



Driving hunger from our communities

PHILABUNDANCE
Consolidated Financial Statements
June 30, 2022
With Independent Auditor's Reports

Philabundance
Table of Contents
June 30, 2022

Independent Auditor's Report	1-2
Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets	4
Consolidated Statement of Cash Flows	5
Consolidated Statement of Functional Expenses	6
Notes to Consolidated Financial Statements	7-18

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Philabundance:

Opinion

We have audited the accompanying consolidated financial statements of Philabundance, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the period from October 1, 2021 through June 30, 2022, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Philabundance as of June 30, 2022, and the changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Philabundance and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Philabundance's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Philabundance's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Philabundance's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Withum Smith + Brown, PC

February 6, 2023

Philabundance
Consolidated Statement of Financial Position
June 30, 2022

Assets

Current assets

Cash and cash equivalents	\$ 2,819,406
Investments, current	21,967,322
Accounts receivable, net	904,652
Contributions receivable, current	342,750
Inventory	4,022,798
Other current assets	132,891
Prepaid expense and deposits	<u>604,632</u>
Total current assets	<u>30,794,451</u>

Noncurrent assets

Endowment and other investments	1,917,051
Contributions receivables, net of current portion and discount to present value	100,609
Property and equipment, net	18,306,687
Operating lease right-of-use assets	5,374,808
Beneficial interest	<u>17,535</u>
Total noncurrent assets	<u>25,716,690</u>

Total assets	<u>\$ 56,511,141</u>
--------------	----------------------

Liabilities and Net Assets

Current liabilities

Operating lease liabilities, current portion	\$ 1,245,105
Accounts payable and accrued expenses	4,850,469
Security deposit	23,093
Deferred income	<u>1,669,924</u>
Total current liabilities	<u>7,788,591</u>

Long-term liabilities

Operating lease liabilities, net of current portion	4,380,885
Self-amortizing long-term debt - PCK 2.0	<u>4,679,999</u>
Total long-term liabilities	<u>9,060,884</u>

Total liabilities	<u>16,849,475</u>
-------------------	-------------------

Net assets

Without donor restrictions	37,092,872
With donor restrictions	<u>2,568,794</u>
Total net assets	<u>39,661,666</u>

Total liabilities and net assets	<u>\$ 56,511,141</u>
----------------------------------	----------------------

The Notes to Consolidated Financial Statements are an integral part of this statement.

Philabundance
Consolidated Statement of Activities and Changes in Net Assets
Period From October 1, 2021 Through June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue			
In-kind food (Note 1)	\$ 43,969,638	\$ -	\$ 43,969,638
In-kind goods and services	936,298	-	936,298
Grants, contracts, and contributions	25,369,930	1,849,400	27,219,330
Investment loss	(282,474)	-	(282,474)
Change in beneficial interest	(1,105)	-	(1,105)
Other income	369,320	-	369,320
	<u>70,361,607</u>	<u>1,849,400</u>	<u>72,211,007</u>
Community Purchase Program	17,174	-	17,174
Less: Costs of goods sold	<u>(559,028)</u>	<u>-</u>	<u>(559,028)</u>
Gross loss	<u>(541,854)</u>	<u>-</u>	<u>(541,854)</u>
Net assets released from restrictions	<u>1,513,136</u>	<u>(1,513,136)</u>	<u>-</u>
Total support and revenue	<u>71,332,889</u>	<u>336,264</u>	<u>71,669,153</u>
Expenses			
Program services	71,759,272	-	71,759,272
Management and general	4,322,758	-	4,322,758
Fundraising	<u>3,830,031</u>	<u>-</u>	<u>3,830,031</u>
Total expenses	<u>79,912,061</u>	<u>-</u>	<u>79,912,061</u>
Changes in net assets	(8,579,172)	336,264	(8,242,908)
Net assets			
Beginning of period	<u>45,672,044</u>	<u>2,232,530</u>	<u>47,904,574</u>
End of period	<u>\$ 37,092,872</u>	<u>\$ 2,568,794</u>	<u>\$ 39,661,666</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Philabundance
Consolidated Statement of Cash Flows
Period From October 1, 2021 Through June 30, 2022

