

**THE FOOD BANK OF THE SOUTHERN TIER,  
DIVISION OF CATHOLIC CHARITIES  
OF THE DIOCESE OF ROCHESTER**

**Financial Statements as of  
December 31, 2016  
Together with  
Independent Auditor's Report**

**Bonadio & Co., LLP**  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

May 19, 2017

To the Board of Directors of  
The Food Bank of the Southern Tier, Division of  
Catholic Charities of the Diocese of Rochester:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Food Bank of the Southern Tier, Division of Catholic Charities of the Diocese of Rochester which comprise the balance sheet as of December 31, 2016 and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

171 Sully's Trail, Suite 201  
Pittsford, New York 14534  
p (585) 381-1000  
f (585) 381-3131

[www.bonadio.com](http://www.bonadio.com)

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## INDEPENDENT AUDITOR'S REPORT

(Continued)

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Food Bank of the Southern Tier, Division of Catholic Charities of the Diocese of Rochester as of December 31, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited The Food Bank of the Southern Tier, Division of Catholic Charities of the Diocese of Rochester's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bonadio & Co., LLP*

**THE FOOD BANK OF THE SOUTHERN TIER,  
DIVISION OF CATHOLIC CHARITIES OF THE DIOCESE OF ROCHESTER**

**BALANCE SHEET  
DECEMBER 31, 2016**

(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 2,062,270	\$ 1,323,945
Investments	1,093,075	994,215
Accounts receivable	68,212	103,506
Grants receivable	73,446	268,089
Due from affiliates, net	217,033	236,922
Prepaid expenses	72,388	19,810
Current portion of pledges receivable, net	241,781	125,393
Inventory - donated	955,952	687,763
Inventory - purchased	445,926	437,669
	<u>5,230,083</u>	<u>4,197,312</u>
<b>OTHER ASSETS:</b>		
Pledges receivable, net of current portion	129,621	-
Investments - Endowment	73,976	67,225
Property and equipment, net	3,497,512	3,631,739
	<u>3,701,109</u>	<u>3,698,964</u>
<b>Total assets</b>	<u>\$ 8,931,192</u>	<u>\$ 7,896,276</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 291,574	\$ 161,799
Accrued liabilities	171,688	148,161
Deferred revenue - donated inventory	955,952	687,763
Deferred revenue - other	60,245	156,619
	<u>1,479,459</u>	<u>1,154,342</u>
<b>Total liabilities</b>	<u>1,479,459</u>	<u>1,154,342</u>
<b>NET ASSETS:</b>		
Unrestricted	6,674,373	5,244,532
Temporarily restricted	707,372	1,433,220
Permanently restricted	69,988	64,182
	<u>7,451,733</u>	<u>6,741,934</u>
<b>Total net assets</b>	<u>7,451,733</u>	<u>6,741,934</u>
<b>Total liabilities and net assets</b>	<u>\$ 8,931,192</u>	<u>\$ 7,896,276</u>

The accompanying notes are an integral part of these statements.

