

Financial Statements and Report of
Independent Certified Public
Accountants in Accordance with the
Uniform Guidance

**Nutritional Development Services of the
Archdiocese of Philadelphia**

June 30, 2019 and 2018

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Board of Directors
Nutritional Development Services
of the Archdiocese of Philadelphia

Report on the financial statements

We have audited the accompanying financial statements of Nutritional Development Services of the Archdiocese of Philadelphia (the "Entity"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets 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 statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Nutritional Development Services of the Archdiocese of Philadelphia as of June 30, 2019 and 2018, and the results of its activities and 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.

Other matters*Supplementary information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary statements of activities and changes in net assets by program, the schedule of cash receipts and the schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other information

The schedule of cash receipts of federal and state awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 24, 2020, on our consideration of the Entity'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 the Entity'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 the Entity's internal control over financial reporting and compliance.



Philadelphia, Pennsylvania
March 24, 2020

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash	\$ 161,873	\$ 272,718
Cash - government funded programs	3,493,148	3,050,216
Grants receivable	3,133,277	3,765,674
Other receivables	234,307	209,455
Inventory	534,084	501,790
Prepaid expenses	<u>60,985</u>	<u>60,985</u>
Total current assets	7,617,674	7,860,838
Investments - board designated	1,177,957	1,019,887
Equipment, net	<u>1,273,976</u>	<u>1,155,300</u>
Total assets	<u><u>\$ 10,069,607</u></u>	<u><u>\$ 10,036,025</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	<u>\$ 1,538,272</u>	<u>\$ 1,296,628</u>
Total liabilities	1,538,272	1,296,628
Net assets		
Net assets without donor restrictions		
Net assets without donor restrictions	1,296,530	1,210,580
Net assets without donor restrictions - government funded programs	<u>7,149,917</u>	<u>7,436,563</u>
	8,446,447	8,647,143
Net assets with donor restrictions	<u>84,888</u>	<u>92,254</u>
Total net assets	<u>8,531,335</u>	<u>8,739,397</u>
Total liabilities and net assets	<u><u>\$ 10,069,607</u></u>	<u><u>\$ 10,036,025</u></u>

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

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2019

	Net assets without donor restrictions	Net assets without donor restrictions - government funded programs	Net assets with donor restrictions	Total
Revenue				
Grants				
Federal and state governments	\$ -	\$ 21,462,583	\$ -	\$ 21,462,583
City of Philadelphia	1,600	-	48,039	49,639
Nongovernment meal receipts	-	1,090,757	-	1,090,757
Contributions from Operation Rice Bowl	-	-	102,291	102,291
Contributions - other	25,451	-	8,838	34,289
Subsidy from Catholic Charities Appeal Fund	150,000	-	-	150,000
Interest income	89,043	10,346	-	99,389
Other income	294,732	1,538	-	296,270
Net assets released from donor restrictions	166,534	-	(166,534)	-
	<u>727,360</u>	<u>22,565,224</u>	<u>(7,366)</u>	<u>23,285,218</u>
Total revenue				
Expenses				
Food costs	365,574	15,960,630	-	16,326,204
Compensation	178,640	2,567,208	-	2,745,848
Office	15,486	157,023	-	172,509
Transportation	14,849	81,818	-	96,667
Fixed charges	1,265	112,903	-	114,168
Program administration	61,256	3,732,809	-	3,794,065
Depreciation	3,294	239,401	-	242,695
Miscellaneous expenses	1,046	78	-	1,124
	<u>641,410</u>	<u>22,851,870</u>	<u>-</u>	<u>23,493,280</u>
Total expenses				
Change in net assets	85,950	(286,646)	(7,366)	(208,062)
Net assets				
Beginning of year	<u>1,210,580</u>	<u>7,436,563</u>	<u>92,254</u>	<u>8,739,397</u>
End of year	<u>\$ 1,296,530</u>	<u>\$ 7,149,917</u>	<u>\$ 84,888</u>	<u>\$ 8,531,335</u>

The accompanying notes are an integral part of this financial statement.

