

**CONNECTICUT FOOD BANK, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

# CONNECTICUT FOOD BANK, INC.

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
**Connecticut Food Bank, Inc.**

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Connecticut Food Bank, Inc. (a nonprofit organization), which comprise the statements of financial position as June 30, 2018 and 2017, and the related statements of activities, change in net assets, functional expenses, and cash flows for the years 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of 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 auditors' 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.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Food Bank, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Marcum LLP*

New Haven, CT  
November 27, 2018

# CONNECTICUT FOOD BANK, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,820,387	\$ 2,095,637
Short-term investments	662,032	107,439
Accounts receivable, less allowance for doubtful accounts of \$38,000 in 2018 and \$37,000 in 2017	103,938	95,450
Grants receivable	118,449	120,519
Pledges receivable - current, less allowance for doubtful accounts of \$15,000 in 2017	249,800	293,800
Prepaid expenses and other	49,206	65,103
Inventory	<u>1,403,321</u>	<u>3,148,222</u>
<b>Total Current Assets</b>	<u>5,407,133</u>	<u>5,926,170</u>
<b>Assets Whose Use is Limited</b>		
Internally designated by the Board:		
Cash and cash equivalents	--	1,066,556
Short-term investments	1,732,600	2,317,268
Investments, at fair value	<u>5,197,400</u>	<u>3,296,176</u>
<b>Total Assets Whose Use is Limited</b>	<u>6,930,000</u>	<u>6,680,000</u>
<b>Land, Building and Equipment - net</b>	<u>13,681,984</u>	<u>14,328,775</u>
<b>Other Assets</b>		
Pledges receivable - long term, less allowance for doubtful accounts of \$5,000 in 2017	18,048	154,303
Obligation under interest rate swap agreement	1,478	--
Security Deposit	<u>15,914</u>	<u>--</u>
<b>Total Other Assets</b>	<u>35,440</u>	<u>154,303</u>
	<u>\$ 26,054,557</u>	<u>\$ 27,089,248</u>

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT FOOD BANK, INC.

## STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2018 AND 2017

	2018	2017
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long term debt, net of unamortized debt issuance costs of \$13,254 in 2018 and 2017	\$ 301,251	\$ 301,251
Accounts payable and accrued expenses	553,485	440,806
Accrued vacation	247,476	213,491
Advances from third party grantors	191,788	317,965
<b>Total Current Liabilities</b>	1,294,000	1,273,513
<b>Long-Term Debt</b> - less current maturities, net of unamortized debt issuance costs of \$2,210 in 2018 and \$15,464 in 2017	4,811,527	5,112,779
<b>Obligation Under Interest Rate Swap Agreement</b>	--	97,363
<b>Total Liabilities</b>	6,105,527	6,483,655
<b>Net Assets</b>		
Unrestricted		
Designated by the Governing Board	6,930,000	6,680,000
Undesignated	12,416,584	13,220,912
Total unrestricted	19,346,584	19,900,912
Temporarily restricted	602,446	704,681
<b>Total Net Assets</b>	19,949,030	20,605,593
	\$ 26,054,557	\$ 27,089,248

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT FOOD BANK, INC.

## STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>Revenue and Other Support</b>		
Contributions and fundraising	\$ 7,945,409	\$ 7,786,303
Donated food	32,681,972	39,456,591
Governmental grants	1,195,364	878,629
Buying Club revenue	1,122,982	1,211,225
Shared maintenance and transportation	346,210	407,847
Storage and handling charges	30,459	21,403
Membership fees	7,592	8,225
Net assets released from restrictions	421,560	343,479
	<u>43,751,548</u>	<u>50,113,702</u>
<b>Expenses</b>		
Program services:		
Food distribution	42,866,474	45,898,339
Public education and awareness	521,307	572,518
Supporting services:		
General and administrative	1,053,181	1,101,922
Fundraising	1,650,751	1,304,309
	<u>46,091,713</u>	<u>48,877,088</u>
<b>(Loss) Income From Operating Activities</b>	<u>(2,340,165)</u>	<u>1,236,614</u>
<b>Nonoperating Activities</b>		
Return on investments	291,800	367,883
Interest income	14,939	4,636
Gain on sale of property	1,192,657	327,716
	<u>1,499,396</u>	<u>700,235</u>
<b>(Deficiency) Excess of Revenue and Other Support, and Nonoperating Activities, Over Expenses</b>	<u>\$ (840,769)</u>	<u>\$ 1,936,849</u>

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT FOOD BANK, INC.

## STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>Unrestricted Net Assets</b>		
(Deficiency) excess of revenue and other support, and nonoperating activities, over expenses	\$ (840,769)	\$ 1,936,849
Other changes in unrestricted net assets:		
Change in fair value of interest rate swap agreement	98,841	196,637
Net assets released from restriction, used for the purchase of property and equipment	187,600	195,676
Grants received for the purchase of property and equipment	<u>          --</u>	<u>631,738</u>
<b>Change in Unrestricted Net Assets</b>	<u>(554,328)</u>	<u>2,960,900</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions, net of pledges receivable write-offs, and program revenue	506,925	52,971
Net assets released from restrictions	<u>(609,160)</u>	<u>(539,155)</u>
<b>Change in Temporarily Restricted Net Assets</b>	<u>(102,235)</u>	<u>(486,184)</u>
<b>Change in Net Assets</b>	(656,563)	2,474,716
<b>Net Assets - Beginning</b>	<u>20,605,593</u>	<u>18,130,877</u>
<b>Net Assets - Ending</b>	<u>\$ 19,949,030</u>	<u>\$ 20,605,593</u>

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT FOOD BANK, INC.

## STATEMENTS OF FUNCTIONAL EXPENSES

### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Year ended June 30, 2018					Year ended June 30, 2017				
	Program Services		Supporting Services			Program Services		Supporting Services		
	Food Distribution	Public Education and Awareness	General and Administrative	Fundraising	Total	Food Distribution	Public Education and Awareness	General and Administrative	Fundraising	Total
<b>Salaries and Related Expenses</b>										
Salaries	\$ 2,358,268	\$ 307,242	\$ 504,225	\$ 647,256	\$ 3,816,991	\$ 2,190,236	\$ 346,667	\$ 582,065	\$ 444,664	\$ 3,563,632
Employee benefits	453,140	59,036	96,886	124,370	733,432	381,948	65,647	89,519	59,679	596,793
Payroll taxes	184,038	23,977	39,350	50,512	297,877	181,005	31,110	42,423	28,282	282,820
<b>Total Salaries and Related Expenses</b>	<u>2,995,446</u>	<u>390,255</u>	<u>640,461</u>	<u>822,138</u>	<u>4,848,300</u>	<u>2,753,189</u>	<u>443,424</u>	<u>714,007</u>	<u>532,625</u>	<u>4,443,245</u>
<b>Food Distribution and Warehouse Expenses</b>										
Food distributed	34,363,485	--	--	--	34,363,485	37,795,532	--	--	--	37,795,532
Other food purchases	2,509,095	--	--	--	2,509,095	2,367,243	--	--	--	2,367,243
Freight	1,049,887	--	--	--	1,049,887	1,144,040	--	--	--	1,144,040
Truck maintenance and fuel	220,658	--	--	--	220,658	185,545	--	--	--	185,545
Utilities/occupancy	240,674	14,158	14,157	14,157	283,146	150,368	8,845	8,845	8,845	176,903
Maintenance and repairs	111,653	--	--	--	111,653	124,768	--	--	--	124,768
Storage and handling	89,475	--	--	--	89,475	75,481	--	--	--	75,481
<b>Total Food Distribution and Warehouse Expenses</b>	<u>38,584,927</u>	<u>14,158</u>	<u>14,157</u>	<u>14,157</u>	<u>38,627,399</u>	<u>41,842,977</u>	<u>8,845</u>	<u>8,845</u>	<u>8,845</u>	<u>41,869,512</u>
<b>Other Expenses</b>										
Fundraising activities and expenses	--	--	--	730,095	730,095	--	--	--	683,260	683,260
Depreciation and amortization	712,973	41,940	41,940	41,940	838,793	644,101	37,888	37,888	37,888	757,765
Professional fees	35,692	--	227,241	--	262,933	93,501	--	212,427	--	305,928
Insurance	157,668	9,275	17,101	9,275	193,319	184,039	10,826	18,529	10,826	224,220
Interest expense	231,095	--	--	--	231,095	247,802	--	--	--	247,802
Office supplies and expenses	57,710	8,879	13,318	8,879	88,786	61,421	9,449	14,174	9,449	94,493
Other administrative	3,027	--	83,118	--	86,145	--	--	81,375	--	81,375
Travel and meetings	21,767	21,767	--	10,883	54,417	--	46,313	--	11,901	58,214
Telephone	32,218	4,455	3,939	3,939	44,551	27,575	3,939	3,939	3,939	39,392
Public relations	--	19,772	--	--	19,772	--	--	--	--	--
Postage and printing	10,905	5,452	5,452	5,452	27,261	21,425	6,592	3,296	1,648	32,961
Dues and subscriptions	20,414	2,722	2,722	1,361	27,219	19,693	2,626	2,626	1,313	26,258
Provision for bad debts	--	--	1,100	--	1,100	--	--	2,200	--	2,200
Staff training	2,632	2,632	2,632	2,632	10,528	2,616	2,616	2,616	2,615	10,463
<b>Total Other Expenses</b>	<u>1,286,101</u>	<u>116,894</u>	<u>398,563</u>	<u>814,456</u>	<u>2,616,014</u>	<u>1,302,173</u>	<u>120,249</u>	<u>379,070</u>	<u>762,839</u>	<u>2,564,331</u>
	<u>\$ 42,866,474</u>	<u>\$ 521,307</u>	<u>\$ 1,053,181</u>	<u>\$ 1,650,751</u>	<u>\$ 46,091,713</u>	<u>\$ 45,898,339</u>	<u>\$ 572,518</u>	<u>\$ 1,101,922</u>	<u>\$ 1,304,309</u>	<u>\$ 48,877,088</u>

