233	\$ -	\$ -	\$ 38,834,233	\$ 37,847,888
In-Kind Goods and Services	94,029	-	-	94,029	146,894
Grants and Contributions	10,729,502	4,579,237	600,000	15,908,739	12,830,814
Fees for Service	1,624,062	-	-	1,624,062	1,377,487
Rental Income	81,980	-	-	81,980	80,094
Community Purchase Program	1,562,434	-	-	1,562,434	1,385,261
Less: Costs of Goods Sold	(1,379,944)	-	-	(1,379,944)	(1,207,847)
Gross Profit	182,490	-	-	182,490	177,414
Retail Grocery Sales	1,812,531	-	-	1,812,531	2,885,907
Less: Costs of Goods Sold	(1,456,120)	-	-	(1,456,120)	(2,476,642)
Gross Profit	356,411	-	-	356,411	409,265
Net Assets Released from Restrictions	3,137,751	(3,137,751)	-	-	-
Total Operating Revenue	55,040,458	1,441,486	600,000	57,081,944	52,869,856
EXPENSES					
Program Services	48,441,202	-	-	48,441,202	48,525,823
Management and General	2,593,183	-	-	2,593,183	1,969,360
Fundraising	3,379,660	-	-	3,379,660	2,783,248
Total Expenses	54,414,045	-	-	54,414,045	53,278,431
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES					
	626,413	1,441,486	600,000	2,667,899	(408,575)
NONOPERATING ACTIVITIES					
Interest Income and Dividends	53,194	-	-	53,194	55,349
Change in Beneficial Interest	596	-	-	596	1,041
Endowment Distribution Income	59,851	-	-	59,851	38,702
Realized Gain on Investments	2,002	-	-	2,002	20,553
Unrealized Gain on Investments	90,077	-	-	90,077	76,186
Loss on Disposal of Equipment	(1,044,553)	-	-	(1,044,553)	-
Other Income	100,204	-	-	100,204	66,989
Total Nonoperating Activities	(738,629)	-	-	(738,629)	258,820
CHANGE IN NET ASSETS					
	(112,216)	1,441,486	600,000	1,929,270	(149,755)
Net Assets - Beginning of Year	7,990,037	2,080,288	384,644	10,454,969	10,604,724
NET ASSETS - END OF YEAR	\$ 7,877,821	\$ 3,521,774	\$ 984,644	\$ 12,384,239	\$ 10,454,969

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

	Program Services	Management and General	Fundraising	2018 Total	2017 Total
Payroll and Related Costs	\$ 5,029,936	\$ 1,697,829	\$ 1,294,185	\$ 8,021,950	\$ 7,900,129
Agency Support	10,000	-	-	10,000	76,363
Bad Debt	-	-	-	-	-
Contract Labor	-	-	-	-	61,081
Credit Card and Bank Fees	-	136,214	-	136,214	132,498
Depreciation and Amortization	478,213	76,161	51,789	606,163	802,388
Donated Food	39,015,428	917	624	39,016,969	38,218,181
Dues and Subscriptions	79,704	7,644	9,865	97,213	94,024
Facilities	642,813	162,960	116,639	922,412	922,060
Food Acquisition	1,322,115	-	-	1,322,115	1,332,442
Freight	79,135	-	-	79,135	81,427
Information Technology	54,817	16,554	108,492	179,863	158,607
Interest	-	188,234	-	188,234	216,672
Mailing Services	2,319	412	917,224	919,955	794,619
Marketing and Design	23,042	114	123,370	146,526	200,204
Meetings and Training	55,103	9,230	21,639	85,972	133,423
Miscellaneous	126,443	416	20,109	146,968	60,525
Printing	4,527	309	479,811	484,647	478,985
Professional Fees	233,331	197,495	141,690	572,516	445,067
Supplies	341,360	11,774	10,260	363,394	349,377
Telecommunications	148,474	40,232	27,743	216,449	213,092
Temporary Help	209,252	46,567	56,138	311,957	163,520
Transportation	585,190	121	82	585,393	443,747
Total	\$ 48,441,202	\$ 2,593,183	\$ 3,379,660	\$ 54,414,045	\$ 53,278,431

