

PHILABUNDANCE
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY AND SINGLE AUDIT
INFORMATION

YEAR ENDED SEPTEMBER 30, 2019
(WITH COMPARATIVE TOTALS
FOR SEPTEMBER 30, 2018)



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**PHILABUNDANCE
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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, 2019, 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, 2019, 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 adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Report on Summarized Comparative Information

We have previously audited Philabundance's 2018 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated March 7, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, 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 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 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 4, 2020, 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.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
March 4, 2020

PHILABUNDANCE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019
(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2018)

ASSETS	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,203,548	\$ 1,954,026
Restricted Cash	1,769,036	919,129
Investments (Note 2)	1,307,304	1,729,121
Accounts Receivable, Net	584,087	521,504
Grants Receivable	21,362	-
Current Portion of Pledges Receivable (Note 1)	696,656	1,189,000
Inventory	1,988,596	1,196,219
Other Current Assets	23,200	12,025
Prepaid Expenses, Deposits and Other	238,976	383,104
Note Receivable (NMTC)	5,039,250	-
Total Current Assets	15,872,015	7,904,128
NOTE RECEIVABLE (NMTC)	-	5,039,250
PLEDGES RECEIVABLE, LESS CURRENT PORTION (NOTE 1)	229,041	263,000
PROPERTY AND EQUIPMENT, NET (NOTE 4)	11,492,712	9,502,140
OPERATING LEASE RIGHT-OF-USE ASSETS	606,824	613,980
BENEFICIAL INTEREST (NOTE 5)	14,665	14,999
Total Assets	\$ 28,215,257	\$ 23,337,497
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt (Note 7)	\$ 6,964,580	\$ 122,693
Current Portion of Operating Lease Liabilities (Note 11)	180,539	108,853
Accounts Payable and Accrued Expenses	1,412,423	1,135,378
Security Deposit	23,068	20,000
Deferred Income	376,144	224,131
Total Current Liabilities	8,956,754	1,611,055
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Maturities (Note 7)	1,911,692	8,837,076
Operating Lease Liabilities, Net of Current Portion (Note 11)	426,285	505,127
Total Long-Term Liabilities	2,337,977	9,342,203
Total Liabilities	11,294,731	10,953,258
NET ASSETS		
Without Donor Restrictions	11,955,099	7,877,821
With Donor Restrictions	4,965,427	4,506,418
Total Net Assets	16,920,526	12,384,239
Total Liabilities and Net Assets	\$ 28,215,257	\$ 23,337,497

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
OPERATING REVENUE				
In-Kind Food (Note 1)	\$ 38,620,710	\$ -	\$ 38,620,710	\$ 38,834,233
In-Kind Goods and Services	861,210	-	861,210	94,029
Grants and Contributions	11,535,091	4,984,735	16,519,826	15,908,739
Endowment Distribution Income	62,167	-	62,167	59,851
Fees for Service	1,885,785	-	1,885,785	1,624,062
Rental Income	140,377	-	140,377	81,980
Community Purchase Program	1,348,190	-	1,348,190	1,562,434
Less: Costs of Goods Sold	<u>(1,296,254)</u>	<u>-</u>	<u>(1,296,254)</u>	<u>(1,379,944)</u>
Gross Profit	51,936	-	51,936	182,490
Retail Grocery Sales	-	-	-	1,812,531
Less: Costs of Goods Sold	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,456,120)</u>
Gross Profit	-	-	-	356,411
Net Assets Released from Restrictions	<u>4,525,726</u>	<u>(4,525,726)</u>	<u>-</u>	<u>-</u>
Total Operating Revenue	57,683,002	459,009	58,142,011	57,141,795
EXPENSES				
Program Services	47,075,280	-	47,075,280	48,441,202
Management and General	2,913,478	-	2,913,478	2,593,183
Fundraising	<u>3,781,515</u>	<u>-</u>	<u>3,781,515</u>	<u>3,379,660</u>
Total Expenses	<u>53,770,273</u>	<u>-</u>	<u>53,770,273</u>	<u>54,414,045</u>
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES				
	3,912,729	459,009	4,371,738	2,727,750
NONOPERATING ACTIVITIES				
Interest Income and Dividends	29,826	-	29,826	53,194
Change in Beneficial Interest	(334)	-	(334)	596
Realized Gain on Investments	-	-	-	2,002
Unrealized Gain on Investments	11,465	-	11,465	90,077
Loss on Disposal of Equipment	-	-	-	(1,044,553)
Other Income	<u>123,592</u>	<u>-</u>	<u>123,592</u>	<u>100,204</u>
Total Nonoperating Activities	<u>164,549</u>	<u>-</u>	<u>164,549</u>	<u>(798,480)</u>
CHANGE IN NET ASSETS				
	4,077,278	459,009	4,536,287	1,929,270
Net Assets - Beginning of Year	<u>7,877,821</u>	<u>4,506,418</u>	<u>12,384,239</u>	<u>10,454,969</u>
NET ASSETS - END OF YEAR	<u>\$ 11,955,099</u>	<u>\$ 4,965,427</u>	<u>\$ 16,920,526</u>	<u>\$ 12,384,239</u>