Operating activities

Changes in net assets	\$ (8,242,908)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Realized loss on investments	1,553
Unrealized loss on investments	342,211
Change in beneficial interest	1,105
Depreciation and amortization	1,001,420
Right-of-use asset amortization	889,034
Change in operating assets and liabilities	
Accounts receivable	126,663
Contributions receivable	(161,217)
Inventory	3,089,848
Other current assets	155,461
Prepaid expense and deposits	(158,338)
Accounts payable and accrued expenses	634,852
Deferred income	<u>685,266</u>
Net cash used in operating activities	<u>(1,635,050)</u>

Investing activities

Purchase of investments	(63,133)
Purchase of property and equipment	<u>(1,682,083)</u>
Net cash used in investing activities	<u>(1,745,216)</u>

Financing activities

Payments on operating leases	<u>(637,852)</u>
Net cash used in financing activities	<u>(637,852)</u>

Net change in cash and cash equivalents (4,018,118)

Cash and cash equivalents

Beginning of period	<u>6,837,524</u>
End of period	<u>\$ 2,819,406</u>

Supplemental disclosure of cash flow information

Interest paid	<u>\$ -</u>
---------------	-------------

The Notes to Consolidated Financial Statements are an integral part of this statement.

Philabundance
Consolidated Statement of Functional Expenses
Period From October 1, 2021 Through June 30, 2022

	<u>Program Expenses</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Payroll and related costs	\$ 5,551,397	\$ 3,061,772	\$ 1,419,924	\$ 10,033,093
Agency support	800,835	-	-	800,835
Bad debt	-	5,378	-	5,378
Credit card and bank fees	-	226,251	-	226,251
Depreciation and amortization	631,438	220,227	149,755	1,001,420
Donated food and non-food	46,903,623	-	-	46,903,623
Dues and subscriptions	66,801	25,129	29,645	121,575
Facilities and occupancy	1,243,063	485,700	395,035	2,123,798
Food acquisition	14,037,247	-	-	14,037,247
Freight	363,828	-	-	363,828
Information technology	69,736	26,726	86,609	183,071
Insurance	64,040	35,320	16,380	115,740
Mailing services	1,019	26	1,169,811	1,170,856
Marketing and design	3,064	323	188,728	192,115
Meetings and training	48,997	8,461	8,178	65,636
Miscellaneous	687	9,021	107	9,815
Printing	108	31	15,733	15,872
Professional fees	292,009	143,106	275,212	710,327
Supplies	591,022	18,605	38,515	648,142
Telecommunications	57,306	23,373	16,601	97,280
Temporary help	426,216	33,309	19,798	479,323
Transportation	606,836	-	-	606,836
	<u>71,759,272</u>	<u>4,322,758</u>	<u>3,830,031</u>	<u>79,912,061</u>
Community Purchase Program	<u>559,028</u>	<u>-</u>	<u>-</u>	<u>559,028</u>
	<u>\$ 72,318,300</u>	<u>\$ 4,322,758</u>	<u>\$ 3,830,031</u>	<u>\$ 80,471,089</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

1. ORGANIZATION AND OPERATIONS

Philabundance (the "Organization") is a Pennsylvania nonprofit founded in 1984 with the simple belief that no one should go hungry while healthy food goes to waste. Philabundance's mission is to drive hunger from its communities today and to end hunger for good. In addition to food distribution, Philabundance strives to reduce food waste, increase access to nutritious meals, and tackle the root causes of hunger.

Philabundance provides food to thousands of people each week through a network of over 350 agency partners – food pantries, cupboards, and emergency kitchens – over a nine-county service area in Pennsylvania (Bucks, Chester, Delaware, Montgomery, and Philadelphia counties) and New Jersey (Burlington, Camden, Gloucester, and Salem counties).

