

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

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FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

Independent Auditors' Report

Board of Directors
Second Harvest Food Bank of Northwest Pennsylvania, Inc.
Erie, Pennsylvania

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Second Harvest Food Bank of Northwest Pennsylvania, Inc. (a non-profit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Harvest Food Bank of Northwest Pennsylvania, Inc. as of June 30, 2022 and 2021 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Second Harvest Food Bank of Northwest Pennsylvania, Inc. and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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 and for 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.

Independent Auditors' Report **(Continued)**

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s ability to continue as a going concern for a reasonable period of time.

Independent Auditors' Report
(Continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2022 on our consideration of Second Harvest Food Bank of Northwest Pennsylvania Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Perseus House Inc.'s internal control over financial reporting and compliance.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

October 3, 2022
Erie, Pennsylvania

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**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

Statements of Financial Position

As of June 30, 2022 and 2021

Assets	2022	2021
Cash and cash equivalents	\$ 1,322,165	\$ 2,284,798
Investments	5,864,444	6,145,100
Food inventory	1,601,540	1,977,432
Prepaid expenses	5,838	50,235
Grants receivable	97,994	327,838
Total Current Assets	<u>8,891,981</u>	<u>10,785,403</u>
Property and equipment, net	<u>3,785,971</u>	<u>3,950,678</u>
Other Assets		
Cash restricted for specific grants	433,831	575,298
Beneficial interest in Erie Community Foundation assets	244,226	263,205
Beneficial interest in Warren Community Foundation	201,563	202,533
Total Other Assets	<u>879,620</u>	<u>1,041,036</u>
Total Assets	<u><u>\$ 13,557,572</u></u>	<u><u>\$ 15,777,117</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 36,950	\$ 132,089
Accrued liabilities	417,441	863,512
Unearned grants	328,481	729,385
Total Current Liabilities	<u>782,872</u>	<u>1,724,986</u>
Net Assets		
Without donor restrictions		
Investment in fixed assets	3,785,971	3,950,678
Unrestricted, undesignated	7,562,974	8,647,986
Board designated endowment	445,789	465,738
Total Net Assets Without Donor Restrictions	<u>11,794,734</u>	<u>13,064,402</u>
With donor restrictions		
Contributed food	558,461	472,942
Other	421,505	514,787
Total Net Assets With Donor Restrictions	<u>979,966</u>	<u>987,729</u>
Total Net Assets	<u>12,774,700</u>	<u>14,052,131</u>
Total Liabilities and Net Assets	<u><u>\$ 13,557,572</u></u>	<u><u>\$ 15,777,117</u></u>

See accompanying notes to financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

Statements of Activities

For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions		Total
		Donated Food	Other	
Support and Revenue				
Operating Revenue				
Contribution	\$ 2,541,153	\$ -	\$ 135,498	\$ 2,676,651
Other operating	2,192,383	-	-	2,192,383
Grant revenue	3,353,239	-	-	3,353,239
Donated food and non-cash donations	-	8,551,525	-	8,551,525
Bequests	-	-	-	-
PPP loan forgiveness	-	-	-	-
Investment income/(loss)	(1,243,539)	-	-	(1,243,539)
Total Support and Revenue	6,843,236	8,551,525	135,498	15,530,259
Net Assets Released From Restrictions	8,695,493	(8,466,713)	(228,780)	-
Total Public Support, Revenue and Reclassifications	15,538,729	84,812	(93,282)	15,530,259
Expenses				
Program services	15,773,720	-	-	15,773,720
Management and general	580,490	-	-	580,490
Fundraising	453,480	-	-	453,480
Total Expenses	16,807,690	-	-	16,807,690
Change in Net Assets	(1,268,961)	84,812	(93,282)	(1,277,431)
Beginning Net Assets	13,063,695	473,649	514,787	14,052,131
Ending Net Assets	\$ 11,794,734	\$ 558,461	\$ 421,505	\$ 12,774,700

See accompanying notes to financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

