

CONNECTICUT FOOD BANK, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, 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
January 2, 2020

CONNECTICUT FOOD BANK, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,947,697	\$ 2,820,387
Short-term investments	91,602	662,032
Accounts receivable, less allowance for doubtful accounts of \$38,845 in 2019 and \$38,000 in 2018	107,695	103,938
Grants receivable	303,877	118,449
Pledges receivable - current, less allowance for doubtful accounts of \$152,300 in 2019	31,000	249,800
Prepaid expenses and other	27,062	49,206
Inventory	<u>3,564,923</u>	<u>1,403,321</u>
Total Current Assets	<u>6,073,856</u>	<u>5,407,133</u>
Assets Whose Use is Limited		
Internally designated by the Board:		
Short-term investments	3,847,047	1,732,600
Investments, at fair value	<u>4,022,464</u>	<u>5,197,400</u>
Total Assets Whose Use is Limited	<u>7,869,511</u>	<u>6,930,000</u>
Land, Building and Equipment - net	<u>13,127,659</u>	<u>13,681,984</u>
Other Assets		
Pledges receivable - long term	9,243	18,048
Obligation under interest rate swap agreement	--	1,478
Security Deposit	<u>15,914</u>	<u>15,914</u>
Total Other Assets	<u>25,157</u>	<u>35,440</u>
	<u>\$ 27,096,183</u>	<u>\$ 26,054,557</u>

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

CONNECTICUT FOOD BANK, INC.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2019 AND 2018

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long term debt, net of unamortized debt issuance costs of \$13,254 in 2018	\$ --	\$ 301,251
Accounts payable and accrued expenses	522,273	553,485
Accrued vacation	221,426	247,476
Advances from third party grantors	<u>398,622</u>	<u>191,788</u>
Total Current Liabilities	1,142,321	1,294,000
Long-Term Debt - less current maturities, net of unamortized debt issuance costs of \$25,660 in 2019 and \$2,210 in 2018	4,788,076	4,811,527
Obligation Under Interest Rate Swap Agreement	<u>59,509</u>	<u>--</u>
Total Liabilities	<u>5,989,906</u>	<u>6,105,527</u>
Net Assets		
Without donor restrictions		
Designated by the Governing Board	7,869,511	6,930,000
Undesignated	<u>12,910,956</u>	<u>12,416,584</u>
Total without donor restrictions	20,780,467	19,346,584
With donor restrictions	<u>325,810</u>	<u>602,446</u>
Total Net Assets	<u>21,106,277</u>	<u>19,949,030</u>
	<u>\$ 27,096,183</u>	<u>\$ 26,054,557</u>

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

CONNECTICUT FOOD BANK, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Revenue and Other Support		
Contributions and fundraising	\$ 7,874,067	\$ 7,945,409
Donated food	39,171,679	32,681,972
Governmental grants	1,322,323	1,195,364
Buying Club revenue	706,552	1,122,982
Shared maintenance and transportation	301,010	346,210
Storage and handling charges	23,958	30,459
Membership fees	7,275	7,592
Gain on sale of property	--	1,192,657
Net assets released from restrictions	221,079	421,560
	<u>49,627,943</u>	<u>44,944,205</u>
Expenses		
Program services:		
Food distribution	44,999,296	42,866,138
Public education and awareness	621,840	521,475
Supporting services:		
General and administrative	1,176,122	1,053,181
Fundraising	1,776,564	1,650,919
	<u>48,573,822</u>	<u>46,091,713</u>
Income (Loss) From Operating Activities	<u>1,054,121</u>	<u>(1,147,508)</u>
Nonoperating Activities		
Return on investments	302,348	291,800
Interest income	8,308	14,939
	<u>310,656</u>	<u>306,739</u>
Excess (Deficiency) of Revenue and Other Support, and Nonoperating Activities, Over Expenses	<u>\$ 1,364,777</u>	<u>\$ (840,769)</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenue and other support, and nonoperating activities, over expenses	\$ 1,364,777	\$ (840,769)
Other changes in unrestricted net assets:		
Change in fair value of interest rate swap agreement	(60,986)	98,841
Net assets released from restriction, used for the purchase of property and equipment	130,091	187,600
Grants received for the purchase of property and equipment	<u> --</u>	<u> --</u>
Change in Net Assets Without Donor Restrictions	<u>1,433,882</u>	<u>(554,328)</u>
Net Assets With Donor Restrictions		
Contributions, net of pledges receivable write-offs, and program revenue	74,535	506,925
Net assets released from restrictions	<u>(351,170)</u>	<u>(609,160)</u>
Change in Net Assets With Donor Restrictions	<u>(276,635)</u>	<u>(102,235)</u>
Change in Net Assets	1,157,247	(656,563)
Net Assets - Beginning	<u>19,949,030</u>	<u>20,605,593</u>
Net Assets - Ending	<u>\$ 21,106,277</u>	<u>\$ 19,949,030</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, 2019 AND 2018