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,929,270	\$ (149,755)
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Realized Gain on Investments	(2,002)	(20,553)
Unrealized Gain on Investments	(90,077)	(76,186)
Change in Beneficial Interest	(596)	(1,041)
Depreciation	566,090	759,982
Amortization	40,073	42,406
Loss on Disposal of Equipment	1,191,851	-
Cash Payments for Operating Leases	(121,842)	(98,503)
(Increase) Decrease in:		
Accounts Receivable	(166,232)	39,858
Pledges Receivable	(1,146,500)	(160,781)
Inventory	579,660	514,490
Other Current Assets	(12,025)	(5,089)
Prepaid Expenses, Deposits and Other	(80,804)	94,781
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	121,545	(229,673)
Security Deposit	20,000	-
Deferred Income	(77,284)	44,723
Net Cash Provided by Operating Activities	2,751,127	754,659
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(3,108,617)	(4,010,972)
Purchase of Property and Equipment	(949,531)	(313,980)
Decrease in Restricted Cash	(649,686)	(205,010)
Proceeds from Sale of Investments	2,988,614	4,014,841
Net Cash Used by Investing Activities	(1,719,220)	(515,121)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(122,490)	(121,811)
Net Cash Used by Financing Activities	(122,490)	(121,811)
NET INCREASE IN CASH AND CASH EQUIVALENTS	909,417	117,727
Cash and Cash Equivalents - Beginning of Year	1,044,609	926,882
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,954,026	\$ 1,044,609
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 188,234	\$ 216,672
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Vehicles Acquired Through Operating Leases	\$ 99,827	\$ 280,737

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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.

In May 2018, Philabundance discontinued operations of Fare & Square, LLC, a nonprofit grocery store located in the City of Chester. Philabundance owns the real estate where the store is located through its other nonprofit, F&S Chester, RE, Inc. The space formerly occupied by Fare & Square, LLC is leased to an unrelated third-party, Cousins Fresh Market, to continue operations to serve the community.

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.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 on a straight-line basis. 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.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, 2018 and 2017 are shown in the following table:

	Year Ended September 30, 2018			Year Ended September 30, 2017		
	Value per Pound	Total Pounds	Total Value	Value per Pound	Total Pounds	Total Value
Nonfood	\$ 8.13	267,428	\$ 2,174,190	\$ 11.49	226,170	\$ 2,598,693
Baby Food	7.65	20,809	159,189	7.43	-	-
Beverage	0.52	195,073	101,438	0.58	207,998	120,639
Bread/Bakery	2.40	2,052,625	4,926,300	2.09	2,002,467	4,185,156
Cereal	3.16	119,600	377,936	3.19	107,610	343,276
Meals, Soups, Entrees	2.30	146,240	336,352	1.83	154,051	281,913
Dairy	1.51	2,043,778	3,086,105	1.58	1,774,948	2,804,418
Dessert	2.28	6,864	15,650	2.14	14,200	30,388
Dough-Uncooked	1.71	-	-	1.74	600	1,044
Dressing	2.39	-	-	2.53	1,411	3,570
Fresh Fruits/Vegetables	0.67	15,629,186	10,471,555	0.53	18,513,980	9,812,409
Fruit: Canned and Frozen	1.04	132,982	138,301	1.33	151,111	200,978
Grain	1.21	2,384	2,885	1.35	13,118	17,709
Juice	0.90	622,314	560,083	1.03	708,732	729,994
Meat	2.78	3,366,520	9,358,926	2.89	3,285,864	9,496,147
*Mixed Foods	1.68	3,060,589	5,141,790	1.73	3,135,204	5,423,903
Nondairy	1.17	-	-	2.00	33,000	66,000
Nutritional Aid	2.86	92,008	263,143	5.89	1,269	7,474
Paper-Household	2.58	1,715	4,425	2.67	-	-
Paper-Personal	3.85	1,220	4,697	4.41	-	-
Pasta	1.29	211,206	272,456	1.24	89,624	111,134
Prepared and Perishable Food	1.68	-	-	1.73	286,743	496,065
Protein	1.68	71,466	120,063	1.19	58,220	69,282
Rice	1.24	46,431	57,574	1.99	30,680	61,053
Snack Food	3.57	61,211	218,523	3.70	116,761	432,016
Condiments	1.66	134,189	222,754	1.80	92,929	167,272
Vegetables-Canned and Frozen	1.04	182,591	189,895	1.33	259,299	344,868
Average Value of all Categories	1.68	375,004	630,007	1.73	24,559	42,487
Total	1.35	<u>28,843,433</u>	<u>\$ 38,834,233</u>	1.21	<u>31,290,548</u>	<u>\$ 37,847,888</u>