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT FOOD BANK, INC.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (656,563)	\$ 2,474,716
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	838,793	757,765
Amortization of debt issuance costs	13,254	13,254
Net realized and unrealized gain on investments	(248,074)	(342,373)
Gain on sale of property	(1,192,657)	(327,716)
Net change in donated food inventory	1,674,863	(1,661,059)
Contributions restricted for capital expenditures	(190,600)	(827,362)
Change in fair value of interest rate swap agreement	(98,841)	(196,637)
Changes in assets and liabilities:		
Accounts receivable	(8,488)	(23,697)
Grants receivable	2,070	162,236
Pledges receivable	180,255	536,705
Prepaid expenses and other	15,897	(18,214)
Other inventory	70,038	(6,133)
Accounts payable and accrued expenses	112,679	(201,694)
Accrued vacation	33,985	31,655
Advances from third party grantors	(126,177)	190,104
<b>Net Cash Provided by Operating Activities</b>	<u>420,434</u>	<u>561,550</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(452,053)	(754,381)
Proceeds from sale of property	1,452,708	818,216
Proceeds from sale of short term investments	1,818,767	224,670
Purchases of short term investments	(1,788,692)	(582)
Proceeds from sale of investments	1,763,422	1,315,776
Purchases of investments	(3,416,572)	(1,449,870)
<b>Net Cash (Used in) Provided by Investing Activities</b>	<u>(622,420)</u>	<u>153,829</u>

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT FOOD BANK, INC.

## STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Financing Activities</b>		
Principal paid on long-term debt	\$ (314,506)	\$ (663,900)
Security deposit paid	(15,914)	--
Proceeds from contributions restricted for capital expenditures	<u>190,600</u>	<u>827,362</u>
<b>Net Cash (Used in) Provided by Financing Activities</b>	<u>(139,820)</u>	<u>163,462</u>
<b>Net Change in Cash and Cash Equivalents</b>	(341,806)	878,841
<b>Cash and Cash Equivalents - Beginning</b>	<u>3,162,193</u>	<u>2,283,352</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 2,820,387</u>	<u>\$ 3,162,193</u>
<b>As Presented in the Statements of Financial Position</b>		
Cash and cash equivalents	\$ 2,820,387	\$ 2,095,637
Assets Whose Use is Limited:		
Cash and cash equivalents	<u>--</u>	<u>1,066,556</u>
	<u>\$ 2,820,387</u>	<u>\$ 3,162,193</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 217,841</u>	<u>\$ 234,548</u>

*The accompanying notes are an integral part of these financial statements.*

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### *ORGANIZATION*

Connecticut Food Bank, Inc. (the Organization) was incorporated in Connecticut in 1982 as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization solicits, stores, and distributes donated and purchased food through a network of member agencies.