During the pandemic, Philabundance has increased its efforts by doubling the amount of food it provides to agency partners, working with key partners to make food more accessible, and making thousands of meals each week. In this year, Philabundance also opened a new home for the Philabundance Community Kitchen ("PCK"), a culinary arts and life skills program, that makes nutritious ready-to-eat meals for people who are unhoused, seniors, and restaurant workers struggling to make ends meet. Philabundance has also continued its innovative Ending Hunger For Good work.

Philabundance recognizes that food distribution alone is not enough, it is that the clients are not hungry again in the future. Philabundance is reimagining how it distributes food through the new "Food Plus" model, which provides clients with food plus other essential services such as education, financial literacy, and housing.

Seeing a 60% increase in need, Philabundance is continuing to make strategic investments in its agency partners, programs, staffing, and own equipment so it can continue to meet the increased need.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require it to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by passage of time. When restrictions are satisfied, they are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Principles of Consolidation

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

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

New Accounting Pronouncement Adopted in the Current Year

In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the consolidated statement of activities and changes in net assets, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. The ASU was adopted using the full retrospective method.

Revenue and Support Recognition

Contributions and Grants

Contributions are reported as revenue when they are received or unconditionally promised to give and are recorded as net assets with donor restrictions or net assets without donor restrictions according to donor stipulations if the related assets are limited by donor-imposed time or purpose restrictions.

Conditional promises to give and grants are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions to be received after one year are reflected at the present value of estimated future cash flows using a discount rate of 2% for contributions made in the fiscal year. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Government Grant and Contract Revenue

Revenue from government grant and contract agreements, which are generally considered nonexchange transactions, is recognized when qualifying expenditures are incurred and conditions under the agreements are met. Grant funds received in advance of the expenditures incurred are recorded as deferred revenue. Grant funds expended in advance of reimbursement from the funding source are classified as grants and contracts receivable in the consolidated statements of financial position. Philabundance receives funding from federal and city agencies under grants and contracts, of which, some have a commitment spanning multiple years.

Other revenues are obtained from investment income and other miscellaneous income items. These revenues are not restricted in their use and are used to offset management and general expenses and program expenses. Revenues from these sources are recognized at the time the investment income is received or miscellaneous income is earned.

Revenue from Contracts with Customers

Philabundance accounts for agency handling fees and food purchase fees and catering income as exchange transactions in the consolidated statements of activities and changes in net assets. Revenues from contracts with customers are treated as revenues without donor restrictions. Performance obligations are satisfied at the point in time, which is when the related goods are provided to the customer. Philabundance does not have any significant financing components as payment is received at shortly after revenue is recognized. Funds received in advance from customers for work that has not been performed have been recorded as contract liabilities and are shown as deferred income in the consolidated statement of financial position.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

The following summarizes Philabundance's performance obligations:

Agency Handling Fees and Food Purchase Fees

Agency handling fees are charged for the delivery of purchased or donated food to agencies and are recorded at the time the delivery has occurred. Agency handling fees are not charged on the delivery of governmental food donations. Food purchase fees are charged to the agencies for food purchased by Philabundance and are based on the cost of the food plus a percentage markup over cost. The food purchase fees are recorded as revenue at the time the purchase is made. These fees are shown as support with no donor restrictions in the consolidated statements of activities and changes in net assets.

Rental Income

Rental income is recognized as it accrues. Advance receipts of rental income are deferred and classified as a prepaid rent liability until earned or recouped. All leases between the Organization and the tenants of the property are operating leases.