	Year ended June 30, 2019					Year ended June 30, 2018				
	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
Salaries and Related Expenses										
Salaries	\$ 2,263,961	\$ 391,464	\$ 552,350	\$ 693,820	\$ 3,901,595	\$ 2,358,268	\$ 307,242	\$ 504,225	\$ 647,256	\$ 3,816,991
Employee benefits	460,675	79,656	112,393	141,180	793,904	453,140	59,036	96,886	124,370	733,432
Payroll taxes	176,979	30,602	43,179	54,238	304,998	184,038	23,977	39,350	50,512	297,877
Total Salaries and Related Expenses	<u>2,901,615</u>	<u>501,722</u>	<u>707,922</u>	<u>889,238</u>	<u>5,000,497</u>	<u>2,995,446</u>	<u>390,255</u>	<u>640,461</u>	<u>822,138</u>	<u>4,848,300</u>
Food Distribution and Warehouse Expenses										
Food distributed	36,849,916	--	--	--	36,849,916	34,363,485	--	--	--	34,363,485
Other food purchases	1,936,142	--	--	--	1,936,142	2,509,095	--	--	--	2,509,095
Freight	1,034,438	--	--	--	1,034,438	1,049,887	--	--	--	1,049,887
Truck maintenance and fuel	328,654	--	--	--	328,654	220,658	--	--	--	220,658
Utilities/occupancy	288,116	16,507	12,756	12,756	330,135	240,674	14,158	14,157	14,157	283,146
Maintenance and repairs	135,370	--	--	--	135,370	111,653	--	--	--	111,653
Storage and handling	90,534	--	--	--	90,534	86,115	--	--	--	86,115
Total Food Distribution and Warehouse Expenses	<u>40,663,170</u>	<u>16,507</u>	<u>12,756</u>	<u>12,756</u>	<u>40,705,189</u>	<u>38,581,567</u>	<u>14,158</u>	<u>14,157</u>	<u>14,157</u>	<u>38,624,039</u>
Other Expenses										
Fundraising activities and expenses	--	--	--	789,765	789,765	--	--	--	730,095	730,095
Depreciation and amortization	742,955	43,703	43,703	43,703	874,064	712,973	41,940	41,940	41,940	838,793
Professional fees	167,856	--	290,189	--	458,045	35,692	--	227,241	--	262,933
Insurance	156,145	8,675	7,826	8,675	181,321	160,692	9,443	17,101	9,443	196,679
Interest expense	220,524	--	--	--	220,524	231,095	--	--	--	231,095
Other administrative	12,181	--	86,101	--	98,282	3,027	--	83,118	--	86,145
Office supplies and expenses	45,186	6,951	10,427	6,951	69,515	57,710	8,879	13,318	8,879	88,786
Travel and meetings	21,549	21,550	--	10,775	53,874	21,767	21,767	--	10,883	54,417
Telephone	33,029	4,718	4,718	4,718	47,183	32,218	4,455	3,939	3,939	44,551
Dues and subscriptions	20,955	2,794	2,794	1,397	27,940	20,414	2,722	2,722	1,361	27,219
Postage and printing	11,093	5,546	5,546	5,546	27,731	10,905	5,452	5,452	5,452	27,261
Staff training	3,038	3,040	3,040	3,040	12,158	2,632	2,632	2,632	2,632	10,528
Public relations	--	6,634	--	--	6,634	--	19,772	--	--	19,772
Provision for bad debts	--	--	1,100	--	1,100	--	--	1,100	--	1,100
Total Other Expenses	<u>1,434,511</u>	<u>103,611</u>	<u>455,444</u>	<u>874,570</u>	<u>2,868,136</u>	<u>1,289,125</u>	<u>117,062</u>	<u>398,563</u>	<u>814,624</u>	<u>2,619,374</u>
	<u>\$ 44,999,296</u>	<u>\$ 621,840</u>	<u>\$ 1,176,122</u>	<u>\$ 1,776,564</u>	<u>\$ 48,573,822</u>	<u>\$ 42,866,138</u>	<u>\$ 521,475</u>	<u>\$ 1,053,181</u>	<u>\$ 1,650,919</u>	<u>\$ 46,091,713</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, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ 1,157,247	\$ (656,563)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	874,064	838,793
Amortization of debt issuance costs	15,464	13,254
Net realized and unrealized gain on investments	(186,650)	(248,074)
Gain on sale of property	--	(1,192,657)
Net change in donated food inventory	(2,321,763)	1,674,863
Contributions restricted for capital expenditures	(89,000)	(190,600)
Change in fair value of interest rate swap agreement	60,987	(98,841)
Changes in assets and liabilities:		
Accounts receivable	(3,757)	(8,488)
Grants receivable	(185,428)	2,070
Pledges receivable	227,605	180,255
Prepaid expenses and other	22,144	15,897
Other inventory	160,161	70,038
Accounts payable and accrued expenses	(31,212)	112,679
Accrued vacation	(26,050)	33,985
Advances from third party grantors	206,834	(126,177)
Net Cash (Used in) Provided by Operating Activities	<u>(119,354)</u>	<u>420,434</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(319,739)	(452,053)
Proceeds from sale of property	--	1,452,708
Proceeds from sale of short term investments	261,194	1,818,767
Purchases of short term investments	(1,805,211)	(1,788,692)
Proceeds from sale of investments	3,059,884	1,763,422
Purchases of investments	<u>(1,698,298)</u>	<u>(3,416,572)</u>
Net Cash Used in Investing Activities	<u>(502,170)</u>	<u>(622,420)</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, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Financing Activities		
Principal paid on long-term debt	\$ (314,506)	\$ (314,506)
Security deposit paid	--	(15,914)
Proceeds from contributions restricted for capital expenditures	<u>89,000</u>	<u>190,600</u>
Net Cash Used in Financing Activities	<u>(251,166)</u>	<u>(139,820)</u>
Net Change in Cash and Cash Equivalents	(872,690)	(341,806)
Cash and Cash Equivalents - Beginning	<u>2,820,387</u>	<u>3,162,193</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,947,697</u>	<u>\$ 2,820,387</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 205,532</u>	<u>\$ 217,841</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, 2019 AND 2018