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended June 30, 2018

	Net assets without donor restrictions	Net assets without donor restrictions - government funded programs	Net assets with donor restrictions	Total
Revenue				
Grants				
Federal and state governments	\$ -	\$ 20,661,071	\$ -	\$ 20,661,071
City of Philadelphia	1,600	-	29,343	30,943
Nongovernment meal receipts	-	1,093,919	-	1,093,919
Contributions from Operation Rice Bowl	-	-	104,630	104,630
Contributions - other	27,511	4,094	7,442	39,047
Subsidy from Catholic Charities Appeal Fund	125,000	-	-	125,000
Interest income	73,320	9,084	-	82,404
Other income	383,652	216	50,000	433,868
Net assets released from donor restrictions	235,523	-	(235,523)	-
Total revenue	846,606	21,768,384	(44,108)	22,570,882
Expenses				
Food costs	441,583	15,511,358	-	15,952,941
Compensation	166,220	2,485,482	-	2,651,702
Office	14,393	141,180	-	155,573
Transportation	11,777	81,943	-	93,720
Fixed charges	1,273	112,880	-	114,153
Program administration	93,915	3,409,043	-	3,502,958
Depreciation	1,725	233,341	-	235,066
Miscellaneous expenses	5	402	-	407
Total expenses	730,891	21,975,629	-	22,706,520
Change in net assets	115,715	(207,245)	(44,108)	(135,638)
Net assets				
Beginning of year	1,094,865	7,643,808	136,362	8,875,035
End of year	\$ 1,210,580	\$ 7,436,563	\$ 92,254	\$ 8,739,397

The accompanying notes are an integral part of this financial statement.

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENTS OF CASH FLOWS

Year ended June 30,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ (208,062)	\$ (135,638)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	242,695	235,066
Realized and unrealized gains on investments	(63,371)	(51,713)
Changes in net assets and liabilities		
Grants receivable	632,397	(262,857)
Other receivables	(24,853)	41,835
Inventory	(32,294)	(24,997)
Accounts payable and accrued expenses	241,644	17,369
Deferred revenue	-	(50,000)
	<u>788,156</u>	<u>(230,935)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchases of equipment	(378,624)	(298,635)
Purchases of investments	(249,432)	(315,278)
Sales of investments	171,987	299,367
	<u>(456,069)</u>	<u>(314,546)</u>
Net cash used in investing activities		
Net increase (decrease) in cash	332,087	(545,481)
Cash		
Beginning of year	<u>3,322,934</u>	<u>3,868,415</u>
End of year	<u>\$ 3,655,021</u>	<u>\$ 3,322,934</u>

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

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE A - ORGANIZATION AND PURPOSE

Nutritional Development Services (“NDS”) is a corporation of the Archdiocese of Philadelphia whose purpose is to obtain and distribute nutritious foods at a minimum cost to those attending or residing in educational or charitable institutions, or to those whose physical or financial circumstances require a specialized delivery of food; to provide food procurement and delivery services contemplated by governmental agencies; to conduct nutrition awareness programs in conjunction with these activities and to cooperate with and render technical assistance and advice to others working in this field.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Adopted Accounting Pronouncement

Effective July 1, 2018, NDS adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard makes certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the previously required three classes, as well as the annual change in each of the two classes; (2) information about liquidity and the availability of resources; and (3) addresses the lack of consistency with expenses and investment return. NDS’ financial statements have been adjusted to reflect the new requirements. The standard has been applied retrospectively to all years presented, except for functional expenses which is only presented for 2019.

Basis of Presentation

The financial statements of NDS have been prepared in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). The significant accounting policies followed are described below.

Net assets and revenues, expenses, gains and losses are categorized into two categories, based on the existence or absence of donor-imposed restrictions.

Net assets with donor restrictions include contributions, which can be expended but for which restrictions have not yet been met.

Net assets without donor restrictions are free of donor-imposed restrictions. Included in these funds are \$1,177,957 and \$1,019,887 of board-designated investments as of June 30, 2019 and 2018, respectively.

Funding

NDS receives the majority of its revenues from performance-based contracts with various governmental agencies. These revenues are subject to audit, which could result in repayment or reversal of revenues.

