

FINANCIAL STATEMENTS

CAPITAL AREA FOOD BANK

**FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009**

CAPITAL AREA FOOD BANK

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Capital Area Food Bank
Washington, D.C.

We have audited the accompanying statements of financial position of the Capital Area Food Bank (the Food Bank) as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Food Bank's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Food Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Food Bank as of June 30, 2010 and 2009, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010, on our consideration of the Food Bank'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

October 18, 2010

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CAPITAL AREA FOOD BANK
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2010 AND 2009

ASSETS

	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,431,863	\$ 7,793,456
Investments (Notes 2 and 17)	2,297,078	2,268,464
Accounts receivable, net of allowance for doubtful accounts of \$19,966 and \$20,436 in 2010 and 2009, respectively	239,688	183,921
Pledges receivable, current portion (Note 10)	2,316,542	1,401,994
Contributions and other receivables	584,948	347,536
Prepaid expenses	61,246	47,974
Inventory (Notes 9 and 17)	1,952,109	2,673,961
Total current assets	15,883,474	14,717,306
PROPERTY AND EQUIPMENT		
Land (Notes 3 and 16)	9,119,775	9,119,775
Warehouses and improvements (Notes 3 and 16)	7,536,509	7,370,141
Warehouse equipment	643,238	639,404
Vehicles	344,480	344,480
Computer and office equipment	165,022	159,764
	17,809,024	17,633,564
Less: Accumulated depreciation and amortization	(3,457,097)	(3,248,945)
Net property and equipment	14,351,927	14,384,619
NONCURRENT ASSETS		
Pledges receivable, net of current portion (Note 10)	351,942	782,601
Deposit	7,533	15,871
Total noncurrent assets	359,475	798,472
TOTAL ASSETS	\$ 30,594,876	\$ 29,900,397

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Accounts payable	\$ 256,393	\$ 561,421
Accrued salaries and related benefits	215,132	175,647
Accrued vacation	<u>98,303</u>	<u>76,977</u>
Total current liabilities	<u>569,828</u>	<u>814,045</u>
NONCURRENT LIABILITIES		
Notes payable - net of current portion (Notes 3 and 16)	<u>5,205,000</u>	<u>5,205,000</u>
Total liabilities	<u>5,774,828</u>	<u>6,019,045</u>
NET ASSETS		
Unrestricted:		
Board designated (Note 13)	395,672	395,672
Undesignated	<u>12,912,779</u>	<u>13,285,893</u>
Total unrestricted	13,308,451	13,681,565
Temporarily restricted (Note 11)	<u>11,511,597</u>	<u>10,199,787</u>
Total net assets	<u>24,820,048</u>	<u>23,881,352</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,594,876</u>	<u>\$ 29,900,397</u>

See accompanying notes to financial statements.

CAPITAL AREA FOOD BANK

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010				
	Unrestricted			Temporarily Restricted	Total
	Operations	In-Kind Food	Total		
SUPPORT AND REVENUE					
Contributions and grants (Note 15)	\$ 7,263,202	\$ -	\$ 7,263,202	\$ 1,431,432	\$ 8,694,634
Capital Campaign contributions (Note 10)	-	-	-	1,341,102	1,341,102
In-kind food contributions (Notes 8 and 9)	-	32,419,848	32,419,848	-	32,419,848
Donated materials and services (Note 5)	245,179	-	245,179	-	245,179
Program service fees	3,470,559	-	3,470,559	-	3,470,559
Investment income (loss) (Note 2)	20,050	-	20,050	-	20,050
Other income	4,331	-	4,331	-	4,331
Rental income (Note 16)	-	-	-	-	-
Net assets released from donor restrictions (Note 12)	<u>1,460,724</u>	<u>-</u>	<u>1,460,724</u>	<u>(1,460,724)</u>	<u>-</u>
Total support and revenue	<u>12,464,045</u>	<u>32,419,848</u>	<u>44,883,893</u>	<u>1,311,810</u>	<u>46,195,703</u>
EXPENSES					
Program Services:					
Collection and distribution of food (Notes 8 and 9)	<u>9,105,948</u>	<u>32,876,477</u>	<u>41,982,425</u>	<u>-</u>	<u>41,982,425</u>
Supporting Services:					
Management and General	1,398,869	-	1,398,869	-	1,398,869
Fundraising	1,454,453	-	1,454,453	-	1,454,453
Capital Campaign (Note 18)	<u>421,260</u>	<u>-</u>	<u>421,260</u>	<u>-</u>	<u>421,260</u>
Total supporting services	<u>3,274,582</u>	<u>-</u>	<u>3,274,582</u>	<u>-</u>	<u>3,274,582</u>
Total expenses	<u>12,380,530</u>	<u>32,876,477</u>	<u>45,257,007</u>	<u>-</u>	<u>45,257,007</u>
Changes in net assets	83,515	(456,629)	(373,114)	1,311,810	938,696
Net assets at beginning of year	<u>11,656,549</u>	<u>2,025,016</u>	<u>13,681,565</u>	<u>10,199,787</u>	<u>23,881,352</u>
NET ASSETS AT END OF YEAR	<u>\$11,740,064</u>	<u>\$ 1,568,387</u>	<u>\$13,308,451</u>	<u>\$ 11,511,597</u>	<u>\$ 24,820,048</u>