**THE FOOD BANK OF THE SOUTHERN TIER,  
DIVISION OF CATHOLIC CHARITIES OF THE DIOCESE OF ROCHESTER**

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Totals for 2015)**

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>SUPPORT AND REVENUE:</b>					
Food-in-kind assistance	\$ 7,765,266	\$ -	\$ -	\$ 7,765,266	\$ 8,322,778
Grants and contracts	2,077,607	-	-	2,077,607	2,167,352
Contributions	2,975,972	473,986	-	3,449,958	2,499,196
Program fees	792,379	-	-	792,379	967,917
Other income	30,761	-	-	30,761	33,313
Net assets released from restrictions	1,200,779	(1,200,779)	-	-	-
<b>Total support and revenue</b>	<b>14,842,764</b>	<b>(726,793)</b>	<b>-</b>	<b>14,115,971</b>	<b>13,990,556</b>
<b>EXPENSES:</b>					
Program	12,268,778	-	-	12,268,778	12,952,380
Management and general	499,812	-	-	499,812	462,307
Fundraising	743,193	-	-	743,193	723,104
<b>Total expenses</b>	<b>13,511,783</b>	<b>-</b>	<b>-</b>	<b>13,511,783</b>	<b>14,137,791</b>
<b>EXCESS (DEFICIENCY) OF SUPPORT AND REVENUE OVER EXPENSES</b>	<b>1,330,981</b>	<b>(726,793)</b>	<b>-</b>	<b>604,188</b>	<b>(147,235)</b>
<b>INVESTMENT INCOME (LOSS), net</b>	<b>98,860</b>	<b>945</b>	<b>5,806</b>	<b>105,611</b>	<b>(32,448)</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,429,841</b>	<b>(725,848)</b>	<b>5,806</b>	<b>709,799</b>	<b>(179,683)</b>
<b>NET ASSETS - beginning of year</b>	<b>5,244,532</b>	<b>1,433,220</b>	<b>64,182</b>	<b>6,741,934</b>	<b>6,921,617</b>
<b>NET ASSETS - end of year</b>	<b>\$ 6,674,373</b>	<b>\$ 707,372</b>	<b>\$ 69,988</b>	<b>\$ 7,451,733</b>	<b>\$ 6,741,934</b>

The accompanying notes are an integral part of these statements.

**THE FOOD BANK OF THE SOUTHERN TIER,  
DIVISION OF CATHOLIC CHARITIES OF THE DIOCESE OF ROCHESTER**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2016**  
(With Comparative Totals for 2015)

	2016					2015	
	Program Services					Total	Total
	Hunger Prevention and Nutrition Assistance Program	The Emergency Food Assistance Program	Other	Total	Management and General	Fundraising	
Food-in-kind assistance	\$ -	\$ 657,154	\$ 7,108,112	\$ 7,765,266	\$ -	\$ -	\$ 8,322,778
Purchased food	782,946	-	957,049	1,739,995	-	-	1,800,515
Compensation	203,708	84,899	901,120	1,189,727	364,551	245,229	1,661,195
Employee benefits	69,519	25,109	257,374	352,002	83,405	64,107	474,676
Contract and professional services	-	-	309,194	309,194	6,270	15,549	330,022
Depreciation	-	-	270,035	270,035	-	-	274,480
Direct mail	-	-	-	-	-	207,256	246,265
Specific assistance	172,895	-	-	172,895	-	-	184,678
Special events	-	-	-	-	-	114,006	99,381
Transportation	6,575	16,024	80,252	102,851	1,578	1,064	121,065
Occupancy	-	8,428	86,418	94,846	649	-	99,342
Supplies	10,453	-	59,830	70,283	276	22,788	135,132
Advertising and public relations	-	-	31,897	31,897	120	58,434	180,946
Maintenance and repairs	10,348	4,379	57,007	71,734	-	-	79,990
Insurance	-	3,661	54,868	58,529	-	-	54,671
Conferences, training and meetings	240	-	19,361	19,601	7,262	9,608	36,471
Provision for doubtful pledges	-	-	-	-	35,701	-	55,206
Other	-	-	19,923	19,923	-	5,152	17,449
<b>Total</b>	<b>\$ 1,256,684</b>	<b>\$ 799,654</b>	<b>\$ 10,212,440</b>	<b>\$ 12,268,778</b>	<b>\$ 499,812</b>	<b>\$ 743,193</b>	<b>\$ 14,137,791</b>

The accompanying notes are an integral part of these statements.