Statements of Activities

For the Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions		Total
		Donated Food	Other	
Support and Revenue				
Operating Revenue				
Contribution	\$ 2,983,056	\$ -	\$ 514,787	\$ 3,497,843
Other operating	1,987,643	-	-	1,987,643
Grant revenue	8,751,874	-	-	8,751,874
Donated food and non-cash donations	-	8,822,110	-	8,822,110
Bequests	84,264	-	-	84,264
PPP loan forgiveness	347,006	-	-	347,006
Investment income/(loss)	1,234,737	-	-	1,234,737
Total Support and Revenue	15,388,580	8,822,110	514,787	24,725,477
Net Assets Released From Restrictions	9,195,932	(8,940,618)	(255,314)	-
Total Public Support, Revenue and Reclassifications	24,584,512	(118,508)	259,473	24,725,477
Expenses				
Program services	20,009,115	-	-	20,009,115
Management and general	495,555	-	-	495,555
Fundraising	434,283	-	-	434,283
Total Expenses	20,938,953	-	-	20,938,953
Change in Net Assets	3,645,559	(118,508)	259,473	3,786,524
Beginning Net Assets	9,418,136	592,157	255,314	10,265,607
Ending Net Assets	\$ 13,063,695	\$ 473,649	\$ 514,787	\$ 14,052,131

See accompanying notes to financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

Statements of Functional Expenses

For the Year Ended June 30, 2022

	Program Services	Supporting Services		
	Food Distribution	Management and General	Fundraising	2022 Total
Operating Expenses				
Salaries	\$ 1,032,096	\$ 264,317	\$ 201,104	\$ 1,497,517
Payroll taxes and employee benefits	379,869	97,282	74,023	551,174
Building costs	88,903	14,267	-	103,170
Depreciation expense	248,821	27,647	-	276,468
Overhead expense	89,968	79,922	30,840	200,730
Professional and investment fees	8,713	87,134	13,070	108,917
Agency relations	-	-	5,828	5,828
Transportation costs - freight	96,619	-	-	96,619
Transportation costs - other	322,915	-	-	322,915
Utilities	94,330	9,921	-	104,251
Fundraising expense - direct mail and other fundraising costs	-	-	128,615	128,615
Food purchases	1,937,679	-	-	1,937,679
Other	14,337	-	-	14,337
Total Operating Expenses	4,314,250	580,490	453,480	5,348,220
Grant Expenses - Food Expenses				
State grant	485,267	-	-	485,267
FEMA grant	13,503	-	-	13,503
N.A.P. in kind food	700,910	-	-	700,910
TEFAP	1,686,763	-	-	1,686,763
CSFP	757,022	-	-	757,022
PASS	131,166	-	-	131,166
SFPP	-	-	-	-
CFAP	-	-	-	-
Total Grant Expenses	3,774,631	-	-	3,774,631
Donated Food				
Donated food distributed	7,684,839	-	-	7,684,839
Total Expenses	\$ 15,773,720	\$ 580,490	\$ 453,480	\$ 16,807,690

See accompanying notes to financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

Statements of Functional Expenses

For the Year Ended June 30, 2021

	Program Services	Supporting Services		
	Food Distribution	Management and General	Fundraising	2021 Total
Operating Expenses				
Salaries	\$ 971,343	\$ 218,269	\$ 214,331	\$ 1,403,943
Payroll taxes and employee benefits	438,047	98,894	96,992	633,933
Building costs	69,639	8,038	-	77,677
Depreciation expense	224,273	24,919	-	249,192
Overhead expense	94,935	67,183	-	162,118
Professional and investment fees	7,056	70,557	10,584	88,197
Agency relations	-	-	6,642	6,642
Transportation costs - freight	34,500	-	-	34,500
Transportation costs - other	228,976	-	-	228,976
Utilities	69,251	7,695	-	76,946
Fundraising expense - direct mail and other fundraising costs	-	-	105,734	105,734
Food purchases	1,970,769	-	-	1,970,769
Other	11,275	-	-	11,275
Total Operating Expenses	4,120,064	495,555	434,283	5,049,902
Grant Expenses - Food Expenses				
State grant	486,451	-	-	486,451
FEMA grant	265,006	-	-	265,006
N.A.P. in kind food	918,244	-	-	918,244
TEFAP	3,103,897	-	-	3,103,897
CSFP	732,422	-	-	732,422
PASS	568,973	-	-	568,973
SFPP	470,939	-	-	470,939
CFAP	1,320,745	-	-	1,320,745
Total Grant Expenses	7,866,677	-	-	7,866,677
Donated Food				
Donated food distributed	8,022,374	-	-	8,022,374
Total Expenses	\$ 20,009,115	\$ 495,555	\$ 434,283	\$ 20,938,953