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

	Program Services	Management and General	Fundraising	2019 Total	2018 Total
Payroll and Related Costs	\$ 4,715,106	\$ 1,860,994	\$ 1,666,133	\$ 8,242,233	\$ 8,021,950
Agency Support	14,667	-	-	14,667	10,000
Credit Card and Bank Fees	-	123,703	-	123,703	136,214
Depreciation and Amortization	363,299	98,734	67,138	529,171	606,163
Donated Food	37,804,767	-	-	37,804,767	39,016,969
Dues and Subscriptions	71,262	26,847	25,216	123,325	97,213
Facilities	480,251	188,073	135,057	803,381	922,412
Food Acquisition	1,549,034	-	-	1,549,034	1,322,115
Freight	111,450	125	85	111,660	79,135
Information Technology	75,667	32,479	22,836	130,982	179,863
Interest	-	228,861	-	228,861	188,234
Mailing Services	1,098	162	885,256	886,516	919,955
Marketing and Design	30,637	-	184,227	214,864	146,526
Meetings and Training	84,878	12,214	29,615	126,707	85,972
Miscellaneous	94,708	3,734	4,392	102,834	146,968
Printing	3,927	536	496,819	501,282	484,647
Professional Fees	296,969	277,560	215,409	789,938	572,516
Supplies	329,949	8,580	11,088	349,617	363,394
Telecommunications	103,067	41,844	29,564	174,475	216,449
Temporary Help	224,337	9,032	8,680	242,049	311,957
Transportation	720,207	-	-	720,207	585,393
Total Expenses	47,075,280	2,913,478	3,781,515	53,770,273	54,414,045
Community Purchase Program	1,296,254	-	-	1,296,254	1,379,944
Retail Grocery Cost of Goods Sold	-	-	-	-	1,456,120
Total Functional Expenses	\$ 48,371,534	\$ 2,913,478	\$ 3,781,515	\$ 55,066,527	\$ 57,250,109

