

Report to the Finance Committee 2021 Audit Results



Division of Catholic Charities of the Diocese of Rochester

Bonadio & Co., LLP
Certified Public Accountants



May 3, 2022

Dear Members of the Finance/Audit Committee of Foodbank of the Southern Tier:

We are pleased to submit our Report to Foodbank of the Southern Tier, Division of Catholic Charities of the Diocese of Rochester (the Agency). Our report includes a summary of the results of our audit work and other required communications. We have also included sections on trending topics.

We look forward to presenting this report, addressing your questions and discussing any other matters of interest. Please feel free to contact me at (585) 249-2889.

Very truly yours,

Jeff Paille

Engagement Leader

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EXECUTIVE SUMMARY

Executive Summary

Other Items

- There were no significant changes to our audit plan as we conducted our audit.
- There were no independence matters that occurred or were identified during the audit.

Status of our audit

- Audit substantially complete; key open items include:
 - Receipt of signed management representation letter
 - Communication of audit results (this meeting)
- Unmodified “clean” audit report planned
- No material weaknesses in internal control identified
- No journal entries identified during our audit

Key events and transactions affecting 2021

- You continued to persevere through the disruption of this time to serve community needs across the region.
- You established structure around the surplus funds accumulated during the COVID era – the Strategic Investment Funds.
- You continued to experience increased revenue from COVID-related activities driving a significant overall financial surplus again this year.



FINANCIAL RESULTS

Notable Financial Items

Discerning relevance of trends from the last two years is challenging.

Financial Item	Impact on 2020 results	Impact on 2021 results	Other considerations
Fundraising/ revenue	Broad-based support for foodbank activities during the COVID disruption drove unprecedented financial surplus.	Continuing support for the mission resulted in another significant surplus for 2021.	You've approached these surplus funds strategically to benefit the Agency for the long term (SIF).
Personnel costs	Operational expansion and the general disruption affected payroll costs.	Some "normalization" of activities and general job-market pressures caused, increased wages and continued personnel cost pressure.	Recruiting and retaining appropriate staff complement is expected to continue to be a challenge.
Investment earnings	Positive investment returns strengthened overall financial position.	Positive investment returns continued through 12/31/21.	Go-forward investment performance for 2022 may not follow this positive trend.
Overall impact	Financial position and cash flow buoyed by non-recurring revenue.	Net bottom line performance again benefits from non-recurring revenue items.	Understanding go-forward "normalized" operating results is critical in the context of sustainability. Putting structure around how these assets will be deployed going forward is commendable.

Financial Results

Balance Sheet

Key Items

- Overall financial position remained remarkably strong in 2021.
- Board designations of net assets position the Agency to benefit going forward in an organized manner.

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

BALANCE SHEET
DECEMBER 31, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 6,963,967	\$ 6,043,660
Investments	3,285,481	1,881,829
Accounts receivable	78,632	70,339
Grants receivable	840,603	376,086
Prepaid expenses	34,664	54,723
Current portion of pledges receivable, net	8,800	10,000
Inventory - donated	1,127,081	1,417,169
Inventory - purchased	535,025	538,649
	<u>12,874,253</u>	<u>10,392,455</u>
Total current assets		
PLEDGES RECEIVABLE, net of current portion	-	8,800
INVESTMENTS - ENDOWMENT	116,347	101,182
PROPERTY AND EQUIPMENT, net	2,823,158	3,153,368
	<u>\$ 15,813,758</u>	<u>\$ 13,655,805</u>
Total assets		
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 484,209	\$ 353,527
Accrued liabilities	211,248	299,607
Deferred revenue - donated inventory	1,127,081	1,417,169
Deferred revenue - other	154,983	169,664
	<u>1,977,521</u>	<u>2,239,967</u>
Total liabilities		
NET ASSETS:		
Without donor restrictions		
Undesignated	3,269,577	10,718,298
Board designated	9,942,494	470,246
	<u>13,212,071</u>	<u>11,188,544</u>
Total without donor restrictions		
With donor restrictions	624,166	227,294
	<u>13,836,237</u>	<u>11,415,838</u>
Total net assets		
Total liabilities and net assets	<u>\$ 15,813,758</u>	<u>\$ 13,655,805</u>

Financial Results

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, 2021 (With Comparative Totals for 2020)

Statement of Activities

Key Items

- Contributions remain elevated but down from 2020 levels.
- Program fees and expenses down. 2020 fees included \$1.6M of TEFAP fees.
- Positive investment performance.

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
OPERATING SUPPORT AND REVENUE:				
Food-in-kind assistance	\$ 11,366,706	\$ -	\$ 11,366,706	\$ 11,344,514
Grants and contracts	5,160,925	-	5,160,925	5,115,680
Contributions	4,771,045	465,000	5,236,045	6,192,595
Program fees	541,929	-	541,929	2,277,490
Other income	25,036	-	25,036	48,454
Investment income appropriated for operations	-	-	-	4,022
Net assets released from restrictions	83,293	(83,293)	-	-
Total operating support and revenue	21,948,934	381,707	22,330,641	24,982,755
OPERATING EXPENSES:				
Program	18,681,049	-	18,681,049	19,290,151
Management and general	655,285	-	655,285	613,554
Fundraising	992,726	-	992,726	962,085
Total operating expenses	20,329,060	-	20,329,060	20,865,790
SURPLUS OF OPERATING SUPPORT AND REVENUE OVER OPERATING EXPENSES	1,619,874	381,707	2,001,581	4,116,965
OTHER CHANGES IN NET ASSETS:				
Net appreciation of investments	403,653	15,165	418,818	187,122
Investment return appropriated for operations	-	-	-	(4,022)
CHANGE IN NET ASSETS	2,023,527	396,872	2,420,399	4,300,065
NET ASSETS - beginning of year	11,188,544	227,294	11,415,838	7,115,773
NET ASSETS - end of year	\$ 13,212,071	\$ 624,166	\$ 13,836,237	\$ 11,415,838