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The various school, childcare, and summer meals programs are funded by the U.S. Department of Agriculture through the Pennsylvania Department of Education. The State Food Purchase Program is funded by the Commonwealth of Pennsylvania. Programs listed as part of the Child Nutrition Cluster in this report are governed by the United States Department of Agriculture regulations including 7 CFR 210, 220, 215, and 226 and FNS Instruction 796-2, in addition to guidance from the Pennsylvania Department of Education. Surpluses within these programs that are not required to be returned or spent, are to be retained for that particular program exclusively. These funds are to be used to improve operations or be set aside against possible future losses within the specific program. These cash balances and net assets are recorded as without donor restrictions; however, the government regulations for these programs place restrictions on their use.

Contributions

Gifts of long-lived assets are reported at fair value as revenue without donor restrictions. Gifts specified for the acquisition or construction of long-lived assets are reported as net assets without donor restrictions when the assets are placed in service.

Classification of Gifts

NDS reports gifts of cash and other assets as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from donor restrictions. Donor-restricted contributions are reported as operating revenue without donor restrictions when the restriction is satisfied within the same year that the contribution is received.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Equipment and Depreciation

Equipment purchased is stated at cost, while donated assets are stated at fair market value on the date of donation. Depreciation is provided over the estimated useful lives of the assets and is computed using the straight-line method. The estimated useful life for equipment ranges from three to twelve years.

Cash

NDS maintains its cash on deposit with a large commercial bank, and the deposit typically exceeds Federal Deposit Insurance Corporation limits. Management does not believe the credit risk related to these deposits to be significant.

Inventory

Inventory consists of food and supplies used for the programs and is stated at the lower of cost or market value. Cost is determined by the first-in, first-out method.

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

Investments

Investments consist of investments set aside by the Board of Directors for future purposes that were received through special appeals for the Community Food Program. Investments in debt and equity securities are measured at fair value based on quoted market prices. Alternative investments, include investments in private equity funds, which are measured at the net asset value (“NAV”) of the securities held. These investments are designated as trading securities. Investment income, realized gains and losses, and changes in net unrealized gains and losses on trading securities are recorded as other income and losses.

Liquidity and Availability of Resources

Financial assets available for general expenditure within one year and current liabilities as of June 30, 2019 and 2018, consist of the following:

	2019	2018
Cash and cash equivalents	\$ 3,655,021	\$ 3,322,934
Grants receivable	3,133,277	3,765,674
Other receivables	234,308	209,455
	<u>7,022,606</u>	<u>7,298,063</u>
Investments - board designated	1,177,956	1,019,887
	<u>8,200,562</u>	<u>8,317,950</u>
Financial assets available to management		
	8,200,562	8,317,950
Current liabilities	<u>(1,538,272)</u>	<u>(1,296,628)</u>
Assets available to management less current liabilities	<u>\$ 6,662,290</u>	<u>\$ 7,021,322</u>

Assets available to management include expected proceeds from government grants of \$3,133,277, other grant receivables of \$184,670 and cash from government funded programs of \$3,493,148, which are under contractual obligations with the government grantor and are to be used solely for activities to operate the government funded food programs. As NDS' operations are entirely for this purpose, these amounts are part of the liquidity analysis above and are not considered restricted by donor.

Pending Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to improve financial reporting by creating common revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services at the date the performance obligation has occurred. ASU 2014-09 is effective for periods beginning after December 15, 2018. An entity will apply this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening statement of financial position at the date of initial application. NDS is evaluating the impact of ASU 2014-09 at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require entities to record additional leases onto the statement of financial position. The standard aims to increase transparency and comparability among organizations by recognizing lease assets and liabilities and increasing disclosure requirements about leasing arrangements. ASU 2016-02 will be effective for annual periods beginning after December 15, 2019, and interim periods therein. NDS is evaluating the impact of ASU 2016-02 at this time.

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE C - EQUIPMENT

Equipment at June 30, 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
Equipment at schools	\$ 3,175,568	\$ 2,986,477
Office equipment	857,078	780,984
	<u>4,032,646</u>	<u>3,767,461</u>
Less: accumulated depreciation	<u>(2,758,670)</u>	<u>(2,612,161)</u>
	<u>\$ 1,273,976</u>	<u>\$ 1,155,300</u>

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$242,695 and \$235,066, respectively.