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. The Organization also has direct distribution to clients through the mobile pantry and child hunger impact programs.

SIGNIFICANT ACCOUNTING POLICIES

ADOPTION OF ACCOUNTING GUIDANCE

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*. The ASU addresses the complexity and understandability of net asset classification, and consistency in information about liquidity and availability of resources, expenses, and investment return. The major changes of the ASU affecting the Organization include (a) requiring the presentation of two classes of net assets entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) requiring the qualitative and quantitative information regarding the liquidity and availability of resources, and (c) enhanced disclosures regarding functional expense reporting. ASU 2016-14 has been applied retrospectively to all periods presented. The application of the ASU did not affect the change in net assets for the years June 30, 2019 and 2018.

BASIS OF PRESENTATION

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

Net Assets With Donor Restrictions – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization. Certain restrictions may need to be maintained in perpetuity.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Expenses relating to investment income, including custodial fees and investment advisory fees, amounted to \$31,692 in 2019 and \$36,425 in 2018, and have been netted against investment return in the accompanying statements of activities.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

The Board of Directors develops the investment policies and monitors the Organization's adherence to these investment policies. In accordance with the investment policy, the Organization's invested assets consist of the following:

Operating Funds – funds intended to be used to cover the Organization's short-term operating and program expenses.

Liquidity Funds – funds to be held in reserve to support the Organization's future operations, serve as a resource during fundraising shortfalls, or provide additional support to further the Organization's mission. The overall investment objective is to preserve the long-term purchasing power of these funds assets while realizing appropriate investment return. Liquidity funds may be invested in Treasury bills, mutual funds, exchange-traded funds, equities, fixed income securities, and cash equivalent investments.

Strategic Funds – including special project funds, capital project funds, and Board donor-restricted funds. The overall investment objective is to preserve and enhance the long-term purchasing power of these funds assets while ensuring that liquidity requirements can be met. Strategic funds may be invested in Treasury bills, mutual funds, exchange-traded funds, fixed income securities, real estate, commodities, natural-resource related stock, and cash equivalent investments.