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2019
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 4,536,287	\$ 1,929,270
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Realized Gain on Investments	-	(2,002)
Unrealized Gain on Investments	(11,465)	(90,077)
Change in Beneficial Interest	334	(596)
Depreciation	489,097	566,090
Amortization	40,074	40,073
Loss on Disposal of Equipment	-	1,191,851
Cash Payments for Operating Leases	(169,876)	(162,762)
(Increase) Decrease in:		
Accounts Receivable	(62,583)	(166,232)
Grants Receivable	(21,362)	-
Pledges Receivable	526,303	(1,146,500)
Inventory	(792,377)	579,660
Other Current Assets	(11,175)	(12,025)
Prepaid Expenses, Deposits and Other	144,128	(80,804)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(168,403)	121,545
Security Deposit	3,068	20,000
Deferred Income	152,013	(77,284)
Net Cash Provided by Operating Activities	4,654,063	2,710,207
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(69,134)	(3,108,617)
Purchase of Property and Equipment	(1,864,345)	(908,611)
Increase in Restricted Cash	(849,907)	(649,686)
Proceeds from Sale of Investments	502,416	2,988,614
Net Cash Used by Investing Activities	(2,280,970)	(1,678,300)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	(123,571)	(122,490)
Net Cash Used by Financing Activities	(123,571)	(122,490)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,249,522	909,417
Cash and Cash Equivalents - Beginning of Year	1,954,026	1,044,609
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,203,548	\$ 1,954,026
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 228,861	\$ 188,234
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Vehicles Acquired Through Operating Leases	\$ -	\$ 99,827
Accounts Payable for Capital Projects	\$ 445,448	\$ 11,809

See accompanying Notes to Consolidated Financial Statements.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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 owns real estate through its other related organization, 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

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions depending upon the existence or absence of donor-imposed stipulations.

Net assets without donor restrictions are net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors. Net assets with donor restrictions are those contributions which have been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained in perpetuity.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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.

Revenue Recognition

Grants and contributions without donor restrictions 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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets with donor restrictions, and funds received in advance are deferred revenue, and funds disbursed and not reimbursed represent receivables.

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, 2019

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, 2019 and 2018 are shown in the following table:

	Year Ended September 30, 2019			Year Ended September 30, 2018		
	Value per Pound	Total Pounds	Total Value	Value per Pound	Total Pounds	Total Value
Nonfood	\$ 6.72	377,060	\$ 2,533,843	\$ 8.13	267,428	\$ 2,174,190
Baby Food	7.88	78,710	620,235	7.65	20,809	159,189
Beverage	0.52	330,046	171,624	0.52	195,073	101,438
Bread/Bakery	2.14	2,256,295	4,828,471	2.40	2,052,625	4,926,300
Cereal	2.99	173,903	519,970	3.16	119,600	377,936
Meals, Soups, Entrees	2.33	245,584	572,211	2.30	146,240	336,352
Dairy	1.42	2,677,637	3,802,245	1.51	2,043,778	3,086,105
Dessert	1.98	8,885	17,592	2.28	6,864	15,650
Fresh Fruits/Vegetables	0.78	8,766,638	6,837,978	0.67	15,629,186	10,471,555
Fruit: Canned and Frozen	1.47	191,340	281,270	1.04	132,982	138,301
Grain	1.05	624	655	1.21	2,384	2,885
Health/Beauty	8.52	55,045	468,983	11.24	-	-
Juice	0.92	470,979	433,301	0.90	622,314	560,083
Meat	2.77	3,230,095	8,947,363	2.78	3,366,520	9,358,926
*Mixed Foods	1.62	3,230,677	5,233,697	1.68	3,060,589	5,141,790
Nutritional Aid	4.02	134,348	540,079	2.86	92,008	263,143
Paper-Household	2.12	3,690	7,823	2.58	1,715	4,425
Paper-Personal	3.21	4,828	15,498	3.85	1,220	4,697
Pasta	1.16	189,310	219,600	1.29	211,206	272,456
Prepared and Perishable Food	1.62	603,670	977,945	1.68	-	-
Protein	1.22	444,098	541,800	1.68	71,466	120,063
Rice	1.19	28,283	33,657	1.24	46,431	57,574
Snack Food	3.18	183,099	582,255	3.57	61,211	218,523
Condiments	1.61	63,224	101,791	1.66	134,189	222,754
Vegetables-Canned and Frozen	1.14	290,198	330,824	1.04	182,591	189,895
Average Value of all Categories	1.62	-	-	1.68	375,004	630,003
Total	1.61	<u>24,038,266</u>	<u>\$ 38,620,710</u>	1.35	<u>28,843,433</u>	<u>\$ 38,834,233</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, 2019, the Organization received \$84,197 in donated services and \$627,052 of donated land for the PCK 2.0 project. The Organization also receives donations of various goods throughout the year. The value of all other in-kind donations was \$149,961.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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, 2019, restricted cash consisted of \$1,756,843 designated for Philabundance Community Kitchen (PCK) and \$12,193 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, 2019 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, 2019**