**THE FOOD BANK OF THE SOUTHERN TIER,  
DIVISION OF CATHOLIC CHARITIES OF THE DIOCESE OF ROCHESTER**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(With Comparative Totals for 2015)**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 709,799	\$ (179,683)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	270,035	274,480
Provision for doubtful pledges	35,701	-
Change in discount on pledges receivable	(11,654)	-
(Gain) loss on investments, net	(105,611)	32,448
Capital campaign contributions	(473,986)	-
Changes in:		
Accounts receivable	35,294	15,172
Pledges receivable, net	12,340	119,062
Grants receivable	194,643	(178,167)
Due from affiliates, net	19,889	33,745
Prepaid expenses	(52,578)	23,582
Inventory	(8,257)	55,047
Accounts payable	129,775	(67,444)
Accrued liabilities	23,527	9,365
Deferred revenue	(96,374)	19,092
	<u>682,543</u>	<u>156,699</u>
Net cash flow from operating activities		
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(135,808)	(55,502)
Redemption of certificates of deposit	-	405,565
Purchases of investments	-	(402,555)
	<u>(135,808)</u>	<u>(52,492)</u>
Net cash flow from investing activities		
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Capital campaign cash receipts	191,590	34,623
	<u>191,590</u>	<u>34,623</u>
Net cash flow from financing activities		
CHANGE IN CASH	738,325	138,830
CASH - beginning of year	<u>1,323,945</u>	<u>1,185,115</u>
CASH - end of year	<u>\$ 2,062,270</u>	<u>\$ 1,323,945</u>

The accompanying notes are an integral part of these statements.

**THE FOOD BANK OF THE SOUTHERN TIER,  
DIVISION OF CATHOLIC CHARITIES OF THE DIOCESE OF ROCHESTER**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

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**1. THE ORGANIZATION**

The Food Bank of the Southern Tier (the Agency) is a division of Catholic Charities of the Diocese of Rochester (CCDR). The Agency is a not-for-profit organization that distributes quality food through its hunger relief agencies in Broome, Chemung, Schuyler, Steuben, Tioga, and Tompkins Counties, New York and develops innovative programs to address the problem of hunger.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Agency's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

**Financial Reporting**

The Agency categorizes net assets and activities as unrestricted, temporarily restricted or permanently restricted. The Agency reports contributions as restricted if they are received with donor stipulations that limit their use.

- Unrestricted net assets include operating resources which are available for the support of the Agency's operating activities.
- Temporarily restricted net assets have donor-imposed restrictions that permit the Agency to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Agency. When a donor restriction expires or is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions. However, support that is restricted by the donor is reported as unrestricted if the restriction is fully satisfied in the same reporting period in which the revenue is recognized.
- Permanently restricted net assets have donor-imposed restrictions that stipulate that the resources be maintained in perpetuity, but which permit the Agency to use or expend part or all of the income derived from the donated assets.

**Cash**

Cash consists of bank demand deposit accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

**Investments**

Investments are stated at fair value. Investment securities are exposed to various risks, such as interest rate, market, economic conditions, world affairs and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in their values could occur in the near term and such changes could materially affect the net assets of the Agency.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Agency has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- Level 2 Inputs - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. In addition, investment securities valued based on the net asset value of the underlying investment pool are classified as being valued based on level 2 inputs.
- Level 3 Inputs - Valuations are based on unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

### **Accounts Receivable**

The Agency provides services to its clients that are paid for by those clients or by third-party payers. The Agency does not accrue interest on these receivables. Amounts for which no payments have been received for several months are considered delinquent and when appropriate collection efforts are exhausted, the account is written-off. The Agency provides an allowance for doubtful accounts based on an analysis of amounts that may not be reimbursed by third-party payers or collected from its clients and a review of amounts currently outstanding. No such allowance was considered necessary at December 31, 2016 and 2015.

### **Due from Affiliate**

Funds in excess of the Agency's current need may be loaned to other agencies of CCDR under terms specified in a promissory note between the Agency and the borrower. Current need is defined as one month's operating expense based on the annual budget process. CCDR's Finance Director has discretion in coordination with the Agency's President/CEO and/or Business Director with oversight from the Finance Committee, to manage the lending and repayment of surplus funds. The Agency will lend surplus funds to agencies of CCDR, only if they have an established line of credit with a financial institution and could draw upon funds from another source in order to repay the Agency. Interest will be paid at least on a quarterly basis, by either cash or check. Interest owed shall not be added to the outstanding indebtedness. Interest will be at the prime rate less 1%. The amounts loaned to each affiliate and their outstanding balance will be tracked by the CCDR Finance Department.

