

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

**Financial Statements as of
December 31, 2018
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

May 8, 2019

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 (a New York not-for-profit corporation) (the Agency) which comprise the balance sheet as of December 31, 2018 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 of America; 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.

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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 Agency as of December 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Agency implemented Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of January 1, 2018, and the effects have been included in these financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Agency's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 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, 2018**

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 1,650,890	\$ 1,802,020
Investments	1,421,948	1,530,635
Accounts receivable	27,932	62,843
Grants receivable	342,435	286,484
Prepaid expenses	63,335	49,543
Current portion of pledges receivable, net	103,891	124,123
Inventory - donated	571,982	671,821
Inventory - purchased	<u>371,791</u>	<u>405,054</u>
Total current assets	<u>4,554,204</u>	<u>4,932,523</u>
OTHER ASSETS:		
Pledges receivable, net of current portion	22,290	86,404
Investments - endowment	79,784	85,256
Property and equipment, net	<u>3,467,035</u>	<u>3,681,983</u>
Total other assets	<u>3,569,109</u>	<u>3,853,643</u>
Total assets	<u>\$ 8,123,313</u>	<u>\$ 8,786,166</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 164,339	\$ 162,852
Accrued liabilities	218,015	136,856
Deferred revenue - donated inventory	571,982	671,821
Deferred revenue - other	<u>227,077</u>	<u>225,858</u>
Total liabilities	<u>1,181,413</u>	<u>1,197,387</u>
NET ASSETS:		
Without donor restrictions -		
Undesignated	6,096,249	6,629,600
Board designated	<u>420,117</u>	<u>395,000</u>
Total without donor restrictions	6,516,366	7,024,600
With donor restrictions	<u>425,534</u>	<u>564,179</u>
Total net assets	<u>6,941,900</u>	<u>7,588,779</u>
Total liabilities and net assets	<u>\$ 8,123,313</u>	<u>\$ 8,786,166</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, 2018**

(With Comparative Totals for 2017)

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING SUPPORT AND REVENUE:				
Food-in-kind assistance	\$ 7,075,263	\$ -	\$ 7,075,263	\$ 7,971,189
Grants and contracts	2,086,934	-	2,086,934	2,319,731
Contributions	2,579,516	-	2,579,516	2,612,719
Program fees	753,203	-	753,203	668,664
Other income	95,706	-	95,706	94,806
Net assets released from restrictions	<u>139,905</u>	<u>(139,905)</u>	<u>-</u>	<u>-</u>
Total operating support and revenue	<u>12,730,527</u>	<u>(139,905)</u>	<u>12,590,622</u>	<u>13,667,109</u>
OPERATING EXPENSES:				
Program	11,695,060	-	11,695,060	12,645,973
Management and general	665,957	-	665,957	686,428
Fundraising	<u>834,939</u>	<u>-</u>	<u>834,939</u>	<u>837,004</u>
Total operating expenses	<u>13,195,956</u>	<u>-</u>	<u>13,195,956</u>	<u>14,169,405</u>
DEFICIENCY OF OPERATING SUPPORT AND REVENUE OVER OPERATING EXPENSES	(465,429)	(139,905)	(605,334)	(502,296)
OTHER CHANGES IN NET ASSETS:				
Contributions restricted for acquisition of property and equipment	-	69,114	69,114	426,800
Net appreciation (depreciation) of investments	(108,687)	(5,472)	(114,159)	198,839
Net assets released from restrictions for acquisition of property and equipment	62,382	(62,382)	-	-
Gain on disposal of property and equipment	<u>3,500</u>	<u>-</u>	<u>3,500</u>	<u>13,703</u>
CHANGE IN NET ASSETS	<u>(508,234)</u>	<u>(138,645)</u>	<u>(646,879)</u>	<u>137,046</u>
NET ASSETS - beginning of year	<u>7,024,600</u>	<u>564,179</u>	<u>7,588,779</u>	<u>7,451,733</u>
NET ASSETS - end of year	<u>\$ 6,516,366</u>	<u>\$ 425,534</u>	<u>\$ 6,941,900</u>	<u>\$ 7,588,779</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 FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