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, 2019, pledges receivable consisted of:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 696,656
2021	83,000
2022	92,500
2023	60,000
Total Pledges Receivable	932,156
Less: Discount to Net Present Value	(6,459)
Total	<u>\$ 925,697</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, 2019 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, 2019

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 consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on direct charges or time and effort.

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)(1) 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.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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.

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, 2018 financial statements, from which the comparative totals were derived.

Change in Accounting Principle

During 2019, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard required the Organization to reclassify its net assets (i.e. unrestricted, temporarily and permanently restricted) into two categories, net assets without donor restrictions and net assets with donor restrictions, among other requirements. With the exception of the liquidity management disclosure (Note 12), the changes were applied retrospectively to ensure comparability with the prior year. The adoption did not impact the Organization's financial position as of September 30, 2019 or the changes in its net assets for the year then ended.

Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through March 4, 2020, the date the financial statements were available to be issued.

Note 7 describes a subsequent event related to the New Market Tax Credit financing transaction.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 2 INVESTMENTS

Investments consist of the following at September 30, 2019:

	<u>Cost</u>	<u>Fair Value</u>
Equity Mutual Funds	\$ 500,976	\$ 1,059,882
Fixed Income Mutual Funds	191,816	246,422
Preferred Stock	1,000	1,000
Total	<u>\$ 693,792</u>	<u>\$ 1,307,304</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, 2019.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable Securities:				
Equity Mutual Funds	\$ 1,059,882	\$ -	\$ -	\$ 1,059,882
Fixed Income Mutual Funds	246,422	-	-	246,422
Preferred Stock	1,000	-	-	1,000
Total Investments	<u>1,307,304</u>	<u>-</u>	<u>-</u>	<u>1,307,304</u>
Beneficial Interest	-	-	14,665	14,665
Total	<u>\$ 1,307,304</u>	<u>\$ -</u>	<u>\$ 14,665</u>	<u>\$ 1,321,969</u>

The change in Level 3 assets for the year ended September 30, 2019 is as follows:

	<u>Beneficial Interest</u>
Balance - October 1, 2018	\$ 14,999
Change in Value of Beneficial Interest	<u>(334)</u>
Balance - September 30, 2019	<u>\$ 14,665</u>

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 4 PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at September 30, 2019:

	<u>Amount</u>
Land	\$ 1,246,017
Buildings and Improvements	10,340,131
Furniture and Fixtures	93,373
Equipment	1,325,087
Computer Hardware and Software	503,225
Vehicles	742,212
Construction in Progress	<u>1,693,819</u>
Total	15,943,864
Less: Accumulated Depreciation	<u>4,451,152</u>
Total Property and Equipment	<u><u>\$ 11,492,712</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 net assets without donor restrictions at September 30, 2019. 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, 2019, the value of the beneficial interest was \$14,665. The decrease in the beneficial interest of \$334 is recorded in the consolidated statement of activities as a change in net assets without donor restrictions for the year ended September 30, 2019.

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 May 22, 2019, the availability on the line of credit was increased to \$2,000,000. 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 (2.09% at September 30, 2019) plus 1.67%. As of September 30, 2019, no amount was outstanding on the line of credit. The maturity date for the line of credit is April 30, 2020.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 7 LONG-TERM DEBT AND SUBSEQUENT EVENT

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 (2.09% at September 30, 2019) 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 \$1,208,334 as of September 30, 2019.

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 call option was not exercised at the end of year 10. The outstanding balance on the loan was \$827,938 as of September 30, 2019.

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 \$99,261 for the year ended September 30, 2019.

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, 2019**

NOTE 7 LONG-TERM DEBT AND SUBSEQUENT EVENT (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.