See accompanying notes to financial statements.

2009				
Operations	Unrestricted		Temporarily Restricted	Total
	In-Kind Food	Total		
\$ 7,665,988	\$ -	\$ 7,665,988	\$ 410,036	\$ 8,076,024
-	-	-	1,774,586	1,774,586
-	25,139,153	25,139,153	-	25,139,153
158,282	-	158,282	-	158,282
3,095,924	-	3,095,924	-	3,095,924
125,221	-	125,221	-	125,221
17,103	-	17,103	-	17,103
10,172	-	10,172	-	10,172
<u>952,963</u>	<u>-</u>	<u>952,963</u>	<u>(952,963)</u>	<u>-</u>
<u>12,025,653</u>	<u>25,139,153</u>	<u>37,164,806</u>	<u>1,231,659</u>	<u>38,396,465</u>
<u>8,014,240</u>	<u>24,685,836</u>	<u>32,700,076</u>	<u>-</u>	<u>32,700,076</u>
1,215,781	-	1,215,781	-	1,215,781
1,366,847	-	1,366,847	-	1,366,847
<u>424,810</u>	<u>-</u>	<u>424,810</u>	<u>-</u>	<u>424,810</u>
<u>3,007,438</u>	<u>-</u>	<u>3,007,438</u>	<u>-</u>	<u>3,007,438</u>
<u>11,021,678</u>	<u>24,685,836</u>	<u>35,707,514</u>	<u>-</u>	<u>35,707,514</u>
1,003,975	453,317	1,457,292	1,231,659	2,688,951
<u>10,652,574</u>	<u>1,571,699</u>	<u>12,224,273</u>	<u>8,968,128</u>	<u>21,192,401</u>
<u>\$ 11,656,549</u>	<u>\$ 2,025,016</u>	<u>\$ 13,681,565</u>	<u>\$ 10,199,787</u>	<u>\$ 23,881,352</u>

See accompanying notes to financial statements.