Inventory of Donated Food and Commodities and Purchased Food

The value of donated food and commodities is determined using an average wholesale cost per pound, which is based on an annual study prepared by Feeding America, the national organization of food banks nationwide. Food that has been donated but not distributed is shown as inventory in the consolidated statements of financial position. Donated food and commodities that have been distributed are shown in the consolidated statements of activities and changes in net assets as donated food distributed. Distributed food is released from inventory at fair value on the date of distribution. Due to normally short periods between receipt of food donations and their subsequent distribution, the fair value on the date of receipt generally approximates the fair value on the date of distribution. Purchased food that is distributed is valued at cost, with the resulting expense upon distribution also being recorded at cost due to the relatively short time frame between purchase and distribution.

Donated Goods and Services

Philabundance receives various forms of non-food gifts-in-kind ("GIK") items such as gift cards, store credit, advertising services, equipment, supplies, and other miscellaneous items. These goods are reported as contributions at their estimated fair value on the date of receipt and reported as expense when utilized. GIK are valued based upon estimates of fair market or wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use as the time the goods are contributed by the donor.

Philabundance receives significant donated services from volunteers, officers and directors and affiliated organizations to support operations, fundraising, and administrative efforts. The value of these donated services is not included in these consolidated financial statements, as they do not meet the criteria for recognition under not for profit accounting standards.

Cash and Cash Equivalents

Cash and cash equivalents include funds held in money market accounts and other instruments with a maturity of three months or less at the time of acquisition.

Investments

Investments in securities with readily determinable values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Donated investments are recorded at the fair value at the date of receipt. Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments, are reflected in the consolidated statements of activities and changes in net assets as increases or decreases in net assets without donor restrictions unless the use was restricted by explicit donor stipulations or by law.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

Accounts Receivables

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 collectability and written off as necessary. In addition, an allowance is provided for other accounts when a significant pattern of collectability has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance.

Contributions Receivable

Contributions that are expected to be collected within one year are recorded at their net realizable value. Contributions that are expected to be collected beyond one year are recorded at their net present value of estimated future cash funds. Philabundance provides for uncollectible contributions using the allowance method, which is based on management's judgment concerning analysis of individual contributions. Past-due contributions receivable are individually analyzed for collectability and written off when all efforts have been exhausted.

Property and Equipment

Property and equipment purchases are recorded at cost, except for donated items, which are recorded at their fair value on the date of donation. Amortization of software is included within depreciation expense. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Philabundance capitalizes all fixed assets over \$2,500 with an estimated life greater than one year. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts. Maintenance, repairs and minor renewals are charged to operations as incurred.

The principal rates for computing depreciation by major asset category are as follows:

<u>Description</u>	<u>Estimated Life (Years)</u>
Buildings and improvements	40
Vehicles	5-7
Computer hardware and software	3-5
Equipment	5
Furniture and fixtures	5

Valuation of Long-Lived Assets

In accordance with the accounting pronouncements on impairment or disposal of long-lived assets, Philabundance reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Management has determined that no impairment charge was required for the periods presented in these consolidated financial statements.

Fair Value of Financial Instruments

FASB Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The pronouncement describes a fair value hierarchy based on three levels of input, of which the first two are considered observable and the last unobservable.

These levels are as follows:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect one's estimates of assumptions that a market participant would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

The following is a description of the valuation methodologies used for Philabundance's investments measured at fair value. There have been no changes in the methodologies used for periods presented in these consolidated financial statements.

Preferred Stock and Mutual Funds: Shares of preferred stock and mutual funds are valued at quoted market prices at Philabundance's fiscal year-end.

Income Taxes

Philabundance is a not-for-profit organization exempt from federal income taxes pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code ("IRC") and from Pennsylvania state income taxes under applicable state law. Accordingly, no provision for federal or state income taxes has been recorded in the consolidated statements of activities and changes in net assets.

F&S Chester, RE, Inc. is a taxable Pennsylvania corporation.

Management has determined that there are no uncertain tax positions at Philabundance as of June 30, 2022. Philabundance has no income tax related penalties or interest for the periods reported in these consolidated financial statements.