#### *SIGNIFICANT ACCOUNTING POLICIES*

##### *BASIS OF PRESENTATION*

The accompanying financial statements have been prepared using the accrual basis of accounting and report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted* - Unrestricted net assets represent available resources other than donor restricted contributions.

*Temporarily Restricted* - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

*Permanently Restricted* - Permanently restricted net assets represent contributions that are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization has no permanently restricted net assets as of June 30, 2018 and 2017.

##### *USE OF ESTIMATES*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include assessing the collectability of accounts receivable, fair value of assets and liabilities, valuation of donated food, and the estimated useful lives of long lived assets, among others. Actual results could differ from those estimates.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *CASH AND CASH EQUIVALENTS*

Cash and cash equivalents, including current unrestricted and restricted funds, include investments in highly liquid financial instruments with original maturities of three months or less when purchased. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor under the FDIC's general deposit insurance rules. The Organization, at times, maintains cash deposits in excess of \$250,000 which exceeds FDIC limits. Management believes that credit risk related to those deposits is minimal.

#### *SHORT TERM INVESTMENTS*

Short term investments include cash and money market funds, and funds held in bank certificates of deposit, for which the cost approximates the fair value.

#### *INVESTMENTS*

Investments are measured at fair value in the statements of financial position. 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 at the measurement date. Donated investments are recorded at fair value as of the date of receipt. Purchases and sales of securities are recorded on a trade date basis. Investment income is recorded on the accrual basis. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in non-operating activities in the statements of activities unless the income or loss is restricted by donor or law.

#### *ASSETS WHOSE USE IS LIMITED*

Assets whose use is limited include assets set aside by the Board to fund a designated liquidity reserve in accordance with Feeding America guidelines, and a designated special projects, capital, and Board designated reserve for future capital improvements, a strategic reserve to fund the warehouse/distribution facility, and emergency food purchases, over which the Board retains control and may at its discretion subsequently use for other purposes.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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#### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The intended purposes of the assets whose use is limited are as follows at June 30:

	2018	2017
Designated liquidity reserve	\$ 3,400,000	\$ 3,400,000
Designated special projects, capital, and Board designated reserve	<u>3,530,000</u>	<u>3,280,000</u>
	<u>\$ 6,930,000</u>	<u>\$ 6,680,000</u>

#### *RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS*

Accounts receivable, primarily handling fees billed to member agencies based upon the types of food distributed, and pledges receivable, are stated at the amount the Organization expects to collect. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on a review of the current status of existing receivables, historical collection experience, and other circumstances that may affect the ability of members and others to meet their obligations. Receivables are considered impaired if full payments are not expected to be received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Revenue from grants is recognized ratably over the period of the grant or based on actual expenses incurred, with any unearned portion recorded as advances from third parties.

#### *CONTRIBUTIONS AND DONOR RESTRICTED GIFTS*

The Organization reports contributions of cash and other assets at fair value at the date the contribution. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence or nature of any donor-imposed restrictions.

All donor restricted support is reported as an increase in temporarily restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, both restricted and unrestricted. Donor restricted contributions whose restrictions are met in the same year are reflected as unrestricted contributions in the accompanying financial statements.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *REVENUE RECOGNITION*

Revenues from activities, including Buying Club, shared maintenance and transportation, storage and handling fees, and membership fees are recognized in the period earned.

Grant revenue is recognized to the extent that related expenses are incurred. Cash received in excess of amounts expended is recognized as advances from third party grantors in the statements of financial position.

#### *LAND, BUILDING AND EQUIPMENT*

Land, building and equipment are recorded at cost for those assets having a useful life exceeding one year. Maintenance and repairs are charged to expense as incurred. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in the statement of activities.

Depreciation is computed on the straight-line method based on the estimated useful lives of the related assets, as follows:

Building and improvements	5-30 years
Leasehold improvements	5-10 years
Furniture and equipment	5-20 years
Vehicles	5-10 years

#### *IMPAIRMENT OF LONG-LIVED ASSETS*

The Organization continually evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of its long-lived assets or whether the remaining balance of its long-lived assets should be evaluated for possible impairment. If and when such factors, events or circumstances indicate that long-lived assets should be evaluated for possible impairment, the Organization will determine the fair value of the asset by making an estimate of expected future cash flows over the remaining lives of the respective assets and compare that fair value with the carrying value of the assets in measuring their recoverability. In determining the expected future cash flows, the assets will be grouped at the lowest levels for which there are cash flows. There were no impairment losses during the years ended June 30, 2018 and 2017.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *INVENTORY*

Food inventories purchased for resale are stated at the lower of cost, determined by the first-in, first-out method, or market.