See accompanying notes to financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

Statements of Cash Flows

For the Year Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (1,277,431)	\$ 3,323,908
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	276,468	249,192
Realized and unrealized (gain)/loss on investments	1,551,242	(1,064,672)
(Increase) decrease in:		
Receivables	229,844	(102,240)
Prepaid expenses	44,397	(45,957)
Food inventory	375,892	(229,427)
Increase (decrease) in:		
Accounts payable	(95,139)	81,073
Accrued liabilities	(446,071)	(114,343)
Other liabilities	-	(347,006)
Unearned grants	(400,904)	586,269
Net Cash Provided By Operating Activities	<u>258,298</u>	<u>2,336,797</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	2,693,674	1,393,209
Purchases of investments	(3,944,311)	(2,822,052)
Purchases of property and equipment	(111,761)	(790,281)
Change in cash restricted for specific grants	141,467	(67,161)
Net Cash Used In Investing Activities	<u>(1,220,931)</u>	<u>(2,286,285)</u>
Increase (Decrease) in Cash and Cash Equivalents	(962,633)	50,512
Beginning Cash and Cash Equivalents	<u>2,284,798</u>	<u>2,234,286</u>
Ending Cash and Cash Equivalents	<u><u>\$ 1,322,165</u></u>	<u><u>\$ 2,284,798</u></u>

See accompanying notes to financial statements.

**SECOND HARVEST FOOD BANK
OF NORTHWEST PENNSYLVANIA, INC.**

Notes to Financial Statements

June 30, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Food Bank are described below to enhance the usefulness of the financial statements to the reader.

A. Organization

A Food Bank is an organization that collects product from the food industry and food drives, inventories and stores it, and distributes it to agencies - such as food pantries, soup kitchens, kid's cafes, backpack programs and shelters - that provide food directly to individuals in need. A food bank has the capacity to distribute millions of pounds of grocery products every year.

The Second Harvest Food Bank of NW PA, Inc. (Food Bank) is the largest non-profit food distribution organization in northwestern Pennsylvania. The mission is to provide food to those in need within eleven counties of northwest Pennsylvania while creating awareness and educating the community on the realities of hunger. Second Harvest solicits and then distributes food to partner organizations. According to the most recent Map the Meal Gap study conducted by Feeding America, 12.6% of the population or 88,170 individuals residing within Second Harvest's 11 county service area of Cameron, Clarion, Clearfield, Crawford, Elk, Erie, Forest, Jefferson, McKean, Venango and Warren counties are considered to be food insecure. Many of these seniors, adults and children are seeking emergency food relief from Second Harvest's anti-hunger network. During 2021-2022, Second Harvest distributed nearly 9.9 million pounds of food to 277-member agencies and 113 distribution sites for the Commodity Supplemental Food Program for low-income seniors.

B. Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting, which generally recognizes revenue when earned and expenses when incurred.

C. Cash Balances, Cash Equivalents, Concentration of Risk and Restricted Cash

The Food Bank considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Cash balances are maintained at institutions in northwestern Pennsylvania. Bank accounts were insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution account at June 30, 2022. At June 30, 2022 and 2021, the bank balances were \$1,794,109 and \$2,985,171, respectively, of which \$608,937 and \$613,610, respectively, was covered by FDIC insurance and the remainder was uninsured. Cash equivalents held in brokerage accounts are not federally insured. Balances in these funds at June 30, 2022 and 2021 are \$159,989 and \$144,905, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Food Bank has entered into grant agreements that require the funds received and used for the grant to be deposited into a separate cash account. This account is reported as cash restricted for specific grants on the statement of financial position.

D. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

E. Food Inventory

Food inventory consists of purchased and donated food. Purchased food is valued at cost on a lower of cost or market basis on the first-in, first-out method. Donated food has been donated by the public. Food received through the Emergency Food Assistance Program is valued at estimated cost provided by the program. All other food donations are valued at \$1.79 and \$1.74 per gross pound for the year ended June 30, 2022 and 2021, respectfully. Feeding America, the national food bank network, determined this value. KPMG, LLP performed certain agreed-upon procedures in accordance with standards established by the American Institute of Certified Public Accountants solely to assist food banks with respect to determining the approximate average wholesale value of one pound of donated product at the national level.

F. Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

G. Concentration of Credit Risk

The Food Bank grants credit to its customers for service fees in the course of business, conducts periodic evaluations and generally requires no collateral. Cash receipts come generally from service fees, government grants, and contributions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The maximum amount of loss due to credit risk that, based on the gross fair value of the accounts receivable balance the Food Bank would incur if parties failed to perform according to the terms of the contracts, is limited to the balance in the accounts receivable account.

The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific receivables. The Organization anticipates receiving all receivables as of June 30, 2022.

H. Property and Equipment

The Food Bank generally capitalizes property and equipment at cost. Expenditures for renewals and betterments generally greater than \$1,000 are capitalized; repairs and maintenance are expensed. Donated equipment is capitalized at its estimated fair value upon receipt. Depreciation and depreciable fixed assets are computed using the straight-line method over estimated useful lives beginning when the assets are placed in service.

I. Contributions

Contributions received are recorded as with or without donor restrictions depending on the existence or nature of any donor restrictions. Such contributions are required to be reported as with donor restrictions support and are then reclassified to net assets without donor restriction upon expiration of the donor restrictions.

Donated food is restricted to feeding the needy. The Food Bank recognizes the value of contributed food as with donor restrictions support when received and records the restriction as released when distributed.

J. Contributed Services

Services provided which create or enhance nonfinancial assets or require specialized skills are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. These services are recognized in the financial statements at the fair value of services provided.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Food Bank in its food distribution facilities. These services are not recognized in the financial statements.

K. Shipping and Handling Costs

Costs of shipping and handling inventory are expensed as incurred. Inventory on the statement of net position is largely determined on a dollar per pound basis and no additional costs are added to it.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

M. Income Tax Status

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold.

N. Sequencing on the Statement of Financial Position

Assets are sequenced according to the nearness of conversion to cash, and liabilities are sequenced according to the nearness of their maturity and resulting use of cash.

O. Functional Allocation of Expenses

Salaries, benefits and taxes are allocated to functional expenses based on time employees spend on each specific function. The remaining expenses are allocated wherever practical or are based on another equitable method.

P. Future Changes in Accounting Principles

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize assets and liabilities on the balance sheet for those leases classified as operating leases under previous guidance. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842 (Leases)*, and ASU 2018-10, *Leases (Topic 842), Targeted Improvements*, which provide (1) narrow amendments to clarify how to apply certain aspects of the new lease standard, (2) entities with an additional transition method to adopt the new standard, and (3) lessors with a practical expedient for separating components of a contract. The Organization has one operating type lease commitment for its copiers that falls under this new accounting pronouncement. The lease obligation is recorded as a right to use asset and corresponding lease liability on the statement of financial position of the Organization on a modified retrospective approach. The Organization is in the process of evaluating the impact the standard will have on the financial statements for the year ending June 30, 2023.

NOTE 2 – BENEFICIAL INTEREST IN FOUNDATION ASSETS

In June 2009, the Organization transferred \$187,500 to the Erie Community Foundation. This irrevocable gift was used to establish a fund to benefit the Food Bank. The net income from the fund will be used exclusively to support the Food Bank as long as they operate as a non-profit organization and continue to fill local needs. Should the Organization's mission become for-profit, inconsistent with local needs or impossible to accomplish, the Foundation may vary the agreement to insure it is consistent with the Organization's original intent. That is, the Organization explicitly grants variance power to the Foundation. Net income (loss) is defined as a percentage of the fund market value. Net income (loss) from the fund recognized in the year ended June 30, 2022 and 2021 was \$(18,979) and \$58,440, respectively. The fair market value at June 30, 2022 and 2021 was \$244,226 and \$263,205, respectively.