Leases

Philabundance accounts for leases in accordance with ASC 842. In accordance with ASC 842, Philabundance determines if an arrangement is or contains a lease at contract inception and recognizes an asset and a lease liability at the lease commencement date. Contract terms determine if a lease will be accounted for as an operating or finance lease. Based on the lease contracts, nonlease components are separated and recorded as other liabilities. As a result, the nonlease components are not included in the lease calculation.

For operating leases, the lease liability is measured at the present value of the unpaid lease payments. The right-of-use ("ROU") asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense is recognized on a straight-line basis over the lease term.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

For finance leases, the lease liability is initially measured in the same manner as operating leases and is subsequently measured at amortized cost using the effective-interest method. The asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or lease term unless the lease transfers ownership to Philabundance. Amortization of the asset and interest expense of the lease liability are recognized and presented separately.

Philabundance has elected not to recognize ROU assets and lease liabilities for short-term leases that have a term of 12 months or less and recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

Several key estimates and judgments are used to determine the ROU assets and operating lease liabilities including the discount rate used to discount the unpaid lease payments to present value, lease term, and lease payments. ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. The incremental borrowing rate is the rate of interest Philabundance would have to pay to borrow an amount equal to the lease payments under similar terms and conditions.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. There were significant estimates recorded in these consolidated financial statements for the value of donated food and commodity inventories and revenues for donations received and the associated value of food and supplies that were distributed.

Functional Allocation of Expenses

The cost of providing the various programs, which include food distribution and other ancillary programs of Philabundance, has been shown in the consolidated statements of functional expenses. The smaller related programs have not been shown separately because none of the programs are individually significant in relation to the food distribution program. Certain costs have been allocated between program and supporting services on an equitable basis as follows:

<u>Expense</u>	<u>Method of Allocation</u>
Personnel	Time and effort
Fringe benefits	Time and effort
Occupancy	Square footage
Telephone	Square footage
Insurance	Square footage
Repairs and maintenance	Square footage
Depreciation	Square footage

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

3. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of June 30, 2022, financial assets and liquidity resources available within one year for general expenditures, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

Financial assets	
Cash and cash equivalents	\$ 2,819,406
Accounts receivable, net	904,652
Current portion of contributions receivable	342,750
Investments	<u>23,884,373</u>
	27,951,181
Less: Financial assets unavailable for general expenditures	
Net assets with donor restrictions	<u>(2,568,794)</u>
Total financial assets available within one year	<u>\$ 25,382,387</u>

Philabundance looks to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is invested in investments for long-term growth. Significant contributions and government funding are received annually to fund annual operating expenses.

4. ENDOWMENT AND INVESTMENTS

Investments consist of the following at June 30, 2022:

	<u>Cost</u>	<u>Fair Value</u>
Money market funds	\$ 21,814,235	\$ 21,814,235
Equity mutual funds	1,005,967	1,763,309
Fixed income mutual funds	332,136	305,829
Preferred stock	<u>1,000</u>	<u>1,000</u>
	<u>\$ 23,153,338</u>	<u>\$ 23,884,373</u>

Investment loss consists of the following for the period ended June 30, 2022:

Interest and dividend income	\$ 61,290
Realized loss on sale of investments	(1,553)
Unrealized loss	<u>(342,211)</u>
	<u>\$ (282,474)</u>

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

5. ENDOWMENT

Philabundance's endowment consists of a fund restricted in perpetuity to continue the purpose of the Organization. As required by U.S. GAAP, 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).

Philabundance's endowment funds at June 30, 2022 consist of a general endowment of \$989,440, Giant endowment of \$697,853, and PCK endowment of \$229,758. Income from the Giant and PCK endowments is restricted for specific purposes and is therefore not available for general expenditure.