The value of the donated inventory, donated food revenue and food distributed is based upon a study commissioned by Feeding America, a national food bank network, of the average wholesale value of products donated to the network (see Note 6).

#### *DONATED SERVICES*

The Organization has many dedicated volunteers who have donated numerous hours of service in fundraising and community related activities. Because those donated services do not meet the recognition criteria required under accounting principles generally accepted in the United States of America, such services have not been recognized as contribution revenue and expense in the Organization's financial statements.

#### *FUNCTIONAL ALLOCATION OF EXPENSES*

The costs of providing various programs and other activities have been reported on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among program and supporting services.

#### *DEFERRED FINANCING COSTS*

Deferred financing costs are related to the Organization's financing arrangements. These costs are being amortized beginning in 2016 over the lives of the related arrangements.

In accordance with the provisions of FASB ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03), the Company presents deferred financing costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The deferred financing costs of \$53,017 are being amortized over the life of the related debt. Accumulated amortization and amortization expense related to the deferred financing costs was \$37,553 and \$13,254, respectively, as of and for the year ended June 30, 2018. Accumulated amortization and amortization expense related to the deferred financing costs was \$24,299 and \$13,254, respectively, as of and for the year ended June 30, 2017.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *INCOME TAXES*

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2018 and 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

#### *RECLASSIFICATIONS*

Certain amounts in the 2017 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2018 financial statements.

#### *SUBSEQUENT EVENTS*

The Organization has evaluated subsequent events through November 27, 2018, which is the date these financial statements were available to be issued. All subsequent events requiring recognition or disclosure as of June 30, 2018, have been incorporated into these financial statements herein.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 2 – INVESTMENTS

Long-term investments, recorded in the statements of financial position as assets whose use is limited, consist primarily of equities, corporate bonds, and other securities, and by policy, are not heavily concentrated in any individual security or financial institution.

Investments are stated at fair value and consist of the following at June 30:

	2018	2017
Cash and money market funds	\$ 51,021	\$ 73,413
Equities	1,749,938	1,527,485
Exchange traded / closed end funds	905,061	867,961
Government securities	1,737,610	228,254
Mutual funds	465,156	389,771
Corporate bonds	288,614	209,292
	<u>\$ 5,197,400</u>	<u>\$ 3,296,176</u>

Short-term investments consist of cash and money market funds, and funds held in bank certificates of deposit, for which the cost approximates the fair value.

The following schedule summarizes the return on investments for the years ended June 30:

	2018	2017
Interest and dividends	\$ 43,726	\$ 25,510
Realized gains	134,291	103,165
	178,017	128,675
Unrealized gain (loss)	113,783	239,208
	<u>\$ 291,800</u>	<u>\$ 367,883</u>

### *RISKS AND UNCERTAINTIES*

The Organization's investment securities are also subject to exposure to various risks such as interest rate risk, financial market risk, and credit risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the value of investment securities reported in the Organization's financial statements.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 3 – FAIR VALUE MEASUREMENTS

The Organization has established a framework for measuring fair value, based on a fair value hierarchy contained in Accounting Standards Codification (ASC) 820 that is intended to increase consistency and comparability in fair value measurements and related disclosures. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology based on unadjusted quoted market prices in active markets that are accessible at the measurement date.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The Organization's policy is to recognize significant transfers between levels at the beginning of the reporting period. There were no transfers in 2018 and 2017.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017:

*Equities, Mutual Funds, and Exchange Traded/Closed End Funds* - Valued at the closing price reported in the active market in which the individual securities are traded.

*Government Securities* - Valued based on quoted prices in active markets, and categorized in Level 1 of the fair value hierarchy.

*Corporate Bonds* - Valued using recently executed transactions, market price quotations (where observable), bond spreads or other available data. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond swap spreads, and other available inputs.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

#### NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

*Interest Rate Swap* – The interest rate swap is valued using quotations received from the counterparty and models. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap agreement has inputs that can be corroborated by market data and has therefore been classified as level 2.