In August 2014, the Organization transferred \$25,000 to the Warren Community Foundation. The irrevocable gift was used to establish a fund to benefit the Food Bank. The net income from the fund will be used exclusively to support the Food Bank's programs in Warren County. Should the Food Bank's mission become impossible to accomplish or should the Food Bank cease to exist, the Foundation shall ensure the funds are utilized in a manner which is consistent with the original intent of the fund. That is, the Food Bank explicitly grants variance power to the Foundation. The Food Bank retains the option to withdraw principal from the funds with the stipulation that the fund shall not go below \$5,000. Net income (loss) from the fund for the year ended June 30, 2022 and 2021 was \$(970) and \$41,871, respectfully. The fair market value at June 30, 2022 and 2021 was \$201,563 and \$202,533, respectfully.

NOTE 3 – FAIR VALUE OF ASSETS

The Organization's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair value is measured based on a fair value hierarchy based on three levels of inputs of which the first two are considered observable and the last is considered unobservable.

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE 3 – FAIR VALUE OF ASSETS (CONTINUED)

The assets 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Assets measured at fair value on a recurring basis include the following at June 30, 2022:

		<u>Level 1</u>	<u>Level 3</u>
Investments:			
Equity- exchange traded funds	\$ 1,295,034	\$ 1,295,034	\$ -
Equity - mutual funds	3,030,559	3,030,559	-
Fixed income - mutual funds	<u>1,740,414</u>	<u>1,740,414</u>	<u>-</u>
	<u>\$ 6,066,007</u>	<u>\$ 6,066,007</u>	<u>\$ -</u>
Beneficial interest in Erie Community Foundation assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,226</u>

Assets measured at fair value on a recurring basis include the following at June 30, 2021:

		<u>Level 1</u>	<u>Level 3</u>
Investments:			
Equity- exchange traded funds	\$ 1,246,654	\$ 1,246,654	\$ -
Equity - mutual funds	3,051,803	3,051,803	-
Fixed income - mutual funds	<u>2,049,176</u>	<u>2,049,176</u>	<u>-</u>
	<u>\$ 6,347,633</u>	<u>\$ 6,347,633</u>	<u>\$ -</u>
Beneficial interest in Erie Community Foundation assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 263,205</u>

Investments reported above consist of the following reported on the statement of financial position as of:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Investments	\$ 5,864,547	\$ 6,145,100
Beneficial interest in – Warren Community Foundation	<u>201,563</u>	<u>202,533</u>
	<u>\$ 6,066,110</u>	<u>\$ 6,347,633</u>

NOTE 3 – FAIR VALUE OF ASSETS (CONTINUED)

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, 2022.

Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds and exchange traded funds: Valued at the daily closing price as reported by the fund. The funds held by the Organization are open-end funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the Organization are deemed to be actively traded.

Beneficial interest in Erie Community Foundation assets: The Organization's valuation methodology used to measure the fair value of funds held at the Erie Community Foundation (ECF) relies upon information provided by ECF personnel. The Organization's share of the investment pool at ECF is based on the underlying fair values of the investments consisting of all three hierarchy levels; this is classified within Level 3 of the valuation hierarchy.

The assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) consist of the beneficial interest with the Erie Community Foundation and had the following changes during the year ended June 30, 2022 and 2021:

	June 30, 2022	June 30, 2021
Beginning balance	\$ 263,205	\$ 204,765
Contributions	375	1,209
Interest and dividends	5,109	2,307
Unrealized/realized gain/(losses)	(11,939)	58,479
Withdrawal	(8,675)	(33)
Investment/management fees	(3,849)	(3,522)
	<u>\$ 244,226</u>	<u>\$ 263,205</u>

NOTE 4 – AFFILIATE RELATIONSHIP

The Food Bank is an affiliate of the non-profit food banking network of Feeding America, formerly named America's Second Harvest. As such, the Food Bank is restricted to a service area, required to pay an affiliate fee, receives access to an affiliate-only food bank exchange, and receives an annual valuation per pound of donated food.