Endowment activity for the period ended June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
September 30, 2021	\$ 795,835	\$ 1,413,826	\$ 2,209,661
Contributions	-	25,000	25,000
Investment income	12,509	59,962	72,471
Net realized and unrealized loss	(182,040)	(205,425)	(387,465)
Distribution/Releases	<u>-</u>	<u>(2,616)</u>	<u>(2,616)</u>
June 30, 2022	<u>\$ 626,304</u>	<u>\$ 1,290,747</u>	<u>\$ 1,917,051</u>

6. CONTRIBUTIONS RECEIVABLE

At June 30, 2022, contributions receivable are due as follows:

2023	\$ 342,750
2024	95,000
2025	<u>25,000</u>
	462,750
Less: Discount to net present value	<u>(19,391)</u>
	<u>\$ 443,359</u>

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

7. FAIR VALUE

Philabundance has provided fair value disclosure information for relevant assets and liabilities in these consolidated financial statements. Philabundance values such assets (liabilities) using quoted market prices in active markets (Level 1) for identical assets to the extent possible. To the extent that such market prices are not available, Philabundance attempts to value such assets (liabilities) using observable measurement criteria, including quoted market prices of similar assets (liabilities) in active and inactive markets and other corroborated factors (Level 2). In the event that quoted market prices in active markets and other observable measurement criteria are not available, Philabundance develops measurement criteria based on the best information available (Level 3).

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022. For the period ended June 30, 2022, there were no significant transfers in or out of Level 3.

The following tables summarize the assets which have been accounted for at fair value on a recurring basis as of June 30, 2022, along with the basis for the determination of fair value as follows:

	2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 21,814,235	\$ -	\$ -	\$ 21,814,235
Marketable securities				
Equity mutual funds	1,763,309	-	-	1,763,309
Fixed income mutual funds	305,829	-	-	305,829
Preferred stock	1,000	-	-	1,000
	<u>23,884,373</u>	<u>-</u>	<u>-</u>	<u>23,884,373</u>
Beneficial interest	<u>-</u>	<u>-</u>	<u>17,535</u>	<u>17,535</u>
	<u>\$ 23,884,373</u>	<u>\$ -</u>	<u>\$ 17,535</u>	<u>\$ 23,901,908</u>

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 1,222,831
Building and improvements	16,383,699
Furniture and fixtures	1,876,109
Equipment	1,297,833
Computer hardware and software	1,125,943
Vehicles	1,757,521
Construction in progress	<u>478,893</u>
	24,142,829
Less: Accumulated depreciation	<u>(5,836,142)</u>
	<u>\$ 18,306,687</u>

Depreciation expense amounted to \$1,001,420 for the period ended June 30, 2022.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

9. 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 the 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 June 30, 2022. 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 statements of financial position at the market value of Philabundance's proportionate share. The value of the beneficial interest was \$17,535 as of June 30, 2022. The activity in the beneficial interest is recorded in the consolidated statement of activities and changes in net assets as a change in net assets without donor restrictions for the period ended June 30, 2022.

10. LONG-TERM DEBT

Self-Amortizing Long-Term Debt - PCK 2.0

On April 23, 2019, Philabundance entered into an agreement with Philadelphia Redevelopment Authority to borrow a sum not to exceed \$4,000,000 for the new construction of a building as well as \$679,999 for the acquisition of land located at 2224-38 N. 10th Street, Philadelphia, Pennsylvania. The construction loan consists of \$2,500,000 funded through Community Development Block Grant ("CDBG") funds from the U.S. government and \$1,500,000 funded under the Choice Neighborhoods Initiative Implementation grants.

The land and building are to be used to provide culinary arts job training programs to students at least 51% of whom are low- to moderate-income persons. The term of the construction loan will be for a 25-year period commencing as of the date of the agreement. The loan bears no interest. Beginning on the 21st anniversary of the agreement until the end of the term of the loan, the principal balance of the loan shall be reduced without payment by an amount equal to 20% of the original principal amount of the loan, provided Philabundance complies with the terms and conditions of the agreement.