The following tables set forth by level within the fair value hierarchy the assets and liabilities at fair value, as of June 30, 2018 and 2017:

	Assets and Liabilities at Fair Value as of June 30, 2018		
	Level 1	Level 2	Total
<b>Assets:</b>			
Cash and money market funds	\$ 51,021	\$ --	\$ 51,021
Corporate bonds	--	288,614	288,614
Equities	1,749,938	--	1,749,938
Government securities	1,737,610	--	1,737,610
Mutual Funds	465,156	--	465,156
Exchange Traded / Closed End Funds	905,061	--	905,061
	<u>4,908,786</u>	<u>288,614</u>	<u>5,197,400</u>
<b>Short-term investments:</b>			
Cash and money market funds	2,140,402	--	2,140,402
Certificates of deposit	254,230	--	254,230
	<u>2,394,632</u>	<u>--</u>	<u>2,394,632</u>
<b>Other Assets:</b>			
Interest rate swap	--	1,478	1,478
<b>Total Assets at Fair Value</b>	<u>\$ 7,303,418</u>	<u>\$ 290,092</u>	<u>\$ 7,593,510</u>

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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### NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets and Liabilities at Fair Value as of June 30, 2017		
	Level 1	Level 2	Total
<b>Investments:</b>			
Cash and money market funds	\$ 73,413	\$ --	\$ 73,413
Corporate bonds	--	209,292	209,292
Equities	1,527,485	--	1,527,485
Government securities	228,254	--	228,254
Mutual Funds	389,771	--	389,771
Exchange Traded / Closed End Funds	867,961	--	867,961
	<u>3,086,884</u>	<u>209,292</u>	<u>3,296,176</u>
<b>Short-term investments:</b>			
Cash and money market funds	359,817	--	359,817
Certificates of deposit	2,064,890	--	2,064,890
	<u>2,424,707</u>	<u>--</u>	<u>2,424,707</u>
<b>Total Assets at Fair Value</b>	<u><u>\$ 5,511,591</u></u>	<u><u>\$ 209,292</u></u>	<u><u>\$ 5,720,883</u></u>
<b>Liabilities:</b>			
Interest rate swap	<u><u>\$ --</u></u>	<u><u>\$ 97,363</u></u>	<u><u>\$ 97,363</u></u>

### NOTE 4 – ACCOUNTS RECEIVABLE

The Organization provides credit without collateral to its participating member agencies, in connection with its shared maintenance fees billed and the buying club program. The Organization performs an evaluation of all new applicants in order to verify eligibility in accordance with established criteria for membership.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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#### NOTE 5 – PLEDGES RECEIVABLE

In 2013, the Organization initiated a capital campaign to assist with the financing and construction of a new 85,000 square foot warehouse/distribution facility, which was completed during fiscal year 2016. As of June 30, 2018, a total of \$2,136,000 has been pledged since the inception of the campaign.

Pledges receivable consist of the following as of June 30:

	2018	2017
Receivable in less than one year	\$ 249,800	\$ 308,800
Receivable in one to five years	<u>27,500</u>	<u>171,100</u>
	277,300	479,900
Less, allowance for uncollectible accounts	--	(20,000)
Less, discount to net present value	<u>(9,452)</u>	<u>(11,797)</u>
Net pledges receivable	267,848	448,103
Less current portion	<u>249,800</u>	<u>293,800</u>
Pledges receivable, less current portion	<u>\$ 18,048</u>	<u>\$ 154,303</u>

#### NOTE 6 – INVENTORY, DONATED FOOD DISTRIBUTED

Inventory consists of the following at June 30:

	2018	2017
Donated food	\$ 602,782	\$ 1,273,262
Temporary Emergency Food Assistance Program (TEFAP) commodities	527,852	1,532,235
Purchased food	<u>272,687</u>	<u>342,725</u>
	<u>\$ 1,403,321</u>	<u>\$ 3,148,222</u>

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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#### NOTE 6 – INVENTORY, DONATED FOOD DISTRIBUTED (CONTINUED)

Throughout the year, the Organization receives donated food from various entities and distributes this food to other not-for-profit agencies. The Organization charges its member agencies certain maintenance and handling fees. The accounting for food products and related fees charged is done on a per pound basis.