NOTE D - INVESTMENTS

At June 30, 2019 and 2018, NDS held the following categories of investments:

	<u>2019</u>	<u>2018</u>
Cash	\$ 47,966	\$ 15,491
Mutual funds	314,669	284,389
Equities	623,307	540,734
Alternative investments	<u>192,015</u>	<u>179,273</u>
	<u>\$ 1,177,957</u>	<u>\$ 1,019,887</u>

NDS recognized the following changes as part of other income on the statements of activities and changes in net assets for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Dividend and interest income	\$ 25,017	\$ 20,840
Realized gains, net	(2,831)	9,186
Unrealized gains, net	<u>66,202</u>	<u>42,527</u>
	<u>\$ 88,388</u>	<u>\$ 72,553</u>

The Archdiocese Investment Committee retains the authority to approve the Investment Managers' strategic asset allocation between asset classes as noted in the NDS Investment Policy Statement, which is approved by the NDS Board of Trustees. The NDS Finance Committee is responsible for oversight of the investments including setting risk tolerances and controls.

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE E - FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, establishes a single authoritative definition of fair value, sets a framework for measuring fair value, and requires additional disclosures about fair value measurements. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities as of the measurement date.

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 same 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.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value calculations may not be indicative of net realizable value or reflective of future fair values. Furthermore, although NDS 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.

The following table presents the fair values of the investments held by NDS by level within the fair value hierarchy, as of June 30, 2019 and 2018:

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant inputs supported by little or no market activity (Level 3)	Total fair value
<u>2019</u>				
Assets				
Cash	\$ 47,966	\$ -	\$ -	\$ 47,966
Mutual funds	314,669	-	-	314,669
Equities	623,307	-	-	623,307
	<u>\$ 985,942</u>	<u>\$ -</u>	<u>\$ -</u>	985,942
Alternative investments at NAV				<u>192,015</u>
				<u>\$ 1,177,957</u>

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE E - FAIR VALUE MEASUREMENTS - Continued

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant inputs supported by little or no market activity (Level 3)	Total fair value
<u>2019</u>				
Assets				
Cash	\$ 15,491	\$ -	\$ -	\$ 15,491
Mutual funds	284,389	-	-	284,389
Equities	540,734	-	-	540,734
	<u>\$ 860,614</u>	<u>\$ -</u>	<u>\$ -</u>	860,614
Alternative investments at NAV				<u>179,273</u>
				<u><u>\$ 1,019,887</u></u>

During 2019 and 2018, no investments were transferred between Levels 1, 2 or 3.

The alternative investments are investments in two private equity funds, both are long-term capital appreciation funds, which benchmark to the MSCI All Country World Index and the Russell 2000 index, respectively, and are measured using the NAV of the fund. The funds' NAV is used to estimate fair value. NDS has no unfunded commitments or redemption restrictions related to these investments and has the ability to redeem investment at will.

NOTE F - OPERATING LEASES

NDS has non-cancellable operating leases for two copiers and two vehicles. Future minimum rental payments, which extend to 2022, for non-cancellable lease terms in excess of one year as of June 30, 2019, are as follows:

2020	\$ 14,310
2021	15,360
2022	14,802

Rental expense related to these leases for the years ended June 30, 2019 and 2018 was \$10,069 and \$15,780, respectively.

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE G - PENSIONS

Lay Employees' Retirement Plan - Frozen Effective June 30, 2014

Through June 30, 2014, the eligible lay employees of NDS were covered under the Archdiocese of Philadelphia's Lay Employees' Retirement Plan (the "Plan"), which is a defined benefit pension plan covering substantially all lay employees of the Archdiocese of Philadelphia, based on age and service requirements. The Plan is administered by the Trustees of the Plan. NDS made annual contributions to the Plan at a rate of 5.9% of the salaries of eligible employees for both of the years ended June 30, 2019 and 2018. The amount expensed by NDS for contributions to the Plan was \$118,933 and \$98,444 for the fiscal years ended June 30, 2019 and 2018, respectively. Separate accounts for vested benefits and pension fund assets are not maintained for each institution.