CAPITAL AREA FOOD BANK

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Capital Campaign (Note 18)</u>	
Salaries and related benefits (Note 14)	\$ 3,598,429	\$ 610,370	\$ 394,513	\$ 319,428	\$ 4,922,740
Printing	21,125	222	4,591	-	25,938
Professional fees	121,089	144,173	65,278	20,125	350,665
Insurance	33,043	120,252	-	11,179	164,474
Depreciation and amortization	44,063	164,089	-	-	208,152
Telephone	33,400	5,327	2,793	-	41,520
Travel	10,076	791	1,351	-	12,218
Postage and shipping	21,129	3,832	19,421	265	44,647
Rental expense and maintenance	659,325	39,702	16,220	5,082	720,329
Supplies	119,988	33,278	968	225	154,459
Dues and subscriptions	39,208	18,966	17,612	310	76,096
Conferences and meetings	25,224	7,854	10,801	968	44,847
Advertising and promotion	232,344	(3,709)	45,463	-	274,098
Donated materials and services (Note 5)	25,357	199,694	20,128	-	245,179
In-kind food contributions (Note 8)	32,876,477	-	-	-	32,876,477
Cost of purchased food distributed (Note 9)	1,965,233	-	-	-	1,965,233
Freight	274,264	1,574	-	-	275,838
Direct mail and fundraising	-	-	865,253	-	865,253
Utilities	152,245	21,117	668	11,227	185,257
Food drives	2,295	-	-	-	2,295
Licenses and fees	1,026	928	(50,168)	50,168	1,954
Miscellaneous	106,101	30,409	35,379	198	172,087
Other provided services	<u>1,620,984</u>	<u>-</u>	<u>4,182</u>	<u>2,085</u>	<u>1,627,251</u>
TOTAL	<u>\$ 41,982,425</u>	<u>\$ 1,398,869</u>	<u>\$ 1,454,453</u>	<u>\$ 421,260</u>	<u>\$ 45,257,007</u>

CAPITAL AREA FOOD BANK

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Supporting Services</u>				<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Capital Campaign (Note 18)</u>	
Salaries and related benefits (Note 14)	\$ 3,377,158	\$ 494,158	\$ 384,527	\$ 152,969	\$ 4,408,812
Printing	33,865	63	8,872	727	43,527
Professional fees	64,183	121,323	8,297	39,983	233,786
Insurance	29,756	114,278	-	29,959	173,993
Depreciation and amortization	51,542	153,802	-	9,620	214,964
Telephone	31,309	5,033	1,128	1,477	38,947
Travel	15,275	423	1,179	274	17,151
Postage and shipping	35,374	3,008	8,409	3,231	50,022
Rental expense and maintenance	403,090	42,775	8,909	12,799	467,573
Supplies	149,168	36,820	2,095	1,801	189,884
Dues and subscriptions	43,038	20,191	5,210	-	68,439
Conferences and meetings	17,149	7,283	24,281	712	49,425
Advertising and promotion	208,350	941	9,966	1,000	220,257
Interest expense	-	-	7,162	-	7,162
Donated materials and services (Note 5)	-	158,282	-	-	158,282
In-kind food contributions (Note 8)	24,685,836	-	-	-	24,685,836
Cost of purchased food distributed (Note 9)	1,727,926	-	-	-	1,727,926
Freight	224,954	613	-	-	225,567
Direct mail and fundraising	-	-	883,623	16,085	899,708
Utilities	161,780	14,399	(5,489)	1,096	171,786
Licenses and fees	851	560	-	-	1,411
Miscellaneous	112,806	28,393	2,674	153,077	296,950
Other provided services	1,326,666	-	16,004	-	1,342,670
Bad debt	-	13,436	-	-	13,436
TOTAL	<u>\$ 32,700,076</u>	<u>\$ 1,215,781</u>	<u>\$ 1,366,847</u>	<u>\$ 424,810</u>	<u>\$ 35,707,514</u>

See accompanying notes to financial statements.

CAPITAL AREA FOOD BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 938,696	\$ 2,688,951
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	208,152	214,964
Unrealized (gain) on investments	(8,336)	(4,109)
Realized (gain) loss on sales of investments	(856)	2,777
In-kind stock donations	(9,930)	(50,531)
In-kind contribution revenue	(32,644,828)	(25,179,379)
In-kind contribution expenses	33,121,656	24,844,118
(Gain) in valuation of donated inventory	(20,199)	(118,056)
Change in allowance for doubtful accounts	(470)	-
Bad debt	-	13,436
(Increase) decrease in:		
Accounts receivable	(55,297)	(57,021)
Pledges receivable	(483,889)	542,293
Contributions and other receivables	(237,412)	88,878
Prepaid expenses	(13,272)	(22,454)
Inventory	265,223	(309,194)
Deposit	8,338	(15,871)
Increase (decrease) in:		
Accounts payable	(305,028)	145,462
Accrued salaries and related benefits	39,485	28,509
Accrued vacation	21,326	(5,703)
Net cash provided by operating activities	<u>823,359</u>	<u>2,807,070</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of warehouse and improvements	(166,368)	(649,550)
Purchase of property and equipment	(9,092)	(114,810)
Purchases of investments	(89,355)	(241,344)
Proceeds from sales of investments	<u>79,863</u>	<u>198,119</u>
Net cash used by investing activities	<u>(184,952)</u>	<u>(807,585)</u>
Net increase in cash and cash equivalents	638,407	1,999,485
Cash and cash equivalents at beginning of year	<u>7,793,456</u>	<u>5,793,971</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,431,863</u>	<u>\$ 7,793,456</u>
SUPPLEMENTAL FINANCIAL INFORMATION:		
Interest Paid	<u>\$ -</u>	<u>\$ 7,162</u>

