



**CAPITAL AREA FOOD BANK
AND CAPITAL AREA FOOD
BANK FOUNDATION**

**Consolidated Financial Statements and
Supplemental Information**

For the Year Ended June 30, 2016

(With Summarized Financial Information for the Year Ended June 30, 2015)



**and
Report Thereon**



**Reports Required in Accordance with
the Uniform Guidance**

For the Year Ended June 30, 2016



**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**TABLE OF CONTENTS
For the Year Ended June 30, 2016**

	Page
Independent Auditor’s Report	1-2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements.....	7-24
Supplemental Information	
Consolidating Statement of Financial Position	25
Consolidating Statement of Activities	26
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	27-28
Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	29-30
Schedule of Expenditures of Federal Awards	31-32
Notes to Schedule of Expenditures of Federal Awards	33-34
Schedule of Findings and Questioned Costs	35



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Capital Area Food Bank and
Capital Area Food Bank Foundation

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Capital Area Food Bank (CAFB) and its subsidiary, Capital Area Food Bank Foundation (the Foundation) (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Capital Area Food Bank and its subsidiary as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 consolidated financial statements, and we expressed an unmodified opinion in our report dated October 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 25 and 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. The accompanying 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*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the Organization'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 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 Organization's internal control over financial reporting and compliance.

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 26, 2016

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2016
(With Summarized Financial Information as of June 30, 2015)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 5,365,341	\$ 9,032,442
Cash and cash equivalents – restricted, current portion	134,200	121,649
Accounts receivable, net of allowance	226,016	234,229
Pledges receivable, current portion	104,950	1,276,997
Contributions and grants receivable	481,234	781,358
Interest receivable	119,864	119,864
Deferred financing costs, current portion	56,326	55,148
Inventory	5,764,821	5,536,324
Prepaid expenses and other deposits	46,521	137,131
Total Current Assets	12,299,273	17,295,142
Cash and cash equivalents – restricted, net of current portion	133,579	279,883
Pledges receivable, net of current portion	29,120	55,731
Investments	7,714,240	4,967,878
Deferred financing costs, net of current portion	976,035	1,032,069
Note receivable	20,833,437	20,833,437
Property and equipment, net	35,844,979	36,282,868
TOTAL ASSETS	\$ 77,830,663	\$ 80,747,008
LIABILITIES AND NET ASSETS		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 1,072,437	\$ 1,247,023
Capital lease obligations, current portion	160,798	187,398
Interest payable	121,649	121,649
Total Current Liabilities	1,354,884	1,556,070
Noncurrent Liabilities		
Capital lease obligations, net of current portion	588,519	630,493
Notes payable, noncurrent	34,005,000	34,005,000
Total Noncurrent Liabilities	34,593,519	34,635,493
TOTAL LIABILITIES	35,948,403	36,191,563
Net Assets		
Unrestricted		
Undesignated	22,175,104	22,298,956
Board-designated	-	395,672
Total Unrestricted Net Assets	22,175,104	22,694,628
Temporarily restricted	19,707,156	21,860,817
TOTAL NET ASSETS	41,882,260	44,555,445
TOTAL LIABILITIES AND NET ASSETS	\$ 77,830,663	\$ 80,747,008