* 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, 2018, the Organization received \$7,836 in donated services. The Organization also receives donations of various goods throughout the year. The value of all other in-kind donations was \$86,193.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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.

As of September 30, 2018, restricted cash consisted of \$889,696 designated for Philabundance Community Kitchen (PCK) and \$29,433 held in escrow related to the New Market Tax Credit financing.

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, 2018 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.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018, pledges receivable consisted of:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 1,189,000
2020	126,000
2021	106,000
2022	31,000
Total	<u>\$ 1,452,000</u>

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, 2018 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 cost or net realizable value.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 to 7 Years
Computers	3 to 5 Years
Equipment	5 Years
Furniture and Fixtures	5 Years

Leases

Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the consolidated statement of financial position.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Organization's incremental borrowing rate is used in determining the present value of lease payments. The implicit rate is used when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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.

Recently Adopted Accounting Guidance

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Organization is also required to recognize and measure leases existing at, or entered into after, the beginning of the earliest comparative period presented using a modified retrospective approach, with certain practical expedients available.

The Organization early adopted the provisions of this new standard during the year ended September 30, 2018. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. Adoption of the standard required the Organization to restate certain previously reported amounts, including the recognition of ROU assets and lease liabilities for operating leases. The adoption of the standard had no effect on the Organization's net assets as of October 1, 2017.

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, 2017 financial statements, from which the comparative totals were derived. Certain reclassifications have been made to the 2017 amounts to conform to the 2018 presentation.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 7, 2019, the date the financial statements were available to be issued.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 INVESTMENTS

Investments consist of the following at September 30, 2018:

	<u>Cost</u>	<u>Fair Value</u>
Equity Mutual Funds	\$ 513,961	\$ 1,081,461
Fixed Income Mutual Funds	612,055	646,660
Preferred Stock	1,000	1,000
Total	<u>\$ 1,127,016</u>	<u>\$ 1,729,121</u>

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, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable Securities:				
Equity Mutual Funds	\$ 1,081,461	\$ -	\$ -	\$ 1,081,461
Fixed Income Mutual Funds	646,660	-	-	646,660
Preferred Stock	1,000	-	-	1,000
Total Investments	<u>1,729,121</u>	<u>-</u>	<u>-</u>	<u>1,729,121</u>
Beneficial Interest	-	-	14,999	14,999
Total	<u>\$ 1,729,121</u>	<u>\$ -</u>	<u>\$ 14,999</u>	<u>\$ 1,744,120</u>

The change in Level 3 assets for the year ended September 30, 2018 is as follows:

	<u>Beneficial Interest</u>
Balance - October 1, 2017	\$ 14,403
Change in Value of Beneficial Interest	596
Balance - September 30, 2018	<u>\$ 14,999</u>

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2018:

	<u>Amount</u>
Land	\$ 484,800
Buildings and Improvements	10,227,570
Furniture and Fixtures	93,373
Equipment	1,170,591
Computer Hardware and Software	346,458
Vehicles	628,066
Construction in Progress	<u>513,336</u>
Total	13,464,194
Less: Accumulated Depreciation	<u>3,962,054</u>
Total Property and Equipment	<u><u>\$ 9,502,140</u></u>

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, 2018. 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, 2018, the value of the beneficial interest was \$14,999. The increase in the beneficial interest of \$596 is recorded in the consolidated statement of activities as a change in unrestricted net assets for the year ended September 30, 2018.

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 (2.11% at September 30, 2018) plus 1.75%. As of September 30, 2018, no amount was outstanding on the line of credit. The line will be reviewed by the bank for renewal on April 6, 2019.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 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 (2.11% at September 30, 2018) 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 \$1,308,334 as of September 30, 2018.

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 \$851,509 as of September 30, 2018.

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 \$96,074 for the year ended September 30, 2018.

New Market Tax Credit (NMTTC) Financing

On October 19, 2012, Philabundance entered into a New Market Tax Credit (NMTTC) 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%.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 7 LONG-TERM DEBT (CONTINUED)

New Market Tax Credit (NMTC) Financing (Continued)

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, 2018, unamortized loan fees of \$40,074 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 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, 2018, 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:

<u>Year Ending September 30,</u>	<u>Citizens</u>	<u>The Reinvestment Fund</u>	<u>NMTC</u>	<u>Total</u>
2019	\$ 100,000	\$ 22,693	\$ -	\$ 122,693
2020	100,000	24,580	-	124,580
2021	100,000	25,581	-	125,581
2022	100,000	26,623	-	126,623
2023	100,000	27,708	-	127,708
Thereafter	808,334	724,324	6,840,000	8,372,658
Total	<u>\$ 1,308,334</u>	<u>\$ 851,509</u>	<u>\$ 6,840,000</u>	<u>\$ 8,999,843</u>

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 8 RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2018 are available for the following purposes:

	<u>Amount</u>
Building	\$ 1,943,032
Capital Needs and Other Programs	14,402
Children and Seniors	202,433
Direct Service Programs	289,916
Food Purchases	295,614
Fuel	776,377
Total	<u>\$ 3,521,774</u>

The income from permanently restricted net assets is to be used for operations. Permanently restricted net assets as of September 30, 2018 are \$984,644.

NOTE 9 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 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, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets:				
October 1, 2017	\$ 494,682	\$ -	\$ 384,644	\$ 879,326
Contributions	-	-	300,000	300,000
Investment Income	18,240	1,729	-	19,969
Net Realized and Unrealized Gains	125,845	15,323	-	141,168
Distribution of Endowment Income	(44,085)	(15,766)	-	(59,851)
September 30, 2018	<u>\$ 594,682</u>	<u>\$ 1,286</u>	<u>\$ 684,644</u>	<u>\$ 1,280,612</u>

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 10 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, 2018 were \$130,367.

NOTE 11 LEASES

Philabundance leases vehicles and office equipment under operating leases, which have a noncancelable term exceeding one year. Operating lease expense was \$185,741 for the year ended September 30, 2018.

Maturities of lease liabilities were as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2019	\$ 131,696
2020	113,898
2021	119,075
2022	114,142
2023	108,560
Thereafter	<u>38,435</u>
Total Lease Payments	625,806
Less Imputed Interest	<u>(11,826)</u>
Total	<u><u>\$ 613,980</u></u>

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 12 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued 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
 - 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.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 12 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In May 2014, the FASB issued 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 June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. To accomplish this, the ASU clarifies how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction. The provisions of ASU 2018-08 are effective for annual reporting periods beginning after December 15, 2018.

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.