See accompanying notes to financial statements.

CAPITAL AREA FOOD BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Capital Area Food Bank (the Food Bank) is a non-profit organization, incorporated under the laws of the District of Columbia. The Food Bank operates two warehouses that collect, inspect, clean, process, sort and distribute food to approximately 700 local non-profit feeding programs throughout the Metropolitan Washington, D.C. area, which include shelters, low-income day care centers, soup kitchens and emergency food programs. In addition to collecting and distributing food, the Food Bank is active in implementing education programs, sustainable agriculture/food security programs and community advocacy/outreach programs addressing the underlying causes of hunger.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Recently issued accounting standards -

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Food Bank has updated references to GAAP in its financial statements issued for the year ended June 30, 2010. The adoption of FASB ASC 105 did not impact the Food Bank's financial position or results of operations.

Cash and cash equivalents -

Cash and cash equivalents consist of cash on hand and cash in savings and checking accounts at local financial institutions.

At times during the year, the Food Bank maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets. Investments donated to the Food Bank are recorded at their fair market value as of the date of donation.

Pledges and accounts receivable -

Pledges and accounts receivable approximate fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer.

Property and equipment -

Warehouses and improvements are recorded at cost (or in the case of donated property, estimated value at the date of receipt) and are amortized over the estimated lives of the warehouses, ranging from twenty to thirty-nine years. Included in warehouses and improvements are \$2,190,208 and \$2,023,840 of construction and renovations in progress as of June 30, 2010 and 2009, respectively.

CAPITAL AREA FOOD BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Property and equipment (continued) -

Equipment and vehicles are stated at cost and are depreciated on a straight-line basis over their related estimated useful lives, generally five to ten years. Maintenance, repairs and renewals that neither materially add value to existing property (nor prolong its life) are expensed as incurred. The Food Bank capitalizes all purchases with an acquisition value of \$1,500 and greater.

Income taxes -

The Food Bank is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Food Bank is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended June 30, 2010, the Food Bank has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Inventory -

Inventory consists of purchased and donated goods. Purchased goods are valued at cost on a first-in, first-out basis. Donated goods are valued using Feeding America's (a national food bank network non-profit corporation) Independent Accountants' Report of the estimated weighted average wholesale value of such goods.

The Food Bank utilizes Feeding America's calendar year 2009 and 2008 estimates as the basis for calculating the value of its donated inventory on hand as of June 30, 2010 and 2009 (as reported in the Statements of Financial Position), as a June 30th valuation is not conducted by Feeding America. At June 30, 2010 and 2009, the inventory balance was calculated using the calendar 2009 and 2008 estimates of \$1.60 and \$1.58 per pound, respectively.

The Food Bank utilizes Feeding America's calendar year 2008 and 2007 estimates as the basis for calculating the value of its donated goods received and disbursed during fiscal years ending June 30, 2010 and 2009 (as reported in the Statements of Activities and Changes in Net Assets), as a June 30th valuation is not conducted by Feeding America. During the years ended June 30, 2010 and 2009, the donated goods received and disbursed were calculated using the calendar year 2008 and 2007 estimates of \$1.58 and \$1.49 per pound, respectively.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Food Bank and include both internally designated and undesignated resources.

CAPITAL AREA FOOD BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Net asset classification (continued) -

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Food Bank and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Food Bank. As of June 30, 2010, there were no permanently restricted net assets.