The term of the land acquisition loan will be for a 10-year period commencing on the date of completion of the construction of the project. Beginning on the 5th anniversary of the construction completion and for each successive annual anniversary until the end of the term of the loan, the principal balance of the loan shall be reduced without payment by an amount equal to \$113,333, provided Philabundance complies with the terms and conditions of the agreement.

It is Philabundance's intention to comply with the terms and conditions of the long-term debt agreements; therefore, there are no principal amounts due in the next five years.

11. LEASES

Philabundance leases a warehouse space, vehicles, and office equipment under operating leases, which have a noncancelable term exceeding one year. Operating lease expense was \$706,624 for the period ended June 30, 2022.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

The consolidated statement of financial position includes operating lease right-of-use assets and liabilities at June 30, 2022 as follows:

Operating lease right-of-use assets, gross	\$ 6,936,983
Less: Accumulated amortization of right-of-use assets	<u>(1,562,175)</u>
Total operating lease right-of-use assets, net	<u>\$ 5,374,808</u>
Current portion of operating lease obligations	\$ 1,245,105
Long-term operating lease obligations	<u>4,380,885</u>
Total operating lease obligations	<u>\$ 5,625,990</u>

Future maturities of operating lease liabilities are as follows:

2023	\$ 1,300,538
2024	1,232,548
2025	1,234,462
2026	1,244,529
2027	<u>740,550</u>
	5,752,627
Less: Imputed interest	<u>(126,637)</u>
	<u>\$ 5,625,990</u>

The weighted average discount rate associated with operating leases as of June 30, 2022 is 0.93%.

12. RETIREMENT PLANS

Philabundance has a qualified retirement plan under IRC Section 403(b) covering eligible employees. Philabundance provides a 50% employer match on voluntary employee contributions for 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. Total contribution to the plan was \$162,977 for the period ended June 30, 2022.

13. CONCENTRATION OF CREDIT RISK

Philabundance's financial instruments that are exposed to concentrations of credit risk consist primarily of its cash, cash equivalents, investments, accounts receivable, and contributions receivable. At times during the year, cash of Philabundance deposited in financial institutions exceeds the Federal Deposit Insurance Corporation limit. The management of Philabundance deposits cash funds in high-quality institutions to lessen the amount of uninsured exposure.

Philabundance
Notes to Consolidated Financial Statements
June 30, 2022

14. NET ASSETS

Components of consolidated net assets with donor restrictions at June 30, 2022 are as follows:

Subject to expenditure for specific purpose	
Building	\$ 204,407
Disaster relief	54,722
Emergency relief	25,100
Other programs	<u>559,671</u>
	843,900
Subject to passage of time	
For periods after June 30	462,750
Investments in perpetuity	
Children	600,000
Philabundance Community Kitchen	252,500
General operations	<u>409,644</u>
	<u>\$ 2,568,794</u>
Net assets released from restrictions:	
Children & Seniors	\$ 371,550
Fuel	4,071
Other programs	<u>1,137,515</u>
	<u>\$ 1,513,136</u>

15. 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.

<u>Non-financial Contribution</u>	<u>Valuation</u>	<u>Amount</u>
Food	U.S. wholesale prices, similar products, or government valuation.	\$ 43,969,638
Gift cards and store credit	Based on value of gift cards and store credits received.	707,472
Media	Based on value provided with third party estimated billing rates.	192,000
Equipment and supplies	Based on estimated value for similar products.	26,226
Other	Based on estimated purchase value of items received.	<u>10,600</u>
		<u>\$ 44,905,936</u>

16. SUBSEQUENT EVENTS

Philabundance has evaluated subsequent events occurring after the consolidated statement of financial position date through the date of February 6, 2023, which is the date the consolidated financial statements were available to be issued. Based upon this evaluation, Philabundance has determined that no subsequent events have occurred, which require disclosure in or adjustment to the consolidated financial statements.