Archdiocese of Philadelphia 403(b) Retirement Plan

Effective July 1, 2014, the Archdiocese of Philadelphia established a 403(b) defined contribution plan ("403(b) plan"). Under the 403(b) plan, and subject to statutory limits, all employees at least 18 years of age are immediately eligible to make voluntary deferred salary contributions into the 403(b) plan.

Employer contributions, which cover employees meeting the eligibility requirements below, are discretionary. The following are the eligibility requirements for the employer contributions:

Grandfathered Employees - Any employee who was accruing benefits as an active participant in the Plan as of its freeze date of June 30, 2014 is a grandfathered employee and will be eligible to receive employer contributions beginning with the first payroll on or after September 1, 2014.

Non-Grandfathered Employees - Non-grandfathered employees are eligible to receive the employer contributions beginning with the first payroll coinciding with or immediately following the completion of 1,000 hours of service during the 18-month period beginning July 1, 2014 through December 31, 2015. The employee must also have attained at least 18 years of age to be eligible. For a non-grandfathered employee hired prior to July 1, 2014 who does not meet the eligibility requirements for an employer contribution in the time frame described above, the period for determining whether or not one meets the 1,000 hour service requirement was modified to the calendar year beginning January 1, 2016.

Vesting - Vesting in employer contributions to a 403(b) plan account will be immediate for any grandfathered employee who has completed 12 months of service as of June 30, 2014. Vesting in employer contributions for all other employees will take place after the completion of 12 months of service.

In fiscal years 2019 and 2018, the Archdiocese of Philadelphia employer contribution rate was 4.5% of base salary for eligible employees. The contributions by NDS into the 403(b) plan totaled \$90,712 and \$75,085 for the years ended June 30, 2019 and 2018, respectively.

NOTE H - INCOME TAXES

NDS is a nonprofit corporation which has received exempt status from federal taxation under Section 501(c)(3) of the Internal Revenue Code.

NDS follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. NDS does not believe its financial statements include any material uncertain tax positions.

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE I - CONTRIBUTIONS OF FOOD

During 2019 and 2018, approximately 782,320 pounds and 821,550 pounds of food, respectively, with an estimated fair value of \$1,329,944 and \$1,396,635, respectively, were donated from various nongovernment sources. This food was redistributed to organizations feeding the needy and is not reflected in these financial statements.

NOTE J - FUNCTIONAL EXPENSES

The following table summarizes program and supporting, management and general expenses for the year ended June 30, 2019 with total expense for the year ended June 30, 2018 :

<u>2019</u>	<u>Program</u>	<u>Supporting management and general</u>	<u>Total expenses year ended June 30, 2019</u>	<u>Total expenses year ended June 30, 2018</u>
Assets				
Food costs	\$ 16,326,204	\$ -	\$ 16,326,204	\$ 15,952,941
Compensation	141,544	2,604,304	2,745,848	2,651,702
Office	-	172,509	172,509	155,573
Transportation	96,667	-	96,667	93,720
Fixed charges	-	114,168	114,168	114,153
Program administration	3,794,066	-	3,794,066	3,503,365
Depreciation	242,694	-	242,694	235,066
Miscellaneous expenses	-	1,124	1,124	-
	<u>\$ 20,601,175</u>	<u>\$ 2,892,105</u>	<u>\$ 23,493,280</u>	<u>\$ 22,706,520</u>

Program expenses consist of food, program compensation, transportation, depreciation and program administrative costs. Support expenses consist of supporting compensation, office expenses, fixed charges and miscellaneous costs.

NOTE K - RELATED-PARTY TRANSACTIONS

NDS provides meals to elementary schools and child care centers of parishes in the Archdiocese of Philadelphia. These meals are purchased by NDS and distributed in schools and centers under the federally funded child nutritional programs. During fiscal years 2019 and 2018, a total of \$237,665 and \$264,593, respectively, was purchased by the students, of which \$21,823 and \$30,679 was included in other receivables at June 30, 2019 and 2018, respectively.