The Agency's due from affiliate is stated at its unpaid principal balance. Management periodically evaluates the receivable for collectability based on inherent collection risks and adverse situations that may affect the affiliate's ability to repay. At December 31, 2016 and 2015 no such adverse conditions were identified that would give rise to the need for an allowance against due from affiliate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Inventory**

Inventory is purchased by the Agency and is stated at the lower of cost or market with cost determined on the first-in, first-out method. Foods donated by The Emergency Food Assistance Program are valued by the New York State Office of General Services. Foods donated through a national food bank network and by various local sources are valued using a price per pound developed by the network. This value is included in inventory - donated on the balance sheet.

### **Pledges Receivable**

The Agency records pledges receivable when an unconditional donor commitment is received. Donor-restricted pledges are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Pledges receivable are recorded net of a discount relative to the net present value of future cash flows unless they are expected to be received within one year. In addition, the Agency records an allowance for doubtful pledges receivable based on experience and a review of specific accounts. An allowance of \$19,904 and \$25,893 was recorded for the year ended December 31, 2016 and 2015, respectively. Accounts are written-off when reasonable collection efforts have been exhausted. Amounts totaling \$35,701 were written off in the year ended December 31, 2016. No amounts were written off in the year ended December 31, 2015.

### **Property and Equipment**

Property and equipment is stated at cost, or fair value at the date of donation. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets, which range from three to thirty years. The Agency capitalizes individual property and equipment items with a cost or fair value at the date of donation greater than \$1,000 that have a useful life greater than one year.

### **Deferred Revenue**

Deferred revenue is recognized when cash advances exceed support and for food inventory received prior to the delivery of service or disbursement of food.

### **Shared Maintenance**

The Agency requests that participating not-for-profit agencies contribute various amounts depending on the type of product received for each pound of product they receive. This revenue is used to cover the cost of food handling as well as general operating expenses. This revenue is included in program fees on the accompanying statement of activities and change in net assets.

### **Support and Revenue**

The Agency receives support and revenue from federal, state and local government agencies, and private donors. Support and revenue from these sources is recognized as services are performed. Certain of these revenues are subject to retroactive audit by the third-parties. Any changes resulting from these audits are recognized in the year they become known.

### **Donated Services**

Volunteers have donated significant amounts of time in support of the Agency's program activities. The value of these services is not reflected in the accompanying financial statements as they do not meet the criteria for recognition.

### **Advertising**

Advertising costs are charged to expense as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income Taxes

The Agency is a division of CCDR, a not-for-profit corporation that is exempt from income taxes as an organization qualified under Section 501(c)(3) of the Internal Revenue Code. CCDR has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

### Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional expense classification. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2015, from which the summarized information was obtained.

### Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the current year presentation.

## 3. PLEDGES RECEIVABLE

Outstanding pledges are due as follows for the years ending December 31:

2017	\$	241,781
2018		78,600
2019		<u>77,600</u>
		397,981
Less: Allowance for uncollectible pledges receivable		(19,904)
Less: Discount on pledges receivable (at rates ranging from 1.01% to 1.41%)		<u>(6,675)</u>
		371,402
Less: Current portion		<u>(241,781)</u>
	\$	<u><u>129,621</u></u>

**4. INVESTMENTS**

Investments consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
The Communis Fund of the Diocese of Rochester (Communis)	<u>\$ 1,167,051</u>	<u>\$ 1,061,440</u>