NOTE 5 – FOOD INVENTORY

Food inventory consists of donated food, purchased food, and grant commodities. Inventory at June 30, 2022 and 2021 is as follows:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Donated food	\$ 558,461	\$ 472,942
Purchased food	535,238	791,384
Grant commodities	507,841	713,106
	<u>\$ 1,601,540</u>	<u>\$ 1,977,432</u>

NOTE 6 – AGENCY SERVICE FEES AND FOOD GRANTS

The Food Bank generally charges service fees of \$.15 per pound for donated items to emergency agencies, \$.17 per pound for donated items to non-emergency agencies. The Food Bank also receives \$.12 per pound for “Entitlement Commodities” which qualify under the United States Department of Agriculture, The Emergency Food Assistance Program (TEFAP). The Food Bank does not receive a service fee reimbursement for food received through the federal TEFAP “Bonus Commodities” program. Member agencies take grocery items and redistribute these items to the poor, needy and hungry. The fee charged to member agencies offsets a portion of the handling and redistribution costs incurred by the Food Bank. Per pound costs to the Food Bank are calculated annually. For the year ended June 30, 2022, it cost the Food Bank \$.36 to provide one pound of food to member agencies. However, because grocery items are distributed at no cost or because grants and contributions are solicited to directly pay agency service fees and purchased commodities, member agencies paid on average \$.06 per pound for food received by the Food Bank last fiscal year.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2022 and 2021 consists of:

	<u>2022</u>	<u>2021</u>
Land	\$ 173,139	\$ 173,139
Land improvements	34,903	34,903
Building	4,449,397	4,414,904
Warehouse equipment	684,177	767,706
Office furniture and equipment	260,357	245,433
Vehicles	1,375,724	1,387,216
	6,977,697	7,023,301
Less: Accumulated depreciation	<u>(3,191,726)</u>	<u>(3,072,623)</u>
	<u>\$ 3,785,971</u>	<u>\$ 3,950,678</u>

NOTE 7 – PROPERTY AND EQUIPMENT (CONTINUED)

Estimated useful lives are as follows:

Land improvements	15 years
Building	40 years
Warehouse equipment	5-10 years
Office furniture and equipment	3-8 years
Vehicles	3-5 years
Leasehold improvements	5-31 years

Grants received by the Food Bank have been used to purchase refrigerators and freezers for their member agencies. The equipment is owned and depreciated by the Food Bank, although it is not currently used in their operations. If the member agency ceases to exist while the equipment is operational, the agencies have agreed to return this equipment. The carrying amount for these assets is \$66,542 for the year ended June 30, 2022. The Food Bank implies a time restriction that expires over the useful life of these donated assets.

NOTE 8 – MANAGEMENT OF FINANCIAL RESOURCES AND LIQUIDITY

The Organization is primarily funded through program revenue; however, revenue is also generated through investment earnings, grants and donor contributions. All programs and investment revenues are readily available to support the operations of the Organization; however, certain contributions and grants may have donor-imposed restrictions. Such restrictions require that the resources be used in a certain manner or in a future period. Therefore, the Organization must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditure within one year. As part of its liquidity management, the Organization structures its financial assets to be available as general expenditures and liabilities become due.

The Organization's available financial assets as of June 30, 2022 and 2021, reduced by amounts that are not available for general use due to donor-imposed restrictions, are noted below. Amounts that are not available also include net assets consisting of the Organization's fixed assets, net of related debt and board designations including the board designated endowment:

	<u>2022</u>	<u>2021</u>
Total Assets as of June 30	\$ 13,557,572	\$ 15,777,117
less those unavailable for general expenditure within one year due to:		
Donor restrictions	(1,073,248)	(987,729)
Fixed assets, net of related debt	(3,785,971)	(3,950,678)
Board designations:		
Endowment fund	<u>(445,789)</u>	<u>(465,738)</u>
Financial Assets available for use within one year	<u>\$ 8,252,564</u>	<u>\$ 10,372,972</u>

NOTE 9 – BOARD DESIGNATED ENDOWMENT

The Organization's endowment includes funds designated by the Board of Directors as an endowment. The purpose of this endowment is to develop and stimulate an alternative source of funds to supplement the Organization's other funding sources. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has an agency endowment agreement with ECF. ECF pools these funds with the funds received from various other organizations. The pooled funds are then utilized to create an investment portfolio that is managed and administered by ECF. ECF is responsible for allocating to the Organization their respective share of the investment portfolio's performance. ECF annually determines the investment income allocated to the Food Bank which can be distributed to the Food Bank.