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

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)**

	Unrestricted		Total	Temporarily Restricted	2016	2015
	Non-In-Kind	In-Kind			Total	Total
OPERATING REVENUE AND SUPPORT						
In-kind food contributions	\$ -	\$ 53,497,224	\$ 53,497,224	\$ -	\$ 53,497,224	\$ 48,978,569
Contributions and grants	8,641,563	-	8,641,563	1,644,305	10,285,868	12,040,038
Federal and state grants	3,736,201	-	3,736,201	-	3,736,201	3,746,045
Program service fees	2,035,478	-	2,035,478	-	2,035,478	2,096,154
Donated materials and services	-	579,102	579,102	-	579,102	523,222
Other income	300,509	-	300,509	-	300,509	96,462
Net assets released from restrictions:						
Released from purpose restrictions	3,159,655	-	3,159,655	(3,159,655)	-	-
Released from time restrictions	638,311	-	638,311	(638,311)	-	-
TOTAL OPERATING REVENUE AND SUPPORT	18,511,717	54,076,326	72,588,043	(2,153,661)	70,434,382	67,480,490
OPERATING EXPENSES						
Program Services:						
Food resourcing and logistics	9,328,096	20,252,911	29,581,007	-	29,581,007	26,276,405
Partner relations and agency training	1,734,827	793	1,735,620	-	1,735,620	2,234,703
Food for Kids	1,413,835	3,105	1,416,940	-	1,416,940	1,343,923
Government and direct distributions	2,813,826	32,949,700	35,763,526	-	35,763,526	33,521,321
Total Program Services	15,290,584	53,206,509	68,497,093	-	68,497,093	63,376,352
Supporting Services:						
Management and general	2,195,744	361,469	2,557,213	-	2,557,213	2,679,402
Fundraising	2,243,870	22,828	2,266,698	-	2,266,698	1,985,943
Total Supporting Services	4,439,614	384,297	4,823,911	-	4,823,911	4,665,345
TOTAL OPERATING EXPENSES	19,730,198	53,590,806	73,321,004	-	73,321,004	68,041,697
Change in net assets from operations	(1,218,481)	485,520	(732,961)	(2,153,661)	(2,886,622)	(561,207)
NONOPERATING ACTIVITIES						
Interest income from notes receivable	208,334	-	208,334	-	208,334	328,198
Interest expense from notes payable	(208,541)	-	(208,541)	-	(208,541)	(208,541)
Investment income	213,644	-	213,644	-	213,644	37,954
CHANGE IN NET ASSETS	(1,005,044)	485,520	(519,524)	(2,153,661)	(2,673,185)	(403,596)
NET ASSETS, BEGINNING OF YEAR	17,575,250	5,119,378	22,694,628	21,860,817	44,555,445	44,959,041
NET ASSETS, END OF YEAR	\$ 16,570,206	\$ 5,604,898	\$ 22,175,104	\$ 19,707,156	\$ 41,882,260	\$ 44,555,445

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

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)**

	Program Services				Supporting Services			2016 Total	2015 Total	
	Food Resourcing and Logistics	Partner Relations and Agency Training	Food for Kids	Government and Direct Distribution	Total Program Services	Management and General	Fundraising			Total Supporting Services
In-kind food distributions	\$ 20,243,457	\$ -	\$ 3,021	\$ 32,948,948	\$ 53,195,426	\$ -	\$ -	\$ -	\$ 53,195,426	\$ 48,984,680
Salaries and related benefits	3,713,478	1,235,220	185,529	1,323,743	6,457,970	1,522,883	1,072,814	2,595,697	9,053,667	8,293,462
Cost of purchased food distributed	1,144,197	15,872	14,787	601,383	1,776,239	-	-	-	1,776,239	1,732,570
Food freight and handling	1,644,547	-	-	-	1,644,547	-	-	-	1,644,547	1,626,419
Depreciation and amortization	1,215,350	61,119	20,644	41,799	1,338,912	67,220	38,899	106,119	1,445,031	1,322,062
Prepared meals	-	-	1,142,465	-	1,142,465	-	-	-	1,142,465	1,212,948
Fresh produce	319,433	-	45	625,707	945,185	-	-	-	945,185	579,804
Professional fees	1,250	1,425	-	-	2,675	116,504	717,462	833,966	836,641	916,075
Utilities	350,037	14,508	7,254	7,334	379,133	80,335	10,881	91,216	470,349	457,744
Donated materials and services	7,700	-	-	-	7,700	361,051	22,452	383,503	391,203	523,221
Vehicle expenses	232,181	1,621	8,121	54,115	296,038	-	-	-	296,038	389,967
Materials and supplies	139,629	37,675	10,499	68,467	256,270	23,635	6,448	30,083	286,353	239,966
IT software and hardware	94,845	55,430	11,297	46,170	207,742	27,184	46,718	73,902	281,644	188,940
Interest and bank fees	83,091	3,200	1,600	1,600	89,491	80,863	73,771	154,634	244,125	214,977
Repairs and maintenance	231,118	11,138	5,569	5,569	253,394	16,707	8,354	25,061	278,455	335,585
Special events expense	-	14,280	-	-	14,280	-	166,857	166,857	181,137	138,580
Bad debt expense	-	153,393	-	-	153,393	-	5,000	5,000	158,393	121,358
Insurance	127,739	6,156	3,078	3,078	140,051	9,234	4,617	13,851	153,902	186,822
Conferences and meetings	12,399	31,402	1,095	13,192	58,088	32,823	20,429	53,252	111,340	81,722
Miscellaneous	3,125	41,936	141	182	45,384	50,802	5,071	55,873	101,257	103,615
Advertising and promotion	535	13,840	350	6,389	21,114	53,687	24,808	78,495	99,609	174,473
Printing	6,861	21,917	-	10,172	38,950	29,618	15,857	45,475	84,425	62,343
Postage and shipping	816	3,427	-	470	4,713	39,355	14,041	53,396	58,109	61,812
Dues and subscriptions	-	1,330	-	-	1,330	36,217	7,390	43,607	44,937	58,788
Transportation	5,946	10,413	1,385	4,590	22,334	1,815	4,829	6,644	28,978	22,321
Training and development	3,273	318	60	618	4,269	7,280	-	7,280	11,549	11,443
TOTAL EXPENSES	\$ 29,581,007	\$ 1,735,620	\$ 1,416,940	\$ 35,763,526	\$ 68,497,093	\$ 2,557,213	\$ 2,266,698	\$ 4,823,911	\$ 73,321,004	\$ 68,041,697