Investment income (loss) was as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Dividends and interest	\$ 24,774	\$ 19,795
Realized and unrealized gains (losses), net	86,367	(48,825)
Investment fees	<u>(5,530)</u>	<u>(3,418)</u>
	<u>\$ 105,611</u>	<u>\$ (32,448)</u>

The following table summarizes investments measured at fair value on a recurring basis as of December 31, 2016 and 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	<u>2016</u>			
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
Communis	<u>\$ -</u>	<u>\$ 1,167,051</u>	<u>\$ -</u>	<u>\$ 1,167,051</u>
	<u>2015</u>			
	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Fair Value</u>
Communis	<u>\$ -</u>	<u>\$ 1,061,440</u>	<u>\$ -</u>	<u>\$ 1,061,440</u>

Communis was organized by the Roman Catholic Diocese of Rochester (the Diocese) for the purpose of offering Diocesan organizations the opportunity to invest collectively to maximize investment opportunities and returns consistent with the duties of stewardship following the mandates of The Code of Canon Law of the Roman Catholic Church. The investments are managed by professional investment management firms and are overseen by Communis' Board of Directors. Income is allocated to investors based on the percentage of the net asset value of their individual funds to the total investment balance.

The Agency utilizes information received from Communis regarding the composition of the pooled investment fund and the value of securities held in the fund. Communis values the securities in the fund based on quoted market prices, when available. Communis also holds fixed income securities for which no quoted market prices are available. Such fixed income securities are valued by Communis based on information on comparative securities, prevailing interest rates, and other factors. The Agency believes the valuation information received from Communis is reliable.

#### 4. INVESTMENTS (Continued)

Under the terms of its arrangement with Communis, the Agency may make additional investments in Communis, but is under no obligation to do so. Withdrawals can be made at will, and are executed monthly with 15 days advance notice.

In some cases, withdrawals may be limited by specific donor stipulations and governed by the Agency's endowment spending policy. See Note 12 regarding the Agency's endowment funds.

There have been no changes to valuation techniques during 2016 or 2015.

#### 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 139,700	\$ 139,700
Buildings and improvements	3,195,066	3,195,066
Furnishings and fixtures	300,897	300,897
Equipment	1,266,579	1,263,916
Vehicles	<u>730,849</u>	<u>617,213</u>
	5,633,091	5,516,792
Less: Accumulated depreciation	<u>(2,135,579)</u>	<u>(1,885,053)</u>
Total	<u>\$ 3,497,512</u>	<u>\$ 3,631,739</u>

Depreciation on property and equipment was \$270,035 and \$274,480 for the years ended December 31, 2016 and 2015, respectively.

#### 6. FINANCING ARRANGEMENTS

##### Line of Credit

The Agency has a bank line of credit agreement with Chemung Canal Trust Company. The Agency may borrow up to \$400,000 under the terms of the bank line of credit agreement. Amounts borrowed bear interest at 5.00%. There were no amounts outstanding under the terms of this agreement at December 31, 2016 or 2015.

#### 7. FOOD-IN-KIND ASSISTANCE

The Agency receives donated food commodities through The Emergency Food Assistance Grant Program of the U.S. Department of Agriculture (USDA) as administered by the New York State Office of General Services. During the years ended December 31, 2016 and 2015, the Agency received food valued by the USDA at \$980,726 and \$856,349 with ending inventory of \$189,185 and \$55,479, respectively.

## **7. FOOD-IN-KIND ASSISTANCE (Continued)**

The Agency also receives donated food commodities from food producers through the efforts of a national food bank network (Feeding America) and by various local sources. That donated food is valued on a per pound basis based upon an amount assigned by Feeding America. During the years ended December 31, 2016 and 2015, the Agency received food valued at \$6,784,540 and \$7,466,429 with an ending inventory of \$766,767 and \$632,284 respectively. The food received by the Agency is then distributed to eligible food pantries, soup kitchens and other qualified nonprofit agencies.