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, 2019 AND 2018

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS WHOSE USE IS LIMITED (CONTINUED)

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

	<u>2019</u>	<u>2018</u>
Liquidity Funds	\$ 3,847,047	\$ 3,400,000
Strategic Funds	<u>4,022,464</u>	<u>3,530,000</u>
	<u>\$ 7,869,511</u>	<u>\$ 6,930,000</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.

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 net assets without donor restrictions or net assets with donor restrictions, depending on the existence or nature of any donor-imposed restrictions.

All donor restricted support is reported as an increase in net assets with restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restrictions are reclassified to net assets without restrictions 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 with restrictions and without restrictions. 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, 2019 AND 2018

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 a liability 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, 2019 and 2018.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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 Organization allocates its expenses on a functional basis among program and supportive services. Expenses that can be identified with a specific program or supportive service are charged directly according to their natural expenditure classification. All other expenses are allocated based on square footage, estimates of time and effort, and other allocation metrics, depending on the nature of the expense.

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 2014 deferred financing costs of \$53,017 were being amortized over the life of the related debt. The 2019 deferred financing costs of \$25,660 will be amortized beginning in fiscal year 2020. Accumulated amortization and amortization expense related to the deferred financing costs was \$-0- and \$13,254, respectively, as of and for the year ended June 30, 2019. Accumulated amortization and amortization expense related to the deferred financing costs was \$37,553 and \$15,464, respectively, as of and for the year ended June 30, 2018.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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, 2019 and 2018, 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 2018 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2019 financial statements.

SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 2, 2020, which is the date these financial statements were available to be issued. No subsequent events requiring recognition or disclosure as of June 30, 2019, have been identified.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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:

	2019	2018
Cash and money market funds	\$ 80,906	\$ 51,021
Equities	1,923,182	1,749,938
Exchange traded / closed end funds	937,609	905,061
Government securities	336,326	1,737,610
Mutual funds	491,871	465,156
Corporate bonds	<u>252,570</u>	<u>288,614</u>
	<u>\$ 4,022,464</u>	<u>\$ 5,197,400</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:

	2019	2018
Interest and dividends	\$ 115,698	\$ 43,726
Realized gains	<u>180,415</u>	<u>134,291</u>
	296,113	178,017
Unrealized gains	<u>6,235</u>	<u>113,783</u>
	<u>\$ 302,348</u>	<u>\$ 291,800</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 statements of financial position.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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 2019 and 2018.

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, 2019 and 2018:

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 using contractual cash flows and the interest rate determined by the closing bid price on the last business day of the fiscal year if the same or an obligation with a similar maturity is actively traded.

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, 2019 AND 2018

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, 2019 and 2018:

	Assets and Liabilities at Fair Value as of June 30, 2019		
	Level 1	Level 2	Total
Investments:			
Cash and money market funds	\$ 80,906	\$ --	\$ 80,906
Corporate bonds	--	252,570	252,570
Equities	1,923,182	--	1,923,182
Government securities	--	336,326	336,326
Mutual Funds	491,871	--	491,871
Exchange Traded / Closed End Funds	937,609	--	937,609
	<u>3,433,568</u>	<u>588,896</u>	<u>4,022,464</u>
Short-term investments:			
Cash and money market funds	3,938,649	--	3,938,649
	<u>3,938,649</u>	<u>--</u>	<u>3,938,649</u>
Total Assets at Fair Value	<u>\$ 7,372,217</u>	<u>\$ 588,896</u>	<u>\$ 7,961,113</u>
Liabilities:			
Interest rate swap	<u>\$ --</u>	<u>\$ 59,509</u>	<u>\$ 59,509</u>

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets and Liabilities at Fair Value as of June 30, 2018		
	Level 1	Level 2	Total
Investments:			
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>3,171,176</u>	<u>2,026,224</u>	<u>5,197,400</u>
Short-term investments:			
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>
Other Assets:			
Interest rate swap	--	1,478	1,478
	<u>--</u>	<u>1,478</u>	<u>1,478</u>
Total Assets at Fair Value	<u>\$ 5,565,808</u>	<u>\$ 2,027,702</u>	<u>\$ 7,593,510</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, 2019 AND 2018

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable consist of the following as of June 30:

	2019	2018
Receivable in less than one year	\$ 183,300	\$ 249,800
Receivable in one to five years	<u>10,000</u>	<u>27,500</u>
	193,300	277,300
Less, allowance for uncollectible accounts	(152,300)	--
Less, discount to net present value	<u>(757)</u>	<u>(9,452)</u>
Net pledges receivable	40,243	267,848
Less current portion	<u>31,000</u>	<u>249,800</u>
Pledges receivable, less current portion	<u>\$ 9,243</u>	<u>\$ 18,048</u>