Contributions, grants and pledges -

Contributions, grants and pledges are recorded as revenue in the year notification is received from the donor. Contributions, grants and pledges are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions.

Contributions, grants and pledges received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk -

At times during the year, the Food Bank maintains cash balances in excess of Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Functional allocation of expenses -

The costs of providing the food distribution program have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets.

Accordingly, certain costs have been allocated among the program and supporting services benefited based on specific identification or based on estimates of the expense incurred.

Risks and uncertainties -

The Food Bank invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

CAPITAL AREA FOOD BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)**

Risks and uncertainties (continued) -

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurements -

The Food Bank adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Food Bank accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the presentation of the current year's financial statements.

2. INVESTMENTS

Investments at June 30, 2010 and 2009 consisted of the following:

	2010		2009	
	Cost	Market Value	Cost	Market Value
Money market funds	\$2,043,062	\$2,043,062	\$1,952,784	\$1,952,784
Certificates of deposit	-	-	70,000	70,156
Bonds	<u>229,848</u>	<u>254,016</u>	<u>229,848</u>	<u>245,524</u>
TOTAL INVESTMENTS	<u>\$2,272,910</u>	<u>\$2,297,078</u>	<u>\$2,252,632</u>	<u>\$2,268,464</u>

The Food Bank had unrealized gains on its investments of \$8,336 as of June 30, 2010 and \$4,109 as of June 30, 2009. Additionally, the Food Bank recorded a \$856 realized gain on its investments during the year ended June 30, 2010 and a \$2,777 realized loss on its investments during the year ended June 30, 2009. All gains and losses are included in investment income in the accompanying Statements of Activities and Changes in Net Assets.

3. NOTES PAYABLE

Notes payable at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Long-Term Mortgage Note Payable to the Department of Housing and Community Development (DHCD), Secured by 4900 Puerto Rico Avenue, N.E., Non-Interest Bearing	<u>\$5,205,000</u>	<u>\$5,205,000</u>

CAPITAL AREA FOOD BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

3. NOTES PAYABLE (Continued)

On July 18, 2005, DHCD provided \$7,705,000 of financing in connection with the acquisition of the property located at 4900 Puerto Rico Avenue, N.E. Under the terms of the agreement with DHCD, \$2,500,000 was forgiven during the year ended June 30, 2007, through the distribution of food products to D.C. member agencies. The remaining balance of \$5,205,000 is considered a 40-year deferred loan and is repayable only if the property is sold, the Food Bank moves away from the District of Columbia, or if it ceases to fulfill its principal mission.

4. LEASE COMMITMENTS

The Food Bank leases various office equipment and warehouse vehicles under non-cancelable operating leases. The Food Bank entered into an 8-month lease for warehouse space in Lorton, Virginia, commencing July 1, 2009. Base rent is \$15,871 per month, plus any additional operating expenses in excess of the base amount included in rent. Rent expense for the year ended June 30, 2010 totaled \$126,500. This lease was terminated in February 2010.

On September 14, 2009, the Food Bank entered into an 8-month operating lease for warehouse space in Washington, D.C., with base rent of \$7,533 per month. Rent expense for the year ended June 30, 2010 totaled \$60,411. This lease was terminated on June 30, 2010.

5. DONATED MATERIALS AND SERVICES

Donated services are recognized as contributions at their estimated value when they require specialized skill, are provided by those with that specialized skill, and otherwise would have been purchased if they were not donated. Contributions of tangible assets are recognized at fair value when received. At the time a contribution is received and properly valued, the Food Bank records an expense and an offsetting revenue transaction in its financial statements.

The following is a summary of donated materials and services, as reflected in both revenue and expenses, at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Program Services	\$ 25,357	\$ -
Management and General	199,694	158,282
Fundraising	<u>20,128</u>	<u>-</u>
TOTAL DONATED MATERIALS AND SERVICES	<u>\$ 245,179</u>	<u>\$ 158,282</u>

6. RELATED PARTIES

Included among the Food Bank's Board of Directors are volunteers from the Washington, D.C. metropolitan community, who provide valuable assistance to the organization in the development of policies and programs. Two members of the Board work for agencies, which have contributed to the support of the Food Bank, or receive food distributions from the Food Bank.