The NMTCs were allocated in this transaction pursuant to Section 45D of the Internal Revenue Code. After the seven-year NMTC period expired on October 19, 2019, 481 Corporation exercised its put option and assigned all of its 99.99% membership interest in the Fund to Philabundance for \$1,000 and the TRF fund manager assigned all of its 0.01% membership interest in the Fund to Philabundance for \$100 and the Fund was liquidated and its assets distributed to Philabundance. In conjunction with this event, the CDE's were liquidated and their assets distributed to the fund. Immediately after the exit transactions were completed, Philabundance became the holder of F&S Chester, RE, Inc.'s notes payable. On October 22, 2019, the NMTC loans payable of \$6,840,000 and the NMTC loan receivable of \$5,039,250 were discharged resulting in a gain of \$1,800,750 which will be reflected in the consolidated statement of activities for the year ending September 30, 2020.

The interest income to Philabundance on its loan to the fund is approximately \$50,400 per year. For the year ended September 30, 2019, 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>
2020	\$ 100,000	\$ 24,580	\$ 6,840,000	\$ 6,964,580
2021	100,000	25,581	-	125,581
2022	100,000	26,623	-	126,623
2023	100,000	27,708	-	127,708
2024	100,000	28,837	-	128,837
Thereafter	708,334	694,609	-	1,402,943
Total	<u>\$ 1,208,334</u>	<u>\$ 827,938</u>	<u>\$ 6,840,000</u>	<u>\$ 8,876,272</u>

**PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

NOTE 7 LONG-TERM DEBT AND SUBSEQUENT EVENT (CONTINUED)

New Market Tax Credit (NMTTC) Financing (Continued)

On February 12, 2020, F&S Chester RE, Inc. entered into an agreement of sale with Cousins Fresh Market to sell the real estate located in Chester, Pennsylvania for \$425,000. The sale is to close within 45 days of February 12, 2020.

NOTE 8 RESTRICTED NET ASSETS

Net assets with donor restrictions are restricted for the following as of September 30, 2019:

	Amount
Subject to Expenditure for Specific Purpose:	
Building	\$ 2,544,016
Capital Needs and Other Programs	63,736
Children and Seniors	56,862
Direct Service Programs	589,737
Food Purchases	363,691
Fuel	305,241
Total Purpose Restricted	3,923,283
Subject to Passage of Time:	
For Periods after September 30, 2019	57,500
Subject to Philabundance Spending Policy and Appropriations:	
Investment in Perpetuity (including Amounts Above Original Gift Amounts), the Income From Which is Expendable to Support:	
Children	600,000
General Operations	384,644
	984,644
Total	\$ 4,965,427

Board Restricted Net Assets

Philabundance governing board has designated net assets without donor restrictions for the following purpose:

Food Purchases	\$ 160,106
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PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

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 for the year ended September 30, 2019 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment Net Assets:			
October 1, 2018	\$ 594,682	\$ 685,930	\$ 1,280,612
Contributions	-	300,000	300,000
Investment Income	18,625	6,319	24,944
Net Realized and Unrealized Gains (Losses)	(38,629)	(10,221)	(48,850)
Distribution of Endowment Income	(46,498)	(15,669)	(62,167)
September 30, 2019	<u>\$ 528,180</u>	<u>\$ 966,359</u>	<u>\$ 1,494,539</u>

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, 2019 were \$131,736.

**PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019**

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, 2019.

Maturities of lease liabilities were as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2020	\$ 180,539
2021	177,650
2022	152,378
2023	133,685
2024	32,218
Thereafter	<u>12,033</u>
Total Lease Payments	688,503
Less Imputed Interest	<u>(81,679)</u>
Total	<u><u>\$ 606,824</u></u>

NOTE 12 LIQUIDITY MANAGEMENT

To help manage unanticipated liquidity needs, Philabundance has a committed line of credit in the amount of \$2 million that it could draw upon.