NOTE 6 – INVENTORY, DONATED FOOD DISTRIBUTED

Inventory consists of the following at June 30:

	2019	2018
Donated food	\$ 574,567	\$ 602,782
Temporary Emergency Food Assistance Program (TEFAP) commodities	2,877,830	527,852
Purchased food	<u>112,526</u>	<u>272,687</u>
	<u>\$ 3,564,923</u>	<u>\$ 1,403,321</u>

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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 \$1.62 and \$1.68 in 2019 and 2018, 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 \$706,185 and \$1,160,407 for the years ended June 30, 2019 and 2018, respectively.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 6 – INVENTORY, DONATED FOOD DISTRIBUTED (CONTINUED)

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

	2019		2018	
	Pounds	Average Wholesale Value	Pounds	Average Wholesale Value
Inventory, beginning of year	358,205	\$ 602,782	735,413	\$ 1,273,262
Donated food received	<u>16,607,321</u>	<u>26,903,860</u>	<u>15,405,155</u>	<u>25,880,660</u>
	16,965,526	27,506,642	16,140,568	27,153,922
Less:				
Food distributed, including salvage and other adjustments	<u>(16,611,471)</u>	<u>(26,932,075)</u>	<u>(15,782,363)</u>	<u>(26,551,140)</u>
Inventory, end of year	<u><u>354,055</u></u>	<u><u>\$ 574,567</u></u>	<u><u>358,205</u></u>	<u><u>\$ 602,782</u></u>

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

	2019		2018	
	Pounds	Average Wholesale Value	Pounds	Average Wholesale Value
Inventory, beginning of year	314,198	\$ 527,852	885,685	\$ 1,532,235
TEFAP commodities received	<u>7,572,728</u>	<u>12,267,819</u>	<u>4,048,400</u>	<u>6,801,312</u>
	7,886,926	12,795,671	4,934,085	8,333,547
Less:				
Food distributed, including salvage and other adjustments	<u>(6,110,487)</u>	<u>(9,917,841)</u>	<u>(4,619,887)</u>	<u>(7,805,695)</u>
	<u>(6,110,487)</u>	<u>(9,917,841)</u>	<u>(4,619,887)</u>	<u>(7,805,695)</u>
Inventory, end of year	<u><u>1,776,439</u></u>	<u><u>\$ 2,877,830</u></u>	<u><u>314,198</u></u>	<u><u>\$ 527,852</u></u>

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 7 – LAND, BUILDING AND EQUIPMENT AND DEPRECIATION

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

	2019	2018
Land	\$ 1,591,631	\$ 1,591,631
Building and improvements	11,427,060	11,427,060
Leasehold improvements	42,715	11,415
Furniture and equipment	1,685,410	1,438,062
Vehicles	<u>1,951,735</u>	<u>1,910,645</u>
	16,698,551	16,378,813
Less, accumulated depreciation and amortization	<u>3,570,892</u>	<u>2,696,829</u>
	<u>\$ 13,127,659</u>	<u>\$ 13,681,984</u>

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.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Subject to Expenditure for Specified Purpose:		
Grocery on Wheels program	\$ 100,000	\$ 100,000
Disaster relief	21,513	21,513
Agency capacity	150,000	150,000
Truck Purchase	--	50,000
Other programs	14,054	13,086
Building fund	<u>40,243</u>	<u>267,847</u>
	<u>\$ 325,810</u>	<u>\$ 602,446</u>

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets were released from restrictions by incurring expenses satisfying the restriction purposes or by the occurrence of other events specified by donors during the years ended June 30:

	2019	2018
Purpose Restrictions Accomplished:		
Grocery on Wheels program	\$ 200,000	\$ 209,091
Kid's backpack program	--	\$ 60,000
Mobile pantry	--	35,000
Agency capacity	590	74,469
Truck Purchase	50,000	--
Other programs	11,580	43,000
Building fund	89,000	187,600
	<u>\$ 351,170</u>	<u>\$ 609,160</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, with an original maturity of 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 was at the bank's LIBOR Advantage rate plus 1.65%. On June 28, 2019, the Organization entered into an Amended and Restated Loan Agreement (Loan Agreement) with the bank in the principal amount of \$4,839,945, to refinance its existing debt. Payments on the Loan Agreement are due as follows: commencing August 1, 2019, the loan is due interest only through and including July 1, 2021, thereafter 96 monthly installments of principal in an amount necessary to amortize the loan over a 20-year mortgage, plus interest, with a final installment of the outstanding balance due July 1, 2029. Interest on the Loan Agreement is charged at the Adjusted LIBOR Rate in effect for a one-month period plus 1% (3.75238% at June 30, 2019). As of June 30, 2019 and 2018, a total of \$4,813,736 and \$5,128,242 was outstanding on the Term Loan, respectively.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – BANK FINANCING ARRANGEMENTS (CONTINUED)