CAPITAL AREA FOOD BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

7. OTHER PROGRAMS

In addition to the food distributed directly by the Food Bank to its member agencies and other food banks (see Note 8), an additional 4,316,836 pounds and 5,508,123 pounds of food were distributed through the Food Bank's Sister Hook-Up Program during the years ending June 30, 2010 and 2009, respectively. The Sister Hook-Up Program facilitates the distribution of perishable food products directly to the Food Bank's agencies. These agencies are eligible to receive the direct distribution of the perishable foods from the supermarkets through their membership and active status in good standing with the Food Bank. The value of these food contributions is not included in the Food Bank's financial statements.

8. IN-KIND FOOD CONTRIBUTIONS

The Food Bank received 20,506,108 pounds and 16,792,682 pounds of donated food during the fiscal years ended June 30, 2010 and 2009, respectively. Accordingly, the value of the contributed food received by the Food Bank during the fiscal years ended June 30, 2010 and 2009 was \$32,399,649 and \$25,021,097, respectively. The value of the donated food received has been recorded as in-kind food contributions revenue in the accompanying Statements of Activities and Changes in Net Assets during the years ended June 30, 2010 and 2009 as \$32,419,848 and \$25,139,153, respectively, which is stated net of the non-cash valuation gain of \$20,199 and \$118,056, respectively (see Note 9).

The Food Bank distributed 23,050,277 pounds of food during the fiscal year ended June 30, 2010, of which 20,807,897 pounds, totaling \$32,876,477, had been donated. The Food Bank distributed 18,667,726 pounds of food during the fiscal year ended June 30, 2009, of which 16,567,675 pounds, totaling \$24,685,836, had been donated. During the years ended June 30, 2010 and 2009, less than 1% of the total food received was not distributed because the products were either unusable or spoiled. The value of the donated food distributed has been recorded as in-kind food contribution expense in the accompanying Statements of Activities and Changes in Net Assets during the years ended June 30, 2010 and 2009, as \$32,876,477 and \$24,685,836, respectively.

9. INVENTORY

Food donated to the Food Bank is capitalized as inventory and recorded as an unrestricted in-kind contribution. Upon distribution, the food is recorded as an in-kind contribution expense. The inventory is valued at \$1.60 and \$1.58 per pound at June 30, 2010 and 2009, respectively, as determined by Feeding America. The increase in food value per pound of \$0.02 from 2009 to 2010 resulted in a non-cash valuation gain of \$20,199 during the year ended June 30, 2010.

The increase in food value per pound of \$0.09 from 2008 to 2009 resulted in a non-cash valuation gain of \$118,056 during the year ended June 30, 2009. The donated food inventory values are summarized as follows:

	<u>Pounds</u>	<u>Dollar Value</u>	<u>Total</u>
As of June 30, 2010	<u>1,009,948</u>	\$ <u>1.60</u>	\$ <u>1,615,918</u>
As of June 30, 2009	<u>1,311,738</u>	\$ <u>1.58</u>	\$ <u>2,072,546</u>

CAPITAL AREA FOOD BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

9. INVENTORY (Continued)

In addition to donated food, the Food Bank also maintains an inventory of purchased food as follows:

	<u>Pounds</u>	<u>Total</u>
As of June 30, 2010	<u>342,842</u>	<u>\$ 336,191</u>
As of June 30, 2009	<u>661,674</u>	<u>\$ 601,415</u>

The Food Bank purchased 1,923,549 pounds and 2,353,696 pounds of food during the fiscal years ended June 30, 2010 and 2009, respectively. The Food Bank distributed 2,242,381 pounds of purchased food (totaling \$1,965,233) and 2,100,051 pounds of purchased food (totaling \$1,727,926) during the fiscal years ended June 30, 2010 and 2009, respectively.

10. PLEDGES RECEIVABLE

Pledges receivable reflect Capital Campaign (and other general operating time-restricted) commitments made to the Food Bank by individuals and foundations. Pledges for which payments are to be received in future years have been discounted to their present value using an interest rate effective on the original date of award.