PHILABUNDANCE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018

ASSETS	<u>Philabundance</u>	<u>F&S Chester RE, Inc.</u>	<u>Fare & Square, LLC</u>	<u>Consolidating Eliminations</u>	<u>Consolidated</u>
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 1,916,924	\$ 26,384	\$ 10,718	\$ -	\$ 1,954,026
Restricted Cash	889,696	29,433	-	-	919,129
Investments	1,729,121	-	-	-	1,729,121
Accounts Receivable, Net	521,336	168	-	-	521,504
Current Portion of Pledges Receivable	1,189,000	-	-	-	1,189,000
Inventory	1,196,219	-	-	-	1,196,219
Due from F&S Chester RE, Inc.	39,226	-	-	(39,226)	-
Other Current Assets	12,025	-	-	-	12,025
Prepaid Expenses, Deposits, and Other	383,104	-	-	-	383,104
Total Current Assets	<u>7,876,651</u>	<u>55,985</u>	<u>10,718</u>	<u>(39,226)</u>	<u>7,904,128</u>
NOTE RECEIVABLE (NMTC)	5,039,250	-	-	-	5,039,250
PLEDGES RECEIVABLE, LESS CURRENT PORTION	263,000	-	-	-	263,000
PROPERTY AND EQUIPMENT, NET	6,474,774	3,027,366	-	-	9,502,140
OPERATING LEASE RIGHT-OF-USE ASSETS	613,980	-	-	-	613,980
BENEFICIAL INTEREST	14,999	-	-	-	14,999
Total Assets	<u>\$ 20,282,654</u>	<u>\$ 3,083,351</u>	<u>\$ 10,718</u>	<u>\$ (39,226)</u>	<u>\$ 23,337,497</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current Maturities of Long-Term Debt	\$ 122,693	\$ -	\$ -	\$ -	\$ 122,693
Current Portion of Operating Lease Liabilities	108,853	-	-	-	108,853
Accounts Payable and Accrued Expenses	1,109,859	21,623	3,896	-	1,135,378
Security Deposit	20,000	-	-	-	20,000
Deferred Income	224,131	-	-	-	224,131
Due to Philabundance	-	39,226	-	(39,226)	-
Total Current Liabilities	<u>1,585,536</u>	<u>60,849</u>	<u>3,896</u>	<u>(39,226)</u>	<u>1,611,055</u>
LONG-TERM LIABILITIES					
Long-Term Debt, Less Current Maturities	2,037,150	6,799,926	-	-	8,837,076
Operating Lease Liabilities, Less Current Portion	505,127	-	-	-	505,127
Total Long-Term Liabilities	<u>2,542,277</u>	<u>6,799,926</u>	<u>-</u>	<u>-</u>	<u>9,342,203</u>
Total Liabilities	4,127,813	6,860,775	3,896	(39,226)	10,953,258
NET ASSETS (DEFICIT)					
Unrestricted	11,648,423	(3,777,424)	6,822	-	7,877,821
Temporarily Restricted	3,521,774	-	-	-	3,521,774
Permanently Restricted	984,644	-	-	-	984,644
Total Net Assets (Deficit)	<u>16,154,841</u>	<u>(3,777,424)</u>	<u>6,822</u>	<u>-</u>	<u>12,384,239</u>
Total Liabilities and Net Assets	<u>\$ 20,282,654</u>	<u>\$ 3,083,351</u>	<u>\$ 10,718</u>	<u>\$ (39,226)</u>	<u>\$ 23,337,497</u>