## **8. PENSION PLAN**

The Agency participates in a defined contribution pension plan that is administered through CCDR. All employees who work a minimum of 1,000 hours per year are eligible to participate after one year of service and attaining the age of twenty-one. Employees are vested after five years of service. Effective January 1, 2016, the plan was amended to remove all auto-enrollment provisions. Prior to January 1, 2016, the plan called for eligible employees to be automatically enrolled and contribute 1% of eligible compensation to the plan, with that contribution increasing annually by 1% to a maximum of 5% for employees automatically enrolled in previous years, unless the employee opted out.

In addition, the Agency has discretion to contribute at least 3% and no more than 6% of an eligible employee's compensation. The Agency contributed 6% of eligible employees' compensation for 2016 and 2015. Pension expense for the years ended December 31, 2016 and 2015 was approximately \$79,000 and \$64,000, respectively.

## **9. CONTINGENCIES**

### **Third-Party Payers**

Third-party payers, especially governmental funders, have substantially increased their scrutiny of payments made to their designated service providers. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulation compliance, etc. The stated purpose for these reviews is to recover reimbursements which the payers believe may have been inappropriate.

Due to the nature of these matters, it is difficult to estimate the ultimate liability, if any, which may arise from third-party payer scrutiny.

## **10. RELATED PARTY TRANSACTIONS**

### **Insurance**

Prior to July 1, 2009, the Agency participated in the Diocesan pooled self-insurance program for property and liability coverage, in conjunction with all agencies of CCDR. As a participant in this program, the Agency paid insurance premiums to the Diocese and received insurance coverage to certain deductible limits for property and general liability, professional misconduct, officers' and directors', employee disability, and workers' compensation insurances.

**10. RELATED PARTY TRANSACTIONS (Continued)**

**Insurance (Continued)**

Effective July 1, 2009, CCDR withdrew from the Diocesan pooled self-insurance program. At that date, all CCDR divisions, including the Agency, purchased commercial insurance from a third-party carrier. In addition, CCDR Diocesan Services Division assumed the estimated liability from the Diocese for known outstanding claims as of June 30, 2009, as well as assets from the Diocese related to accumulated premium deposits as of that date. The Agency has recorded no liability related to this insurance program.

Effective July 1, 2015, CCDR determined that CCDR Diocesan Services Division would purchase a bulk commercial insurance plan covering all CCDR divisions, including the Agency, and each division would reimburse CCDR Diocesan Services Division through monthly invoices for their portion of the coverage. Payments made to CCDR Diocesan Services Division totaled \$132,292 and \$126,379 for the years ended December 31, 2016 and 2015, respectively. The Agency recorded prepaid insurance related to this arrangement of \$24,369 and \$9,322 as of December 31, 2016 and 2015, respectively.

**Services from CCDR**

Under its bylaws, the Agency is required to contract certain services from CCDR. For the years ended December 31, 2016 and 2015, contract and professional services expense included approximately \$213,000 and \$191,000, respectively, paid to CCDR for administrative, accounting and human resource services.

**Services from the Diocese**

The Agency purchases information technology management and support services from the Diocese. For the years ended December 31, 2016 and 2015 information technology management and support services expense was approximately \$25,000 and \$18,000. These expenses are included in contract and professional services expense in the accompanying statement of functional expenses.

**Interdivision's Borrowing/Lending Arrangement**

The Agency has arrangements with other CCDR divisions: Catholic Charities of Chemung/Schuyler, Catholic Charities of Steuben and Catholic Charities of Tompkins/Tioga. The divisions borrow from and lend to each other for short-term needs. Interest at prime minus one percent (2.75% at December 31, 2016) is charged on those borrowings. These amounts are shown in the accompanying financial statements as due from affiliates. As of December 31, 2016 and 2015, the Agency had \$217,033 and \$236,922, respectively, outstanding from Catholic Charities Diocese of Rochester divisions.