REQUIRED COMMUNICATIONS

Required Communications

Independence	There were no independence matters that occurred or were identified during 2021 or during the conduct of our audit in 2022.
Material uncertainties related to events and conditions (specifically going concern)	There were no conditions or events that we identified indicating there is substantial doubt about the Agency's ability to continue as a going concern.
Disagreements with management	There were no disagreements with management.
Consultation with other accountants	We are not aware of any consultations management has had with other accountants about significant accounting or auditing matters.
Difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other material written communications	We will obtain a management representation letter. The letter will include no unusual representations.
Significant unusual transactions	There were no significant unusual transactions that are outside the normal course of business for the Agency (or that otherwise appear to be unusual due to their timing, size or nature) during the current year.
Fraud	We did not identify any potential or known fraud.
Illegal acts	We did not identify any potential or known illegal acts.

Required Communications

Non-compliance with laws and regulations	<p>We did not identify any instances of non-compliance with laws and regulations.</p>
Alternative accounting treatments	<p>We did not identify any alternative treatments permissible under US GAAP for accounting policies and practices related to material items, including recognition, measurement, and presentation and disclosure.</p>
Other information in documents containing audited/reviewed financial statements	<p>We did not identify that the Agency disclosed its financial information in a manner that was materially inconsistent with the information in the financial statements.</p>
Quality of financial reporting	<p>We have performed an evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with the applicable financial reporting framework, including our consideration of the form, arrangement and content of the financial statements (including the accompanying notes). We did not identify any instances of non-conformity.</p> <p>We have evaluated whether the difference between estimates best supported by the audit evidence and estimates included in the financial statements, which are individually reasonable, indicate a possible bias on the part of the Agency's management. We did not identify any areas of possible bias. In our judgment, management's accounting estimates are appropriate and reasonable.</p>
Related Parties	<p>We noted no related parties or related-party relationships or transactions that were previously undisclosed to us.</p>
Disclosures	<p>Financial disclosures are clear and consistent. Disclosures specific to the Child Victims Act contingency (Note 15) are particularly sensitive.</p>
Other matters	<p>There were no other matters arising from the audit that are significant to the oversight of the Agency's financial reporting process.</p>

Other Required Communications

Significant estimates

The Agency's financial reporting requires management to make estimates. Specifically, significant estimates in the 2021 financial statements were:

- Allowance for uncollectible pledges receivable
 - We evaluated management's estimate of this allowance and determined that it is reasonable in the context of the Agency's overall financial reporting.
- Child Victims Act
 - The Agency's financial statements include disclosure regarding the potential liability for claims associated with the Child Victims Act. The Agency has recorded zero liability as of December 31, 2021. We believe that the disclosure adequately describes the potential liability and the reasoning behind recording this liability at zero as of December 31, 2021.
- Donated Food Inventory
 - Some of the Agency's inventory comes from donations. We evaluated management's estimate of recorded value for this inventory and determined that it is reasonable in the context of the Agency's overall financial reporting.

Endowment spending policy

The Agency did not take a draw from its endowment this year; this could be interpreted as non-compliance with the Agency's endowment spending policy and with NYPMFA.

TRENDING TOPICS

Trending Topics

Sustainability	COVID relief funds make it difficult to know the true financial picture at many providers. Underlying financial issues from 2019 will resurface unless fundamental changes are made. Organizations with a strong financial footing have a distinct advantage. This will present opportunities for NFPs with strong financial footing.
Personnel	Many expect wage pressure and recruiting challenges to extend well beyond the COVID era. Larger demographic trends are at work. Wage pressure and challenges related to recruiting and retention will continue through 2022 and beyond.
Diversity, Equity & Inclusion	The topic of diversity, equity & inclusion has always been part of the discussion throughout Catholic Charities. Many consider the strategic importance of these topics to be elevated in based on events of 2020. We understand that the Agency has incorporated this matter into its strategic discussions.
Fatigue and Strategy	Fatigue from the COVID disruption makes it even more difficult to keep up with current challenges. Continually reminding yourselves to be forward thinking, both operationally and strategically, is critical to avoid inertia. The pace of change will cause organizations that are standing still to fall behind rather quickly.
Care Reform – now it's HERO	Another new model for care reform is being rolled out, along with a \$17B request for funds from the federal government. This new initiative includes significant focus on “social determinants of health” which could present opportunities specific to foodbank operations.
Leases	New accounting rules related to leases were effective 1/1/22. Adoption of these new accounting rules can be somewhat complex. Substantive attention must be paid to this during 2022 to assure effective changes are implemented before the 2022 year-end accounting and audit process begins.

EXECUTIVE SESSION