The fair values for the donated inventory, donated food revenue, and food distributed are determined based on a study commissioned by Feeding America, a national food bank network, of the average wholesale fair value of products donated to the network. Although the value of items for different organizations may vary, an average wholesale value per pound of \$1.68 and \$1.73 in 2018 and 2017, respectively, was used by the Organization, based on the results of Feeding America's study.

In addition, commodities received under the TEFAP program are valued using the average wholesale value per pound based upon the Feeding America study.

The Organization also distributes purchased food products through several programs, including the Buying Club, grant funding through the Federal Emergency Management Agency (FEMA), and other donor contributions. The Buying Club is a program designed to purchase food products not normally donated to the Organization. The participating member agencies may purchase these food products from the Organization to supplement the donated food products. Buying Club inventory purchases amounted to \$1,160,407 and \$1,248,239 for the years ended June 30, 2018 and 2017, respectively.

**CONNECTICUT FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 6 – INVENTORY, DONATED FOOD DISTRIBUTED (CONTINUED)**

The following is a summary of food donated and distributed for the years ended June 30:

	2018		2017	
	Pounds	Average Wholesale Value	Pounds	Average Wholesale Value
Inventory, beginning of year	735,413	\$ 1,273,262	427,732	\$ 715,310
Donated food received	<u>15,405,155</u>	<u>25,880,660</u>	<u>15,317,745</u>	<u>26,499,699</u>
	16,140,568	27,153,922	15,745,477	27,215,009
Less:				
Food distributed, including salvage and other adjustments	<u>(15,782,363)</u>	<u>(26,551,140)</u>	<u>(15,010,064)</u>	<u>(25,941,747)</u>
Inventory, end of year	<u>358,205</u>	<u>\$ 602,782</u>	<u>735,413</u>	<u>\$ 1,273,262</u>

The following is a summary of TEFAP commodities received and distributed for the years ended June 30:

	2018		2017	
	Pounds	Average Wholesale Value	Pounds	Average Wholesale Value
Inventory, beginning of year	885,685	\$ 1,532,235	256,963	\$ 429,128
TEFAP commodities received	<u>4,048,400</u>	<u>6,801,312</u>	<u>7,489,533</u>	<u>12,956,892</u>
	4,934,085	8,333,547	7,746,496	13,386,020
Less:				
Food distributed, including salvage and other adjustments	<u>(4,619,887)</u>	<u>(7,805,695)</u>	<u>(6,860,811)</u>	<u>(11,853,785)</u>
	<u>(4,619,887)</u>	<u>(7,805,695)</u>	<u>(6,860,811)</u>	<u>(11,853,785)</u>
Inventory, end of year	<u>314,198</u>	<u>\$ 527,852</u>	<u>885,685</u>	<u>\$ 1,532,235</u>

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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#### NOTE 7 – LAND, BUILDING AND EQUIPMENT AND DEPRECIATION

A summary of land, building and equipment is as follows at June 30:

	2018	2017
Land	\$ 1,591,631	\$ 1,729,131
Building and improvements	11,427,060	11,852,343
Leasehold improvements	11,415	12,368
Furniture and equipment	1,438,062	1,062,265
Vehicles	<u>1,910,645</u>	<u>1,883,272</u>
	16,378,813	16,539,379
Less, accumulated depreciation and amortization	<u>2,696,829</u>	<u>2,210,604</u>
	<u>\$ 13,681,984</u>	<u>\$ 14,328,775</u>

As a result of the Organization moving to a new operating facility in 2015, the Organization's prior facility, including certain equipment and other related assets were removed from service and reclassified to assets held for sale. At June 30, 2016, the Organization had assets held for sale with a net book value of \$490,500. In September 2016, the sale of the prior operating facility was completed, at a purchase price of \$900,000. Net proceeds from the sale, after adjusting for closing costs and related adjustments, was approximately \$818,000, resulting in a gain to the Organization of approximately \$328,000.