The Organization's financial assets available for general expenditure within one year of the consolidated financial position date of September 30, 2019 are as follows:

Cash and Cash Equivalents	\$ 5,972,584
Less Amounts Designated for PCK Construction	(1,756,843)
Less Amounts Designated for NMTC Fees	(12,193)
Accounts Receivable	584,087
Pledges Receivable	696,656
Less Amounts Designated for PCK Construction	(454,156)
Short-term Investments	49,597
Other Investments Appropriated for Current Use	<u>46,498</u>
Total	<u><u>\$ 5,126,230</u></u>

Philabundance's endowment funds consist of a general endowment of \$945,286 and Giant endowment of \$311,420. Income from the Giant endowment is restricted for a specific purpose, and is therefore not available for general expenditure. The endowment has a spending rate of 5%.

PHILABUNDANCE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 13 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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.

PHILABUNDANCE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2019

ASSETS	Philabundance	F&S Chester RE, Inc.	Consolidating Eliminations	Consolidated
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 4,163,628	\$ 39,920	\$ -	\$ 4,203,548
Restricted Cash	1,756,843	12,193	-	1,769,036
Investments	1,307,304	-	-	1,307,304
Accounts Receivable, Net	539,125	44,962	-	584,087
Grants Receivable	21,362	-	-	21,362
Current Portion of Pledges Receivable	696,656	-	-	696,656
Inventory	1,988,596	-	-	1,988,596
Due from F&S Chester RE, Inc.	178,843	-	(178,843)	-
Other Current Assets	23,200	-	-	23,200
Prepaid Expenses, Deposits, and Other	238,976	-	-	238,976
Note Receivable (NMTC)	5,039,250	-	-	5,039,250
Total Current Assets	15,953,783	97,075	(178,843)	15,872,015
PLEDGES RECEIVABLE, LESS CURRENT PORTION	229,041	-	-	229,041
PROPERTY AND EQUIPMENT, NET	8,506,040	2,986,672	-	11,492,712
OPERATING LEASE RIGHT-OF-USE ASSETS	606,824	-	-	606,824
BENEFICIAL INTEREST	14,665	-	-	14,665
Total Assets	<u>\$ 25,310,353</u>	<u>\$ 3,083,747</u>	<u>\$ (178,843)</u>	<u>\$ 28,215,257</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current Maturities of Long-Term Debt	\$ 124,580	\$ 6,840,000	\$ -	\$ 6,964,580
Current Portion of Operating Lease Liabilities	180,539	-	-	180,539
Accounts Payable and Accrued Expenses	1,366,052	46,371	-	1,412,423
Security Deposit	23,068	-	-	23,068
Deferred Income	376,144	-	-	376,144
Due to Philabundance	-	178,843	(178,843)	-
Total Current Liabilities	2,070,383	7,065,214	(178,843)	8,956,754
LONG-TERM LIABILITIES				
Long-Term Debt, Less Current Maturities	1,911,692	-	-	1,911,692
Operating Lease Liabilities, Less Current Portion	426,285	-	-	426,285
Total Long-Term Liabilities	2,337,977	-	-	2,337,977
Total Liabilities	4,408,360	7,065,214	(178,843)	11,294,731
NET ASSETS (DEFICIT)				
Without Donor Restrictions	15,936,566	(3,981,467)	-	11,955,099
With Donor Restrictions	4,965,427	-	-	4,965,427
Total Net Assets (Deficit)	20,901,993	(3,981,467)	-	16,920,526
Total Liabilities and Net Assets	<u>\$ 25,310,353</u>	<u>\$ 3,083,747</u>	<u>\$ (178,843)</u>	<u>\$ 28,215,257</u>