TERM LOAN (CONTINUED)

The Term Loan agreement includes covenants requiring the maintenance of certain financial ratios. As of June 30, 2019, the Organization was in compliance with all of the financial covenants.

As part of the original Term Loan, 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 was effective August 27, 2015, at an initial notional amount of \$6 million, to fix the LIBOR Advantage rate component at 2.40%. On June 18, 2019, the Organization entered into a new Swap Agreement to manage interest rate exposure with a bank related to the Loan Agreement, effective July 1, 2019, at an initial notional amount of \$2,500,000, to fix the LIBOR rate component at 2.13%, expiring July 1, 2024.

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, 2019 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
2020	\$ --	\$ (2,566)	\$ (2,566)
2021	--	(2,566)	(2,566)
2022	147,828	(2,566)	145,262
2023	167,290	(2,566)	164,724
2024	174,105	(2,566)	171,539
Thereafter	<u>4,324,513</u>	<u>(12,830)</u>	<u>4,311,683</u>
	<u>\$ 4,813,736</u>	<u>\$ (25,660)</u>	<u>\$ 4,788,076</u>

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 – BANK FINANCING ARRANGEMENTS (CONTINUED)

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 Adjusted LIBOR Rate in effect for a one-month period plus 1%. As of June 30, 2019 and 2018, 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, 2019, the Organization was in compliance with all of the financial covenants.

NOTE 10 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's primary sources of support are derived from contributions, grants, donated materials and services, and fundraising events. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects the Organization's financial assets as of June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations. Amounts not available include donor restricted balances, board-designated investments intended to fund future operations and local program activities not considered in the annual operating budget. In the event the need arises to utilize the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. Amounts not available to meet general expenditures within one year also may include net assets with donor restrictions.

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10 – LIQUIDITY AND AVAILABILITY OF RESOURCES

	2019	2018
Financial Assets at Year-End		
Cash and cash equivalents	\$ 1,947,697	\$ 2,820,387
Short-term investments	3,938,649	2,394,632
Investments	4,022,464	5,197,400
Accounts receivable, including grants	411,572	222,387
Pledges receivable	<u>40,243</u>	<u>267,848</u>
Total Financial Assets Available at Year-End	10,360,625	10,902,654
Less Contractual or Donor-Imposed Restrictions:		
Restricted by donors with time or purpose restriction	325,810	602,446
Advances from third-party payors	398,622	191,788
Designated by the governing board	7,869,511	6,930,000
Less Financial Assets not Available Within One Year:		
Pledges receivable	<u>9,243</u>	<u>18,048</u>
Financial Assets Available to Meet Cash Needs for		
General Expenditures Within One Year	<u>\$ 1,757,439</u>	<u>\$ 3,160,372</u>

The Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, or other obligations come due. The Organization also has a \$1 million revolving line of credit available (see Note 9).

CONNECTICUT FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 11 – 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	
			2019	2018	2019	2018
State of Connecticut:						
Department of Social Services:						
Connecticut Nutrition						
Assistance Program (CTNAP)	\$ 2,237,334	October 1, 2016 - June 30, 2020	\$ 577,829	\$ 679,552	\$ 398,622	\$ 191,788
The Emergency Food Assistance Program (TEFAP)	\$ 2,226,907	October 1, 2014 - September 30, 2019	624,826	392,666	--	--
Commodity Supplemental						
Food Program (CSFP)						
	\$ 119,199	October 1, 2018 - September 30, 2019				
	\$ 121,076	October 1, 2017 - September 30, 2018	30,269	90,807	--	--
	\$ 327,560	February 1, 2015 - September 30, 2017	89,399	32,339	--	--
Totals			<u>\$ 1,322,323</u>	<u>\$ 1,195,364</u>	<u>\$ 398,622</u>	<u>\$ 191,788</u>