(With Comparative Totals for 2017)

	2018			2017		
	Program Services	Management and General	Fundraising	Total		
Food-in-kind assistance	\$ 7,075,263	-	-	\$ 7,075,263	\$	7,971,189
Compensation	1,404,490	350,890	244,372	1,999,752		1,799,342
Purchased food	1,741,185	-	-	1,741,185		1,867,118
Employee benefits	350,111	76,308	70,343	496,762		531,366
Contract and professional services	145,860	218,335	23,352	387,547		362,830
Depreciation	311,022	4,126	-	315,148		289,888
Direct mail	-	-	236,201	236,201		244,435
Specific assistance	174,183	-	-	174,183		227,045
Special events	-	-	163,199	163,199		133,208
Advertising and public relations	68,523	825	55,798	125,146		145,288
Transportation	94,558	2,471	2,173	99,202		96,606
Maintenance and repairs	91,704	-	-	91,704		143,972
Occupancy	82,210	4,241	-	86,451		98,386
Supplies	48,482	809	23,278	72,569		75,019
Insurance	53,675	1,462	3,656	58,793		61,482
Conferences, training and meetings	28,190	6,240	12,517	46,947		47,219
Provision for doubtful pledges	-	-	-	-		22,519
Other	25,604	250	50	25,904		52,493
	<u>\$ 11,695,060</u>	<u>\$ 665,957</u>	<u>\$ 834,939</u>	<u>\$ 13,195,956</u>		<u>\$ 14,169,405</u>
Total operating expenses						

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, 2018
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (646,879)	\$ 137,046
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	315,148	289,888
Provision for doubtful pledges	-	22,519
Change in discount on pledges receivable	(52)	(5,370)
Net (appreciation) depreciation of investments	114,159	(198,839)
Capital campaign contributions	(69,114)	(440,503)
Gain on disposal of property and equipment	(3,500)	(13,703)
Changes in:		
Accounts receivable	34,911	5,369
Pledges receivable, net	84,398	138,356
Grants receivable	(55,951)	(213,038)
Due from affiliates, net	-	217,033
Prepaid expenses	(13,792)	22,845
Inventory	133,102	40,872
Accounts payable	1,487	(128,722)
Accrued liabilities	81,159	(34,832)
Deferred revenue	(98,620)	165,613
Net cash flow from operating activities	<u>(123,544)</u>	<u>4,534</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	3,500	13,703
Purchases of property and equipment	(100,200)	(474,359)
Purchases of investments	-	(250,001)
Net cash flow from investing activities	<u>(96,700)</u>	<u>(710,657)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Capital campaign cash receipts	<u>69,114</u>	<u>445,873</u>
Net cash flow from financing activities	<u>69,114</u>	<u>445,873</u>
CHANGE IN CASH	(151,130)	(260,250)
CASH - beginning of year	<u>1,802,020</u>	<u>2,062,270</u>
CASH - end of year	<u>\$ 1,650,890</u>	<u>\$ 1,802,020</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, 2018**

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 accordance with accounting principles generally accepted in the United States of America (GAAP).

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the purpose of improving financial reporting by not-for-profit (NFP) entities.

ASU 2016-14 includes many changes affecting the presentation and accounting for the Agency's financial statements including:

- Reducing the number of classes of net assets from three to two (net assets with donor restrictions and net assets without donor restrictions);
- Requiring the presentation of expenses in both natural and functional classifications;
- Eliminating the requirement to disclose the components of investment return as well as reporting investment return net of external and direct internal investment expenses; and
- Requiring qualitative and quantitative disclosure regarding the Agency's liquidity and availability of resources (Note 3).