PHILABUNDANCE
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total Philabundance	F&S Chester RE, Inc.	Fare & Square, LLC	Consolidating Eliminations	Consolidated
OPERATING REVENUE							
In-Kind Food	\$ 38,620,710	\$ -	\$ 38,620,710	\$ -	\$ -	\$ -	\$ 38,620,710
In-Kind Goods and Services	861,210	-	861,210	-	-	-	861,210
Grants and Contributions	11,531,193	4,984,735	16,515,928	43,898	-	(40,000)	16,519,826
Endowment Distribution Income	62,167	-	62,167	-	-	-	62,167
Fees for Service	1,885,785	-	1,885,785	-	-	-	1,885,785
Rental Income	-	-	-	140,377	-	-	140,377
Community Purchase Program	1,348,190	-	1,348,190	-	-	-	1,348,190
Less: Cost of Goods Sold	(1,296,254)	-	(1,296,254)	-	-	-	(1,296,254)
Gross Profit	51,936	-	51,936	-	-	-	51,936
Net Assets Released from Restrictions	4,525,726	(4,525,726)	-	-	-	-	-
Total Operating Revenue	57,538,727	459,009	57,997,736	184,275	-	(40,000)	58,142,011
EXPENSES							
Program Services	46,855,031	-	46,855,031	260,249	-	(40,000)	47,075,280
Management and General	2,785,409	-	2,785,409	128,069	-	-	2,913,478
Fundraising	3,781,515	-	3,781,515	-	-	-	3,781,515
Total Expenses	53,421,955	-	53,421,955	388,318	-	(40,000)	53,770,273
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES							
	4,116,772	459,009	4,575,781	(204,043)	-	-	4,371,738
NONOPERATING ACTIVITIES							
Interest Income and Dividends	29,826	-	29,826	-	-	-	29,826
Change in Beneficial Interest	(334)	-	(334)	-	-	-	(334)
Unrealized Gain on Investments	11,465	-	11,465	-	-	-	11,465
Other Income (Expense)	130,414	-	130,414	-	(6,822)	-	123,592
Total Nonoperating Activities	171,371	-	171,371	-	(6,822)	-	164,549
CHANGE IN NET ASSETS							
	4,288,143	459,009	4,747,152	(204,043)	(6,822)	-	4,536,287
Net Assets (Deficit) - Beginning of Year	11,648,423	4,506,418	16,154,841	(3,777,424)	6,822	-	12,384,239
NET ASSETS (DEFICIT) - END OF YEAR	\$ 15,936,566	\$ 4,965,427	\$ 20,901,993	\$ (3,981,467)	\$ -	\$ -	\$ 16,920,526

PHILABUNDANCE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2019

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	AM170100XXXXG133	\$ 78,805
Food Distribution Cluster			
The Emergency Food Assistance Program (Food Commodities)	10.569	N/A	192,042
Pass-Through the Hunger-Free PA:			
Commodity Supplemental Food Program (Food Commodities)	10.565	N/A	2,755,078
Commodity Supplemental Food Program (Administrative Cost)	10.565	N/A	318,224
Total Food Distribution Cluster			<u>3,265,344</u>
Pass-Through the City of Philadelphia Office of Supportive Housing:			
Child and Adult Care Food Program	10.558	15-20157	207,613
Total U.S. Department of Agriculture			<u>3,551,762</u>
U.S. Department of Human Services			
Pass-Through the Philadelphia Works, Inc.:			
Job Training	93.558	N/A	57,119
Total U.S. Department of Human Services			<u>57,119</u>
U.S. Department of Labor			
Pass-Through the Philadelphia Works, Inc.:			
Job Training	93.558	N/A	3,173
Job Training	93.558	N/A	3,173
Total U.S. Department of Labor			<u>6,346</u>
Total Federal Awards			<u><u>\$ 3,615,227</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

PHILABUNDANCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2019

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, 2019, 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 4, 2020.

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.

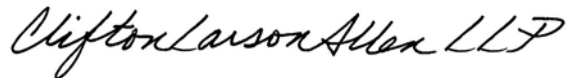
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 4, 2020



**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, 2019. 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, 2019.

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 4, 2020

**PHILABUNDANCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2019**

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)
10.565

Name of Federal Program or Cluster
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, 2019

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.