NDS receives subsidies from the Catholic Charities Appeal Fund ("Catholic Charities"), which is a fund administered for the Archdiocese of Philadelphia. Subsidies for the administrative costs of the Community Food Program were \$150,000 and \$125,000 for the years ended June 30, 2019 and 2018, respectively. Additionally, Catholic Charities through a separate annual appeal raises funds to be used for program costs by the Community Food Program and contributed \$247,285 and \$334,819 for the years ended June 30, 2019 and 2018, respectively.

NDS also receives funds from Operation Rice Bowl, which is also a program administered by the Archdiocese of Philadelphia, in which contributions are received from churches throughout the Archdiocese of Philadelphia. Contributions from Operation Rice Bowl for the years ended June 30, 2019 and 2018 were \$102,291 and \$104,630, respectively.

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

June 30, 2019 and 2018

NOTE K - RELATED-PARTY TRANSACTIONS - Continued

NDS rents certain facilities, utilized in the delivery of its services, from the Archdiocese of Philadelphia. Rent expense on these facilities was \$101,921 and \$102,039 for years ended June 30, 2019 and 2018, respectively. It is presented as part of fixed charges on the statements of activities and changes in net assets.

NDS reimburses Catholic Social Services ("CSS") of the Archdiocese of Philadelphia for meals served at the residential child care centers and group homes. These meals are served in accordance with the regulations of the National School Lunch and Breakfast Program. As of June 30, 2019 and 2018, NDS has amounts payable to CSS totaling \$99,667 and \$115,288, respectively, which are included as part of accounts payable and accrued expenses on the statements of financial position.

NOTE L - SUBSEQUENT EVENTS

NDS evaluated events subsequent to June 30, 2019 and through March 24, 2020, the date the financial statements were available to be issued..

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States. As a result of the school, childcare and community feeding site closures, there will be a significant negative impact to NDS' revenues and operations. While the disruption is expected to be temporary, there is uncertainty around the duration. NDS expects this matter to negatively impact its business, results of operations, and financial position, although the financial impact cannot be reasonably estimated at this time. As a result, NDS is leveraging its balance sheet and seeking ways to preserve its financial flexibility until normal operations resume when the crisis passes and site closures are lifted.

SUPPLEMENTARY INFORMATION

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY PROGRAM

Year ended June 30, 2019

	School-Based Program	Seamless Summer Option	Child Care Program	Community Food	Food Program Admin	CFP Annual Appeal	Total all programs
Revenue							
Grants							
Federal government	\$ 14,391,000	\$ 2,039,089	\$ 5,032,494	\$ -	\$ -	\$ -	\$ 21,462,583
State government	-	-	-	-	-	-	-
City of Philadelphia	-	-	-	48,039	1,600	-	49,639
Nongovernment meal receipts	563,781	-	526,976	-	-	-	1,090,757
Contributions from Operation Rice Bowl	-	-	-	102,291	-	-	102,291
Contributions - other	-	-	-	8,838	25,451	-	34,289
Subsidy from Catholic Charities Appeal Fund	-	-	-	-	150,000	-	150,000
Interest income	5,979	1,267	3,100	-	211	88,832	99,389
Other income	38	1,500	-	-	47,447	247,285	296,270
Total revenue	14,960,798	2,041,856	5,562,570	159,168	224,709	336,117	23,285,218
Expenses							
Food costs	9,791,417	1,994,837	4,174,374	166,534	-	199,042	16,326,204
Compensation	1,369,837	284,136	913,235	-	178,640	-	2,745,848
Office	87,521	18,321	51,181	-	10,168	5,318	172,509
Transportation	28,996	21,660	31,162	-	14,849	-	96,667
Fixed charges	78,938	864	33,101	-	1,265	-	114,168
Program administration	3,370,720	87,169	274,920	-	40,172	21,084	3,794,065
Depreciation	228,576	423	10,402	-	3,294	-	242,695
Miscellaneous expenses	78	-	-	-	1,046	-	1,124
Total expenses	14,956,083	2,407,410	5,488,375	166,534	249,434	225,444	23,493,280
Change in net assets	4,715	(365,554)	74,195	(7,366)	(24,725)	110,673	(208,062)
Net assets (deficiency)							
Beginning of year	7,714,038	(1,083,672)	806,195	92,254	(96,309)	1,306,891	8,739,397
End of year	\$ 7,718,753	\$ (1,449,226)	\$ 880,390	\$ 84,888	\$ (121,034)	\$ 1,417,564	\$ 8,531,335