ASU 2016-14 is effective for the Agency's year ended December 31, 2018, and was applied retrospectively with the exception of the disclosures regarding liquidity and availability of resources, which are presented for the current year only. The effects of this ASU have been included in these financial statements. There was no effect on total net assets or changes in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting

The Agency reports its net assets and changes therein in the following classifications:

- Net Assets Without Donor Restrictions are net assets that are not subject to donor imposed stipulations. The Board of Directors, through voluntary resolutions, has set aside portions of the Agency's net assets without donor restrictions to be used exclusively for specific purposes.
- Net Assets With Donor Restrictions are net assets whose use by the Agency is limited by donor imposed stipulations. This includes stipulations that can be fulfilled or removed by actions of the Agency pursuant to the stipulations or by the passage of time, as well as donor imposed stipulations that do not expire. In cases where the donor imposed stipulation does not expire, generally the donor of these net assets permits the Agency to use all or part of the investment return on the related assets to support collection acquisitions or other program activities.

Operations

The statements of activities and change in net assets present the changes in net assets of the Agency from operating activities and from non-operating activities. Operating revenues and expenses relate primarily to the acquisition of food and related goods and the provision of that food and related goods to organizations and individuals. Operating activities also includes outreach and other programmatic activities related to addressing food insecurity.

Non-operating activities reflect transactions not related to current year operations. These include contributions from donors to be invested perpetually by the Agency to generate a return that will support operations, contributions from donors restricted for acquisition of property and equipment, income or losses on the Agency's investment portfolio, and gains or losses on disposals of property and equipment.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

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, 2018 and 2017.

Due from Affiliate

Funds in excess of the Agency's current needs 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. At December 31, 2018 and 2017, there were no amounts due under this arrangement.

Inventory

Inventory purchased by the Agency is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

The Agency records pledges receivable when an unconditional donor commitment is received. Donor-restricted pledges are reported as increases in net assets with donor restrictions, 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 \$9,097 and \$11,092 was recorded for the years ended December 31, 2018 and 2017, respectively. Accounts are written-off when reasonable collection efforts have been exhausted. Amounts totaling \$460 were written off in the year ended December 31, 2018. No amounts were written off in the year ended December 31, 2017.

Property and Equipment

Property and equipment is stated at cost, if purchased, 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.

Allocation of Certain Expenses

The statement of functional expenses presents expenses by both functional and natural classification. Certain categories of expenses are attributable to one or more program or supporting functions, and these expenses are allocated to the reported functional columns. Natural expenses that are allocated across functional classifications include compensation and employee benefits, which are allocated based on the estimated percentage of time that each employee spends in each functional area, and occupancy and depreciation, which are allocated based on the approximate occupation and utilization of the Agency's facilities and buildings and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Advertising costs are charged to expense as incurred.

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 accordance with GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2017, from which the summarized information was obtained.

Estimates

The preparation of financial statements in accordance 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.

3. LIQUIDITY

The Agency is substantially supported by contributions without donor restrictions and revenue generated by its operations. In addition, some support is received in the form of restricted contributions from donors. Because a donor restriction requires resources to be used in a particular manner or in a future period, the Agency must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Agency's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Agency invests cash not needed for short-term programmatic, administrative, or property and equipment needs. Such investments can be liquidated on short notice if necessary, with the exception of investments representing net assets restricted by donors perpetually.

The Agency's financial assets available to meet cash needs for general expenditures within one year are:

Financial assets at December 31, 2018	\$ 3,649,170
Less: Financial assets unavailable for general expenditures within one year, due to:	
Designations by the Board for specific purposes	(420,117)
Restricted by donor perpetually	(73,368)
Subject to satisfaction of donor restrictions	<u>(352,166)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,803,519</u>

3. LIQUIDITY (Continued)

Should the need for additional cash availability arise, the Agency has a line-of-credit agreement with a bank that allows for total borrowings of \$400,000 (Note 7). Additionally, the Agency has arrangements with other CCDR divisions; Catholic Charities of Chemung/Schuylar, Catholic Charities of Steuben, and Catholic Charities of Tompkins/Tioga, where the divisions may borrow from and lend to each other in order to meet short-term needs.

The Agency's general cash expenditures within one year do not include the amounts reported as food-in-kind assistance income or expense. Food-in-kind assistance represents the estimated value of food received and distributed without cash outlay. Therefore, the \$7,075,263 reported as food-in-kind assistance for the year ended December 31, 2018, representing approximately 54% of total operating expenses for the year, does not represent a cash expenditure (Note 8). The Agency's operating cash receipts and expenditures within the next year are expected to approximate those reported for 2018.