PHILABUNDANCE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Philabundance	F&S Chester RE, Inc.	Fare & Square, LLC	Consolidating Eliminations	Consolidated
OPERATING REVENUE								
In-Kind Food	\$ 38,834,233	\$ -	\$ -	\$ 38,834,233	\$ -	\$ -	\$ -	\$ 38,834,233
In-Kind Goods and Services	94,029	-	-	94,029	-	-	-	94,029
Grants and Contributions	10,701,721	4,579,237	600,000	15,880,958	10,530	507,834	(490,583)	15,908,739
Fees for Service	1,624,062	-	-	1,624,062	-	-	-	1,624,062
Rental Income	-	-	-	-	143,141	-	(61,161)	81,980
Community Purchase Program	1,562,434	-	-	1,562,434	-	-	-	1,562,434
Less: Cost of Goods Sold	(1,379,944)	-	-	(1,379,944)	-	-	-	(1,379,944)
Gross Profit	182,490	-	-	182,490	-	-	-	182,490
Retail Grocery Sales	-	-	-	-	-	1,812,531	-	1,812,531
Less: Cost of Goods Sold	-	-	-	-	-	(1,456,120)	-	(1,456,120)
Gross Profit	-	-	-	-	-	356,411	-	356,411
Net Assets Released from Restrictions	3,137,751	(3,137,751)	-	-	-	-	-	-
Total Operating Revenue	54,574,286	1,441,486	600,000	56,615,772	153,671	864,245	(551,744)	57,081,944
EXPENSES								
Program Services	47,764,253	-	-	47,764,253	355,645	873,048	(551,744)	48,441,202
Management and General	2,467,705	-	-	2,467,705	92,160	33,318	-	2,593,183
Fundraising	3,379,660	-	-	3,379,660	-	-	-	3,379,660
Total Expenses	53,611,618	-	-	53,611,618	447,805	906,366	(551,744)	54,414,045
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	962,668	1,441,486	600,000	3,004,154	(294,134)	(42,121)	-	2,667,899
NONOPERATING ACTIVITIES								
Interest Income and Dividends	53,194	-	-	53,194	-	-	-	53,194
Change in Beneficial Interest	596	-	-	596	-	-	-	596
Endowment Distribution Income	59,851	-	-	59,851	-	-	-	59,851
Realized Gain on Investments	2,002	-	-	2,002	-	-	-	2,002
Unrealized Gain on Investments	90,077	-	-	90,077	-	-	-	90,077
Loss on Disposal of Equipment	(866,992)	-	-	(866,992)	-	(177,561)	-	(1,044,553)
Other Income	82,510	-	-	82,510	5,000	12,694	-	100,204
Total Nonoperating Activities	(578,762)	-	-	(578,762)	5,000	(164,867)	-	(738,629)
CHANGE IN NET ASSETS	383,906	1,441,486	600,000	2,425,392	(289,134)	(206,988)	-	1,929,270
Net Assets (Deficit) - Beginning of Year	11,264,517	2,080,288	384,644	13,729,449	(3,488,290)	213,810	-	10,454,969
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 11,648,423</u>	<u>\$ 3,521,774</u>	<u>\$ 984,644</u>	<u>\$ 16,154,841</u>	<u>\$ (3,777,424)</u>	<u>\$ 6,822</u>	<u>\$ -</u>	<u>\$ 12,384,239</u>

FARE & SQUARE, LLC AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2018

	Fare & Square, LLC	F&S Chester RE, Inc.	Consolidating Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 10,718	\$ 26,384	\$ -	\$ 37,102
Restricted Cash	-	29,433	-	29,433
Accounts Receivable	-	168	-	168
Total Current Assets	<u>10,718</u>	<u>55,985</u>	<u>-</u>	<u>66,703</u>
PROPERTY AND EQUIPMENT, NET	<u>-</u>	<u>3,027,366</u>	<u>-</u>	<u>3,027,366</u>
Total Assets	<u>\$ 10,718</u>	<u>\$ 3,083,351</u>	<u>\$ -</u>	<u>\$ 3,094,069</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 3,896	\$ 21,623	\$ -	\$ 25,519
Due to Philabundance	-	39,226	-	39,226
Total Current Liabilities	<u>3,896</u>	<u>60,849</u>	<u>-</u>	<u>64,745</u>
LONG-TERM LIABILITIES				
Long-Term Debt, Less Current Maturities	-	6,799,926	-	6,799,926
Total Long-Term Liabilities	<u>-</u>	<u>6,799,926</u>	<u>-</u>	<u>6,799,926</u>
Total Liabilities	3,896	6,860,775	-	6,864,671
NET ASSETS (DEFICIT)				
Unrestricted	6,822	(3,777,424)	-	(3,770,602)
Total Net Assets (Deficit)	<u>6,822</u>	<u>(3,777,424)</u>	<u>-</u>	<u>(3,770,602)</u>
Total Liabilities and Net Assets	<u>\$ 10,718</u>	<u>\$ 3,083,351</u>	<u>\$ -</u>	<u>\$ 3,094,069</u>