Nutritional Development Services of the Archdiocese of Philadelphia

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY PROGRAM

Year ended June 30, 2018

	School-Based Program	Seamless Summer Option	Child Care Program	Community Food	Food Program Admin	CFP Annual Appeal	Total all programs
Revenue							
Grants							
Federal government	\$ 13,329,533	\$ 1,965,022	\$ 5,366,516	\$ -	\$ -	\$ -	\$ 20,661,071
State government	-	-	-	-	-	-	-
City of Philadelphia	-	-	-	29,343	1,600	-	30,943
Nongovernment meal receipts	586,216	-	507,703	-	-	-	1,093,919
Contributions from Operation Rice Bowl	-	-	-	104,630	-	-	104,630
Contributions - other	-	4,094	-	7,442	27,511	-	39,047
Subsidy from Catholic Charities Appeal Fund	-	-	-	-	125,000	-	125,000
Interest income	4,894	1,128	3,062	-	185	73,135	82,404
Other income	216	-	-	50,000	48,834	334,819	433,869
Total revenue	13,920,859	1,970,244	5,877,281	191,415	203,130	407,954	22,570,883
Expenses							
Food costs	9,209,111	1,889,623	4,412,624	235,523	-	206,060	15,952,941
Compensation	1,263,353	259,321	962,808	-	166,220	-	2,651,702
Office	69,022	17,628	54,530	-	9,329	5,064	155,573
Transportation	28,043	18,627	35,273	-	11,752	25	93,720
Fixed charges	78,628	923	33,329	-	1,273	-	114,153
Program administration	2,999,939	136,758	272,345	-	51,370	42,546	3,502,958
Depreciation	222,663	480	10,198	-	1,725	-	235,066
Miscellaneous expenses	402	-	-	-	-	5	407
Total expenses	13,871,161	2,323,360	5,781,107	235,523	241,669	253,700	22,706,520
Change in net assets	49,698	(353,116)	96,174	(44,108)	(38,539)	154,254	(135,637)
Net assets (deficiency)							
Beginning of year	7,664,340	(730,556)	710,022	136,362	(57,770)	1,152,637	8,875,035
End of year	\$ 7,714,038	\$ (1,083,672)	\$ 806,196	\$ 92,254	\$ (96,309)	\$ 1,306,891	\$ 8,739,398

Nutritional Development Services of the Archdiocese of Philadelphia

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Pass-through grantor's number	Program expenditures per fiscal year 2019
<u>Federal Awards</u>			
Department of Agriculture			
Child Nutrition Cluster			
VPI Commodity Pilot	10.555	N/A	\$ 1,178,040
Total direct awards			<u>1,178,040</u>
Pass-through from Pennsylvania Department of Education			
National School Lunch Program	10.555	226-51053-2/326-51005-4	10,698,777
School Breakfast Program	10.553	226-51053-2/326-51005-4	3,475,171
Special Milk Program for Children	10.556	226-51053-2	31,154
After School Snack Program	10.555	326-51005-4	57,719
			<u>14,262,821</u>
Total Child Nutrition Cluster			15,440,861
Child and Adult Care Program	10.558	226-51053-2	5,032,494
Fresh Fruit and Vegetable Program	10.582	226-51053-2	353,992
Total expenditures of federal awards			<u>20,827,347</u>
<u>State Awards</u>			
National School Lunch Program	N/A	N/A	455,208
School Breakfast Program	N/A	N/A	180,027
Total expenditures of state awards			<u>635,235</u>
Total expenditures of federal and state awards			<u>\$ 21,462,582</u>

Nutritional Development Services of the Archdiocese of Philadelphia

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year ended June 30, 2019

NOTE A - GENERAL

The accompanying Schedule of Expenditures of Federal and State Awards ("SEFA") presents the activities in all the federal and state financial assistance programs of Nutritional Development Services of the Archdiocese of Philadelphia ("NDS"). All financial awards received directly from federal agencies, as well as federal financial awards passed through other governmental agencies or nonprofit organizations, are included on the SEFA.