4. PLEDGES RECEIVABLE

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

2019	\$	103,891	
2020		12,640	
2021		10,000	
2022		<u>10,000</u>	
		136,531	
Less: Allowance for uncollectible pledges receivable		(9,097)	
Less: Discount on pledges receivable		<u>(1,253)</u>	
		126,181	
Less: Current portion		<u>(103,891)</u>	
	\$	<u><u>22,290</u></u>	

5. INVESTMENTS

Investments consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
The Communis Fund of the Diocese of Rochester (Communis)	\$ <u>1,501,732</u>	\$ <u>1,615,891</u>

5. INVESTMENTS (Continued)

The following table summarizes investments measured at fair value on a recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

2018				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Communis	\$ <u> -</u>	\$ <u>1,501,732</u>	\$ <u> -</u>	\$ <u>1,501,732</u>
2017				
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Communis	\$ <u> -</u>	\$ <u>1,615,891</u>	\$ <u> -</u>	\$ <u>1,615,891</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.

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 13 regarding the Agency's endowment funds.

There have been no changes to valuation techniques during 2018 or 2017.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 139,700	\$ 139,700
Buildings and improvements	3,281,670	3,210,431
Furnishings and fixtures	300,897	300,897
Equipment	1,300,592	1,276,631
Vehicles	<u>932,172</u>	<u>961,295</u>
	5,955,031	5,888,954
Less: Accumulated depreciation	<u>(2,487,996)</u>	<u>(2,206,971)</u>
Total	<u>\$ 3,467,035</u>	<u>\$ 3,681,983</u>

Depreciation on property and equipment was \$315,148 and \$289,888 for the years ended December 31, 2018 and 2017, respectively.

7. 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, 2018 or 2017.

8. 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, 2018 and 2017, the Agency received food valued by the USDA at \$1,140,747 and \$1,282,066 with ending inventory of \$48,045 and \$129,142, respectively.

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, 2018 and 2017, the Agency received food valued at \$5,934,516 and \$6,689,123 with an ending inventory of \$523,937 and \$542,679 respectively. The food received by the Agency is then distributed to eligible food pantries, soup kitchens and other qualified nonprofit agencies.

9. RETIREMENT 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. 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 2018 and 2017. Pension expense for the years ended December 31, 2018 and 2017 was approximately \$83,000 and \$86,000, respectively.

10. CONTINGENCIES

Third-Party Payers

The U.S. healthcare industry has become the subject of increased scrutiny by both federal and state governmental payers with respect to reimbursements providers have received for service provision. Some of the Agency's programs that provide human services could be subject to this scrutiny. Specific areas for review by the governmental payers and their investigative personnel include appropriate billing practices, reimbursement maximization strategies, technical regulatory compliance, etc. The stated purpose for these reviews is to recover reimbursements which the payers believe may have been inappropriate. While no outstanding regulatory inquiries exist at December 31, 2018 for the Agency that in the opinion of management would be material to its financial position or results of operations, compliance with these laws and regulations is subject to future interpretation or actions by governmental payers.

Reimbursement rates from third-party payers are subject to audit and retroactive rate adjustments by regulatory authorities. As described above, it is at least reasonably possible that recorded revenue could change during 2019 and future years as more information becomes available or based on regulatory authority actions. As a result, there is at least a reasonable possibility that recorded revenue and receivable balances will change by a material amount in the near-term.

11. 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.

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.

11. RELATED PARTY TRANSACTIONS (Continued)

Insurance (Continued)

Payments made to CCDR Diocesan Services Division totaled \$100,434 and \$99,330 for the years ended December 31, 2018 and 2017, respectively. The Agency recorded prepaid insurance related to this arrangement of \$17,491 and \$17,175 as of December 31, 2018 and 2017, respectively. These expenses are included in employee benefits and insurance expenses on the accompanying statement of functional expenses.