The Organization has an agency endowment agreement with the Warren Community Foundation. The Foundation has set up a separate investment account to track the Organization's endowment. The Foundation annually determines the investment income which can be distributed to the Organization.

Interpretation of Relevant Law

The current relevant law for the investment and distribution of restricted endowment and trust funds in the Commonwealth of Pennsylvania is PA Act 141 (Act 141). Since the Organization has no restricted endowment, Act 141 does not apply.

Changes in endowment net assets for the year ended June 30, 2022:

	Erie Community Foundation	Warren Community Foundation
Beginning balance	\$ 263,205	\$ 202,533
Contributions and deposits	375	32,787
Interest and dividends	5,109	3,597
Unrealized/realized gains/(losses)	(11,939)	(28,043)
Withdrawal	(8,675)	(8,775)
Investment/management fees	<u>(3,849)</u>	<u>(536)</u>
Ending balance	<u>\$ 244,226</u>	<u>\$ 201,563</u>

NOTE 9 – BOARD DESIGNATED ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2021:

	Erie Community Foundation	Warren Community Foundation
Beginning balance	\$ 204,765	\$ 160,662
Contributions and deposits	1,209	1,000
Interest and dividends	2,307	3,210
Unrealized/realized gains/(losses)	58,479	44,894
Withdrawal	(33)	(6,745)
Investment/management fees	(3,522)	(488)
Ending balance	<u>\$ 263,205</u>	<u>\$ 202,533</u>

Return Objectives and Risk Parameters

The Board of Directors has adopted an investment policy for financial assets that attempts to support the long-term objectives of the Organization. The objectives include funding operational cash flow shortfalls, providing relative stability of principal, and maximizing total investment return.

Strategies Employed for Achieving Objectives

In accordance with the objectives, the total portfolio should be constructed and maintained to minimize the risk of large losses to principal. To satisfy these objectives, the Organization has developed an allocation strategy to maximize total return while minimizing exposure of principal assets in the long run. The Organization targets a diversified asset allocation in equity-based investments and in high quality fixed income investments.

Spending Policy and How the Investment Objectives Related to Spending Policy

The endowment trustees distribute funds as stipulated by the Organization and within the purpose of the trust as outlined in the endowment governing documents for the named funds.

NOTE 10 – NEIGHBORHOOD ASSISTANCE GRANT

The Neighborhood Assistance Act Program is funded by contributions from businesses within Pennsylvania. Contributors receive Pennsylvania income tax credits of 55% of the valued contributed amount. The grant consists of both cash and in-kind contributions of food. Cash contributions were used to fund freight and other costs associated with the procurement and distribution of food. Donated food eligible for this credit is included in total contributed food. Tax credits under the contract were \$682,501 and \$650,784 for the years ended June 30, 2022 and 2021, respectively.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions:

	<u>2022</u>	<u>2021</u>
Food inventory	\$ 558,461	\$ 472,942
Backpack program donations	159,760	192,700
Thanksgiving program donations	150,878	135,104
Child Feeding Pool	110,867	186,983
	<u>\$ 979,966</u>	<u>\$ 987,729</u>

NOTE 12 – CONTRIBUTED SERVICES

Contributed services, which met the definition for recognition during the year ended June 30, 2022, are largely comprised of professional fees. Contributed services were used in administration of the Food Bank. The fair value of unrecognized services has not been determined.