NOTE B - BASIS OF ACCOUNTING

The accompanying SEFA has been prepared on an accrual basis of accounting.

NOTE C - DESCRIPTION OF AWARDS

The SEFA represents the number of meals served under the program multiplied by the reimbursement rate applicable to that program. Included as part of the awards listed on the SEFA, NDS receives funding from the Commonwealth of Pennsylvania. The amounts noted in the table below for the school lunch and breakfast programs are matches of the Federal awards received. The Commonwealth matches the number of claimable breakfast and lunches at \$0.10 on each dollar award by the Federal government. An additional reimbursement amount is paid for lunch at \$0.04 or \$0.02 on the dollar if breakfast participation is greater than or less than 20%, respectively.

Commonwealth Awards	
National School Lunch Program	\$ 455,208
School Breakfast Program	<u>180,027</u>
	<u>\$ 635,235</u>

NOTE D - REVENUE/EXPENSE RECOGNITION

NDS utilizes a direct cost rate and has not elected to use the 10% de minimis cost rate.

Nutritional Development Services of the Archdiocese of Philadelphia

SCHEDULE OF CASH RECEIPTS OF FEDERAL AND STATE AWARDS

Year ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Pass-through grantor's number	Program cash receipts per fiscal year 2019
<u>Federal Awards</u>			
Department of Agriculture			
Child Nutrition Cluster			
VPI Commodity Pilot	10.555	N/A	\$ 1,178,040
Total direct awards			<u>1,178,040</u>
Pass-through from Pennsylvania Department of Education			
National School Lunch Program	10.555	226-51053-2/326-51005-4	10,635,680
School Breakfast Program	10.553	226-51053-2/326-51005-4	3,408,976
Special Milk Program for Children	10.556	226-51053-2	31,643
After School Snack Program	10.555	326-51005-4	<u>197,851</u>
			<u>14,274,150</u>
Total Child Nutrition Cluster			15,452,190
Child and Adult Care Program	10.558	226-51053-2	5,755,293
Fresh Fruit and Vegetable Program	10.582	226-51053-2	<u>248,604</u>
Total expenditures of federal awards			21,456,087
<u>State Awards</u>			
National School Lunch Program	N/A	N/A	458,140
School Breakfast Program	N/A	N/A	<u>180,754</u>
Total expenditures of state awards			<u>638,894</u>
Total expenditures of federal and state awards			<u>\$ 22,094,981</u>

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT
AUDITING STANDARDS***

Board of Directors
Nutritional Development Services
of the Archdiocese of Philadelphia

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 Nutritional Development Services of the Archdiocese of Philadelphia (the "Entity"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2020.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Entity's internal control over financial reporting ("internal control") to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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.

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 the Entity's 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 the Entity'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*.

Intended purpose

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 Entity'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 Entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Philadelphia, Pennsylvania
March 24, 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Nutritional Development Services
of the Archdiocese of Philadelphia

Report on compliance for each major federal program

We have audited the compliance of Nutritional Development Services of the Archdiocese of Philadelphia (the "Entity") with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019. The Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the Entity's federal programs.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for each of the Entity's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Entity's compliance.

Opinion on each major federal program

In our opinion, the Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on internal control over compliance

Management of the Entity is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Entity's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

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

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

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Philadelphia, Pennsylvania
March 24, 2020

Nutritional Development Services of the Archdiocese of Philadelphia

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported
- Noncompliance material to financial statements noted? yes no

Federal and State Awards

Internal control over the major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? yes no

Identification of major federal program:

CFDA Number

Name of Federal Program or Cluster

10.558

Child and Adult Care Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Nutritional Development Services of the Archdiocese of Philadelphia

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

For the year ended June 30, 2019

Section II - Financial Statement Findings

No matters were reported.

Section III - Findings and Questioned Costs for Federal Awards

No matters were reported.

Nutritional Development Services of the Archdiocese of Philadelphia

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

For the year ended June 30, 2019

No matters were reported.