Services from CCDR

Under its bylaws, the Agency is required to contract certain services from CCDR. For the years ended December 31, 2018 and 2017, contract and professional services expense included approximately \$248,000 and \$221,000, respectively, paid to CCDR for administrative, accounting, compliance 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, 2018 and 2017 information technology management and support services expense was approximately \$26,000 and \$25,000, respectively. These expenses are included in contract and professional services expense in the accompanying statement of functional expenses.

Interdivisional Borrowing/Lending Arrangement

The Agency has arrangements with other CCDR divisions: Catholic Charities of Chemung/Schuylers, 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 (4.50% at December 31, 2018) is charged on those borrowings. There were no amounts due under these borrowing arrangements at December 31, 2018 and 2017.

12. NATURE, PURPOSE, AND AMOUNT OF RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions were available for the following purposes at December 31:

	<u>2018</u>	<u>2017</u>
Net assets with donor restrictions that can be satisfied by action of the Agency or the passage of time:		
Truck campaign	\$ 284,856	\$ 278,125
Capital campaign	60,894	200,798
Unappropriated endowment appreciation	<u>6,416</u>	<u>5,568</u>
	352,166	484,491
Net assets restricted by donor perpetually:		
Endowment funds	<u>73,368</u>	<u>79,688</u>
	<u>\$ 425,534</u>	<u>\$ 564,179</u>

12. NATURE, PURPOSE AND AMOUNT OF RESTRICTIONS ON NET ASSETS (Continued)

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

	<u>2018</u>	<u>2017</u>
Truck campaign	\$ 62,382	\$ 512,904
Capital campaign	139,905	142,060
Building maintenance	<u>-</u>	<u>10,000</u>
	<u>\$ 202,287</u>	<u>\$ 664,964</u>

13. ENDOWMENT FUNDS

The Agency's endowment includes contributions perpetually restricted by donors as well as accumulated unappropriated earnings on those amounts. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. The Agency's endowment net asset balance consists of funds with donor imposed restrictions stating that the funds must be held in perpetuity and accumulated unappropriated earnings on these amounts, and are included in net assets with donor restrictions in the accompanying balance sheet.

Changes in the endowment net assets were as follows for the years ended December 31, 2018 and 2017:

	<u>Donor-Restricted</u>			<u>Total</u>
	<u>Partners in Faith</u>	<u>Other</u>		
		<u>Donor Contributed Corpus</u>	<u>Accumulated Unappropriated Earnings</u>	
Endowment net assets, January 1, 2017	\$ 64,928	\$ 5,060	\$ 3,988	\$ 73,976
Investment value change	<u>9,700</u>	<u>-</u>	<u>1,580</u>	<u>11,280</u>
Endowment net assets, December 31, 2017	74,628	5,060	5,568	85,256
Investment value change	<u>(6,320)</u>	<u>-</u>	<u>848</u>	<u>(5,472)</u>
Endowment net assets, December 31, 2018	<u>68,308</u>	<u>\$ 5,060</u>	<u>\$ 6,416</u>	<u>\$ 79,784</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.

13. ENDOWMENT FUNDS (Continued)

Return Objectives and Risk Parameters

The Agency's spending policy permits spending from underwater endowments. 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.

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 net assets with donor restrictions 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 net assets with donor restrictions. Earnings or losses on other endowment funds are recorded as increases or decreases in net assets with donor restrictions, 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 2018 and 2017, 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.

14. BOARD DESIGNATED FUNDS

The Agency's Board, through voluntary resolution, established and maintains the Board Restricted Property Reserve Fund (the Property Fund). The Property Fund is intended to pay for major repair/maintenance of permanent fixture type items owned by the Agency. The Agency's Board adds funds to the Property Fund from time to time. No part of the Property Fund was expended in 2017 or 2018.

15. CONCENTRATIONS

The Agency received 12% and 13% of its total support and revenue from New York State contracts in both 2018 and 2017, respectively. Accounts and grants receivable related to these services were 39% and 82% of total receivables at December 31, 2018 and 2017, respectively.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 8, 2019, which is the date the financial statements were available to be issued.