The effect of the present value discount resulted in a decrease in pledges receivable of \$31,945 and \$54,173 as of June 30, 2010 and 2009, respectively.

The following is a summary of the discounted pledges receivable, by year, as of June 30, 2010 and 2009:

<u>Year Ended June 30,</u>	<u>2010</u>	<u>2009</u>
2010	\$ -	\$ 1,401,994
2011	2,316,542	562,287
2012	203,587	64,287
2013	30,100	30,100
2014	30,100	30,100
2015	30,100	30,000
2016 and Thereafter	<u>90,000</u>	<u>120,000</u>
	2,700,429	2,238,768
Less: Current maturities	(2,316,542)	(1,401,994)
Less: Discount	<u>(31,945)</u>	<u>(54,173)</u>
TOTAL NONCURRENT PLEDGES RECEIVABLE	<u>\$ 351,942</u>	<u>\$ 782,601</u>

CAPITAL AREA FOOD BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

11. TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2010 and 2009, temporarily restricted net assets consisted of the following:

	<u>2010</u>	<u>2009</u>
Agency Relations/FEMA	\$ 186,876	\$ 5,553
Nutrition Education/Kids Cafe	169,771	39,126
Harvest for Health	15,000	-
Food Resources	22,000	-
Capital Campaign	10,923,281	10,003,440
Restricted for time	<u>194,669</u>	<u>151,668</u>
	<u>\$11,511,597</u>	<u>\$10,199,787</u>

The Capital Campaign temporarily restricted net assets balance of \$10,923,281 and \$10,003,440 at June 30, 2010 and 2009 includes \$2,190,208 and \$2,023,840, respectively, of renovation costs incurred in connection with the renovation of the warehouse located at 4900 Puerto Rico Avenue, N.E., Washington, D.C. The amortization of these renovation costs will occur when the warehouse is placed into service; therefore, the restricted Capital Campaign net assets will be released into unrestricted revenue in conjunction with the same amortization period (based on the estimated service life of the warehouse).

12. NET ASSETS RELEASED FROM RESTRICTIONS

The following is a summary of net assets, which were released from donor restrictions by incurring expenses in accordance with donor stipulations or through the passage of time.

	<u>2010</u>	<u>2009</u>
Agency Relations/FEMA	\$ 378,722	\$ 51,584
Nutrition Education/Kids Cafe	320,797	281,025
Fresh Produce	15,000	107,740
Capital Campaign	421,260	424,810
Harvest for Health	65,500	-
Food Resources	2,000	-
Passage of time	<u>257,445</u>	<u>87,804</u>
	<u>\$ 1,460,724</u>	<u>\$ 952,963</u>

13. BOARD DESIGNATED NET ASSETS

As of June 30, 2010 and 2009, the Board designated net assets balance for capital improvement was \$395,672 and \$395,672, respectively.

14. PENSION PLANS

The Food Bank offers a Simplified Employee Pension (SEP) plan to full-time employees who have completed one full year of service. The Food Bank contributes 10% of an employee's salary with a maximum of \$30,000 per year. Pension expense was \$267,042 and \$268,929 during 2010 and 2009, respectively.

CAPITAL AREA FOOD BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

14. PENSION PLANS (Continued)

The Food Bank also administers a 403(b) tax-deferred annuity plan on behalf of its employees. Employee contributions are permitted up to the limit established by the 403(b) IRS regulations. There were no employer contributions made during 2010 and 2009.

15. CONTINGENCY

The Food Bank receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133.

The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2010. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

16. PURCHASE OF LAND, BUILDING AND FUTURE COMMITMENTS

On July 18, 2005, the Food Bank purchased an existing building at 4900 Puerto Rico Avenue, N.E., Washington, D.C. The total contract price of the land and building was \$10,350,000, with the land valued at \$8,098,875 and the building at \$2,251,125. The Food Bank plans to renovate the building and put it into use within the next five years as its primary warehouse. The acquisition and renovation costs were financed through bank loans, a note payable from the former owner and D.C. Government appropriations. The Food Bank is currently in its seventh year of a Capital Campaign. It is the intent that the Capital Campaign will raise significant funds to pay off most of the outstanding debt prior to occupancy.