**11. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were restricted for the following at December 31:

	<u>2016</u>	<u>2015</u>
Truck campaign	\$ 350,525	\$ -
Capital campaign	342,859	1,420,177
Building maintenance	10,000	10,000
Unappropriated endowment appreciation	<u>3,988</u>	<u>3,043</u>
	<u>\$ 707,372</u>	<u>\$ 1,433,220</u>

**11. TEMPORARILY RESTRICTED NET ASSETS (Continued)**

Net assets were released from restriction as follows for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Capital campaign	\$ 1,077,318	\$ 191,392
Truck campaign	<u>123,461</u>	<u>7,796</u>
	<u>\$ 1,200,779</u>	<u>\$ 199,188</u>

**12. ENDOWMENT FUNDS**

The Agency's endowment net asset balance consisted of permanently and temporarily restricted net assets. Changes in the endowment net assets were as follows for the years ended December 31, 2016 and 2015:

	<u>Other</u>			<u>Partners in Faith</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ 3,319	\$ 5,060	\$ 8,379	\$ 60,819	\$ 69,198
Investment value change	<u>(276)</u>	<u>-</u>	<u>(276)</u>	<u>(1,697)</u>	<u>(1,973)</u>
Endowment net assets, December 31, 2015	3,043	5,060	8,103	59,122	67,225
Investment value change	<u>945</u>	<u>-</u>	<u>945</u>	<u>5,806</u>	<u>6,751</u>
Endowment net assets, December 31, 2016	<u>\$ 3,988</u>	<u>\$ 5,060</u>	<u>\$ 9,048</u>	<u>\$ 64,928</u>	<u>\$ 73,976</u>

**Interpretation of Relevant Laws**

The Agency's Board of Directors has interpreted the applicable provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as endowment net assets (a) the original value of the gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations of investment income of the endowment are added to the fund in accordance with the direction of the donor gift instrument.

**Return Objectives and Risk Parameters**

The Agency has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets related to donor-restricted funds that the Agency must hold in perpetuity.



## **12. ENDOWMENT FUNDS (Continued)**

### **Endowment Earnings**

The Agency's policy is to utilize its endowment earnings in accordance with the donor's intent. Any unspent endowment earnings in any given year become part of the Agency's temporarily or permanently restricted net assets based on specific donor stipulations. The portion of the Agency's endowment balances received from the Diocese of Rochester as part of the Partners in Faith initiative have been received with the stipulation that they must be invested in Communis. Due to this stipulation, all earnings or losses on the Partners in Faith endowment balance are recorded as increases or decreases in permanently restricted net assets. Earnings or losses on other endowment funds are recorded as increases or decreases in temporarily restricted net assets, in the absence of other specific donor stipulations. The Agency can withdraw funds from the Partners in Faith endowment when amounts are appropriated in accordance with the Agency's endowment management and endowment spending policies.

### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

Under the terms of the Agency's endowment spending policy, annual income to be available for distribution is defined as 5.0% of the endowment fund's average market value for the previous 20 quarters. In establishing this policy, the Agency considered the long-term expected return on its endowment. This is consistent with the Agency's objective to preserve principal, while providing a sustainable source of income for the Agency's programs. In 2016 and 2015, no amounts were appropriated for expenditure from endowment funds, and therefore no disbursements were made.

### **Strategies Employed for Achieving Objectives**

The Agency's Partners in Faith endowment assets are required by the donor to be invested in Communis. Therefore, the Agency does not have discretion to employ its own strategy related to investment objectives for Partners in Faith investments. For all other endowment balances, the Agency has elected to invest in Communis. The Agency believes this will create consistent, balanced returns that are consistent with NYPMIFA.

## **13. CONCENTRATIONS**

The Agency received 12% of its total support and revenue from New York State contracts in both 2016 and 2015. There were no amounts receivable related to these services at December 31, 2016. Accounts and grants receivable related to these services were 30% and 26% of total receivables at December 31, 2016 and 2015, respectively.

## **14. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through May 19, 2017, which is the date the financial statements were available to be issued.