NOTE 13 – JOINT FUNDRAISING COSTS

Joint costs have been incurred in activities that include management and general and fundraising. Salaries have been allocated based on estimated percentage of time spent in fundraising activities. Salaries with joint costs allocated to management and general and fundraising were as follows:

Management and general	\$ 86,909
Fundraising	<u>40,296</u>
	<u>\$ 127,205</u>

NOTE 14 – RETIREMENT PLAN

The Food Bank maintains a profit-sharing plan which covers substantially all full-time employees who meet certain eligibility requirements and choose to participate. The Organization matched up to 5% of the employee contributions. In addition, the Board of Directors will annually determine if they will make a discretionary contribution up to 5% of eligible employee compensation. Employees are fully vested within six years. The accrual is based on past practice of the Board, which has not yet determined a contribution percentage. During the year ended June 30, 2022 and 2021, profit sharing expense was \$36,671 and \$89,819, respectively.

NOTE 15 – RELATED PARTY TRANSACTIONS

The following related party transactions were for services performed within the nature of the Organization and were consummated on terms similar to those in arms-length transactions.

Legal expenses are provided by a firm in which a partner is a Board member. Amounts paid for legal services totaled \$2,978 for the year ended June 30, 2022.

Computer programming and equipment are provided by a company which is owned by a Board member. Amounts paid for computer programming and equipment totaled \$25,293 for the year ended June 30, 2022.

NOTE 16 – REVENUE RECOGNITION

On July 1, 2020, the Organization adopted FASB ASU No. 2014-09 (Topic 606) - *Revenue from Contracts with Customers* (“ASU No. 2014-09” or “Topic 606”), which provides guidance for revenue recognition that superseded the revenue recognition requirements in Accounting Standards Codification (“ASC” Topic 605, *Revenue Recognition* (“Topic 605”)) and most industry specific guidance. Under ASU 2014-09, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The Organization adopted ASU 2014-09 under the modified retrospective approach, applying the amendments to prospective reporting periods.

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services by following a five-step process, (1) identify the contract with the customer, (2) identify the performance obligation in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Organization satisfies a performance obligation, as further described below.

Identify the contract with a customer. The Organization generally considers a contract with clients or other organizations as a customer contract between itself and other organizations for the purpose of food distribution services provided that the collection for these services is considered probable. This contract is entered into upon providing those services with reasonable expectation of payment.

- Grant Revenue – Rates are determined based on contracts agreed upon by the grantor and the Organization for the purposes of obtaining, storing, and distributing food.

Identify the performance obligations in the contract. Service performance obligations by the Organization include food distribution services.

- Grant Revenue – The Organization’s contractually agreed-upon task of obtaining, storing, and distributing food based on the terms within the agreement.

NOTE 16 – REVENUE RECOGNITION (CONTINUED)

Determine the transaction price. The transaction price for the Organization’s contract with its customers consists of fixed consideration.

- Grant Revenue – The transaction price is based upon the amount of consideration agreed-upon in the contract and varies depending on the level of services the Organization provides.

Allocate the transaction price to the performance obligations in the contract.

- Grant Revenue – There is only one performance obligation, all consideration received is allocated based on the standalone transaction price.

Recognize revenue when or as the Organization satisfies a performance obligation.

- Grant Revenue - Revenue from government grants and contracts with other organizations is recognized to the extent of expenses incurred up to the contract limit.

The following table presents activity of the Organization for the years ended June 30, 2022:

	Grants Receivable	Unearned Revenue
Balance at the beginning of the period	\$ 327,838	\$ (729,385)
Revenue recognized	2,623,854	729,385
Receipt of payments/write-offs	<u>(2,853,698)</u>	<u>(328,481)</u>
Balance at the end of the period	<u>\$ 97,994</u>	<u>\$ (328,481)</u>

NOTE 17 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 3, 2022, the date at which the financial statements were available to be issued.



FELIX & GLOEKLER, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

**Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing Standards**

Board of Directors
Second Harvest Food Bank of
Northwest Pennsylvania, Inc.
Erie, Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Second Harvest Food Bank of Northwest Pennsylvania, Inc. (a non-profit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 3, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*
(Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Second Harvest Food Bank of Northwest Pennsylvania, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Felix and Gloekler, P.C.

Felix and Gloekler, P.C.

October 3, 2022
Erie, Pennsylvania