In May 2018, the Organization sold its Fairfield warehouse, at a purchase price of \$1,550,000. Net proceeds from the sale, after adjusting for closing costs and related adjustments, was approximately \$1,453,000, resulting in a gain to the Organization of approximately \$1,190,000.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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#### NOTE 8 – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	2018	2017
Subsequent year's programs:		
Grocery on Wheels program	\$ 100,000	\$ 109,090
Disaster relief	21,513	21,513
Agency capacity	150,000	50,000
Truck Purchase	50,000	--
Other programs	13,086	75,975
Building fund	<u>267,847</u>	<u>448,103</u>
	<u>\$ 602,446</u>	<u>\$ 704,681</u>

#### NOTE 9 – BANK FINANCING ARRANGEMENTS

##### *TERM LOAN*

The Organization has a Term Loan with a bank in the original amount of \$6,290,109. Proceeds from the Term Loan were used to fund the construction of the new warehouse/distribution facility in Wallingford, Connecticut. The maturity of the Term Loan is 5 years, due August 27, 2019, with monthly fixed payments of principal and interest based on a 20 year amortization. The interest rate on the Term Loan is at the bank's LIBOR Advantage rate plus 1.65% (3.65468% at June 30, 2018). As of June 30, 2018 and 2017, a total of \$5,128,242 and \$5,442,748 was outstanding on the Term Loan, respectively.

The Term Loan agreement includes covenants requiring the maintenance of certain financial ratios. As of June 30, 2018, the Organization was in compliance with all of the financial covenants.

# CONNECTICUT FOOD BANK, INC.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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### NOTE 9 – BANK FINANCING ARRANGEMENTS (CONTINUED)

#### *TERM LOAN (CONTINUED)*

In addition, the Organization entered into an amortizing interest rate swap agreement (Swap Agreement) to manage interest rate exposure with a bank related to the Term Loan. The Swap Agreement is effective August 27, 2015, at an initial notional amount of \$6 million, to fix the LIBOR Advantage rate component at 2.40%, expiring August 27, 2019. The differential paid or received under the Swap Agreement is accrued consistent with the terms of the Swap Agreement and recognized in interest expense over the term of the related debt. The Swap Agreement does not meet the criteria necessary to qualify as an effective hedge as defined in accounting standards; accordingly, the Organization has reflected the Swap Agreement in the accompanying financial statements at the current fair value in effect, with the resulting change for the year ended June 30, 2018 reflected in the accompanying statement of changes in net assets.

Future maturities of the long-term debt are as follows:

Years ending June 30,	Debt	Debt Issuance Costs	Total Long-Term Debt
2019	\$ 314,505	\$ (13,254)	\$ 301,251
2020	<u>4,813,737</u>	<u>(2,210)</u>	<u>4,811,527</u>
	<u>\$ 5,128,242</u>	<u>\$ (15,464)</u>	<u>\$ 5,112,778</u>

#### *REVOLVING LINE OF CREDIT*

The Organization has a \$1 million revolving line of credit agreement (Line of Credit) with a bank. Advances on the Line of Credit are due on demand, with interest only on outstanding advances at the bank's LIBOR Advantage rate plus 1.65%. As of June 30, 2018 and 2017, no advances were outstanding on the Line of Credit.

The Line of Credit agreement includes covenants requiring the maintenance of certain financial ratios. As of June 30, 2018, the Organization was in compliance with all of the financial covenants.

**CONNECTICUT FOOD BANK, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

**NOTE 10 - GRANTS**

A summary of grants is as follows for the years ended June 30:

Grant Title	Amount of Grant	Period Covered	Revenue Recognized		Advances from Third Party Grantors	
			2018	2017	2018	2017
State of Connecticut:						
Department of Social Services:						
Connecticut Nutrition Assistance Program (CTNAP)	\$ 1,196,083	October 1, 2016 - September 30, 2018	\$ 679,552	\$ 135,352	\$ 191,788	\$ 317,965
	\$ 1,208,844	October 1, 2014 - September 30, 2016	--	254,622	--	--
The Emergency Food Assistance Program (TEFAP)	\$ 1,465,780	October 1, 2014 - September 30, 2018	392,666	363,076	--	--
Commodity Supplemental Food Program (CSFP)						
	\$ 121,076	October 1, 2017 - September 30, 2018	90,807	--	--	--
	\$ 327,560	February 1, 2015 - September 30, 2017	32,339	125,579	--	--
Totals			<u>\$ 1,195,364</u>	<u>\$ 878,629</u>	<u>\$ 191,788</u>	<u>\$ 317,965</u>