On July 18, 2005, the Department of Housing and Community Development (DHCD) provided \$7,705,000 of financing in connection with the acquisition of the property. Under the terms of the agreement with DHCD, \$2,500,000 was forgiven during the year ended June 30, 2007 through the distribution of food products to D.C. member agencies. The remaining balance of \$5,205,000 is considered a 40-year deferred loan and is repayable only if the property is sold, the Food Bank moves away from the District of Columbia, or if it ceases to fulfil its principal mission.

In conjunction with the purchase of the property located at 4900 Puerto Rico Avenue, N.E., the Food Bank also entered into a one-year lease agreement (for space within the property) with the former owner. Included in the lease is an option to extend the lease for four, 6-month increments, and as of fiscal year-end, the lease agreement was terminated. The monthly lease payment due the Food Bank is approximately \$18,000, and during the years ended June 30, 2010 and 2009, the Food Bank collected \$0 and \$10,172, respectively, of rental income under the agreement.

17. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, the Food Bank has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

CAPITAL AREA FOOD BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

17. FAIR VALUE MEASUREMENTS (Continued)

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are inventories where values are based on unadjusted quoted prices for identical assets in an active market the Food Bank has the ability to access.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded on the Statements of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended June 30, 2010:

Asset Category:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds and Bonds	\$ 2,297,078	\$ -	\$ -	\$ 2,297,078
Inventory	<u>-</u>	<u>-</u>	<u>1,952,109</u>	<u>1,952,109</u>
TOTAL	<u>\$ 2,297,078</u>	<u>\$ -</u>	<u>\$ 1,952,109</u>	<u>\$ 4,249,187</u>

Level 3 Financial Assets

The following table provides a summary of changes in fair value of the Food Bank's inventory classified as Level 3 for the year ended June 30, 2010:

	<u>Inventory</u>
Beginning balance as of June 30, 2009	\$ 2,673,961
Increase in valuation of donated inventory	20,199
Purchases of inventory	1,700,010
Receipt of donated inventory	32,399,649
Sales and distributions of inventory	<u>(34,841,710)</u>
BALANCE AS OF JUNE 30, 2010	<u>\$ 1,952,109</u>

CAPITAL AREA FOOD BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

17. FAIR VALUE MEASUREMENTS (Continued)

Financial assets recorded on the Statements of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended June 30, 2009:

Asset Category:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds and Bonds	\$ 2,198,308	\$ -	\$ -	\$ 2,198,308
Certificates of Deposit	-	70,156	-	70,156
Inventory	<u>-</u>	<u>-</u>	2,673,961	2,673,961
TOTAL	<u>\$ 2,198,308</u>	<u>\$ 70,156</u>	<u>\$ 2,673,961</u>	<u>\$ 4,942,425</u>

Level 3 Financial Assets

The following table provides a summary of changes in fair value of the Food Bank's inventory classified as Level 3 for the year ended June 30, 2009:

	<u>Inventory</u>
Beginning balance as of June 30, 2008	\$ 1,911,450
Increase in valuation of donated inventory	118,056
Purchases of inventory	1,963,875
Receipt of donated inventory	25,021,097
Sales and distributions of inventory	<u>(26,340,517)</u>
BALANCE AS OF JUNE 30, 2009	<u>\$ 2,673,961</u>

18. CAPITAL CAMPAIGN EXPENSES

During the years ended June 30, 2010 and 2009, the Food Bank incurred \$421,260 and \$424,810, respectively, of expenses in conjunction with the Capital Campaign.

19. SUBSEQUENT EVENTS

In preparing these financial statements, the Food Bank has evaluated events and transactions for potential recognition or disclosure through October 18, 2010, the date the financial statements were issued.

On April 19, 2010, the Capital Area Food Bank Foundation (the Foundation) was incorporated as a 501(c)(3) organization of which the Food Bank is the sole member. The Foundation was formed with the sole purpose of being a supporting organization to the Food Bank. During the fiscal year ended June 30, 2010, no transactions occurred on behalf of the Foundation.