**FARE & SQUARE, LLC AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2018**

	Fare & Square, LLC	F&S Chester RE, Inc.	Consolidating Eliminations	Consolidated
OPERATING REVENUE				
Rental Income	\$ -	\$ 143,141	\$ (61,161)	\$ 81,980
Retail Grocery Sales	1,812,531	-	-	1,812,531
Less: Cost of Goods Sold	<u>(1,456,120)</u>	<u>-</u>	<u>-</u>	<u>(1,456,120)</u>
Gross Profit	356,411	-	-	356,411
Total Operating Revenue	<u>356,411</u>	<u>143,141</u>	<u>(61,161)</u>	<u>438,391</u>
EXPENSES				
Program Services	873,048	355,645	(61,161)	1,167,532
Management and General	<u>33,318</u>	<u>92,160</u>	<u>-</u>	<u>125,478</u>
Total Expenses	<u>906,366</u>	<u>447,805</u>	<u>(61,161)</u>	<u>1,293,010</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES				
	(549,955)	(304,664)	-	(854,619)
NONOPERATING ACTIVITIES				
Contributions	27,781	10,530	-	38,311
Philabundance Support	480,053	-	-	480,053
Other Income	<u>(164,867)</u>	<u>5,000</u>	<u>-</u>	<u>(159,867)</u>
Total Nonoperating Activities	<u>342,967</u>	<u>15,530</u>	<u>-</u>	<u>358,497</u>
CHANGE IN NET ASSETS				
	(206,988)	(289,134)	-	(496,122)
Net Assets (Deficit) - Beginning of Year	<u>213,810</u>	<u>(3,488,290)</u>	<u>-</u>	<u>(3,274,480)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 6,822</u>	<u>\$ (3,777,424)</u>	<u>\$ -</u>	<u>\$ (3,770,602)</u>

**FARE & SQUARE, LLC AND AFFILIATE
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2018**

	Fare & Square, LLC	F&S Chester RE, Inc.	Consolidating Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets	\$ (206,988)	\$ (289,134)	\$ -	\$ (496,122)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:				
Amortization	-	40,073	-	40,073
Depreciation	35,330	209,861	-	245,191
Loss on Disposal of Equipment	67,471	-	-	67,471
(Increase) Decrease in:				
Accounts Receivable	54,822	(168)	-	54,654
Inventory	148,460	-	-	148,460
Due from Philabundance	28,100	-	-	28,100
Due from F&S Chester RE, Inc.	760	-	(760)	-
Due from Fare & Square, LLC	-	9,550	(9,550)	-
Prepaid Expenses, Deposits, and Other	15,723	4,080	-	19,803
Increase (Decrease) in:				
Accounts Payable and Accrued Expenses	(110,754)	(18,429)	-	(129,183)
Deferred Income	(7,999)	-	-	(7,999)
Due to Philabundance	(40,606)	25,246	-	(15,360)
Due to F&S Chester RE, Inc.	(9,550)	-	9,550	-
Due to Fare & Square, LLC	-	(760)	760	-
Net Cash Used by Operating Activities	<u>(25,231)</u>	<u>(19,681)</u>	<u>-</u>	<u>(44,912)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property and Equipment	(300)	(92,352)	-	(92,652)
Decrease in Restricted Cash	-	15,000	-	15,000
Net Cash Used by Investing Activities	<u>(300)</u>	<u>(77,352)</u>	<u>-</u>	<u>(77,652)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,531)	(97,033)	-	(122,564)
Cash and Cash Equivalents - Beginning of Year	<u>36,249</u>	<u>123,417</u>	<u>-</u>	<u>159,666</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 10,718</u>	<u>\$ 26,384</u>	<u>\$ -</u>	<u>\$ 37,102</u>

PHILABUNDANCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Award Number	Federal Expenditures
U.S. Department of Agriculture			
Local Food Promotion Program	10.172	N/A	\$ 21,195
Food Distribution Cluster			
Pass-Through the Hunger-Free PA:			
Commodity Supplemental Food Program (Food Commodities)	10.565	N/A	2,682,079
Commodity Supplemental Food Program (Administrative Cost)	10.565	N/A	<u>311,845</u>
Total Food Distribution Cluster			<u>2,993,924</u>
Pass-Through the City of Philadelphia Office of Supportive Housing:			
Child and Adult Care Food Program	10.558	15-20157	<u>197,705</u>
Total U.S. Department of Agriculture			<u>3,212,824</u>
Total Federal Awards			<u>\$ 3,212,824</u>

See Notes to Schedule of Expenditures of Federal Awards.

PHILABUNDANCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 GENERAL INFORMATION

The accompanying schedules of expenditures of federal awards include the federal grant activity of Philabundance and are presented on the accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from certain financial reports submitted to federal, state or city agencies due to those reports being submitted on either a cash or modified accrual basis of accounting. Because the accompanying schedules present only a selected portion of the operations of Philabundance, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Philabundance. Philabundance has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. Philabundance has not passed through any federal funding to any subrecipient.

NOTE 2 RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards expenditures are reported on the Consolidated Statement of Functional Expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule of Expenditures of Federal Awards due to program expenditures exceeding grant or contract budget limitations which are not included as federal awards.

**INDEPENDENT AUDITORS' 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**

Board of Directors
Philabundance
Philadelphia, 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 consolidated financial statements of Philabundance, which comprise the consolidated statement of financial position as of September 30, 2018, 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, and have issued our report thereon dated March 7, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Philabundance'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Philabundance's internal control. Accordingly, we do not express an opinion on the effectiveness of Philabundance'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 consolidated 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.

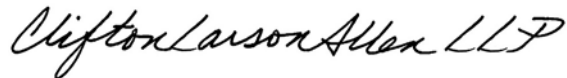
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Philabundance’s consolidated 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 result of that testing, and not to provide an opinion on the effectiveness of the entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
March 7, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Philabundance
Philadelphia, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Philabundance's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Philabundance's major federal programs for the year ended September 30, 2018. Philabundance's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Philabundance'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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the *City of Philadelphia Subrecipient Audit Guide*. 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 Philabundance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 Philabundance's compliance.

Opinion on Each Major Federal Program

In our opinion, Philabundance 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 September 30, 2018.

Report on Internal Control Over Compliance

Management of Philabundance 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 Philabundance'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 Philabundance'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 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.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
March 7, 2019

**PHILABUNDANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2018**

Section I – Summary of Auditors’ Results

Financial Statements

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
3. Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes X no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.515(d)(2) of the Uniform Guidance? _____ Yes X no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
10.565	Food Distribution Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee pursuant to Uniform Guidance? X yes _____ no

PHILABUNDANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2018

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

Our audit did not disclose any matters required to be reported in accordance with 2 CFR section 200.515(d)(2) of the Uniform Guidance.

Section IV – Prior Audit Findings

There were no prior audit findings.



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Wealth Advisors, LLC, an SEC-registered investment advisor.