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

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
(With Summarized Financial Information for the Year Ended June 30, 2015)
Increase (Decrease) in Cash and Cash Equivalents**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (2,673,185)	\$ (403,596)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	1,445,031	1,322,062
Donated property and equipment	(187,899)	-
Net unrealized and realized losses (gains) on investments	(61,293)	41,105
Loss on disposal of property and equipment	2,840	-
Change in allowance for doubtful accounts	9,603	-
Changes in assets and liabilities:		
Accounts receivable	(1,390)	16,314
Pledges receivable	1,198,658	297,524
Contributions and grants receivables	300,124	(231,185)
Interest receivable	-	(119,864)
Inventory	(228,497)	(31,902)
Prepaid expenses and other deposits	90,610	41,630
Accounts payable and accrued expenses	(174,586)	191,878
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(279,984)	1,123,966
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(638,125)	(985,007)
Purchase of investments	(3,638,383)	(2,530,058)
Proceeds from sales of investments	953,314	2,670,827
NET CASH USED IN INVESTING ACTIVITIES	(3,323,194)	(844,238)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease	(197,676)	(138,788)
NET CASH USED IN FINANCING ACTIVITIES	(197,676)	(138,788)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,800,854)	140,940
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,433,974	9,293,034
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,633,120	\$ 9,433,974
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 208,540	\$ 208,540
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under a capital lease	\$ 129,102	\$ 771,381
Donated property and equipment	\$ 187,899	\$ -
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	\$ 5,365,341	\$ 9,032,442
Cash and cash equivalents – restricted	267,779	401,532
	\$ 5,633,120	\$ 9,433,974

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

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies

A. Organization

The Capital Area Food Bank (CAFB) is a nonprofit organization organized under the laws of the District of Columbia. CAFB is a member of Feeding America, the nation's largest domestic hunger-relief organization consisting of a network of 200 food banks across the country. CAFB's mission is to create access to good, healthy food in every community. CAFB is the largest organization in the Washington metropolitan area working to solve hunger and its companion problems: chronic under nutrition, heart disease, and obesity. CAFB operates two warehouses that collect, process and sort food and distribute food to approximately 450 local nonprofit feeding programs throughout the Metropolitan Washington, D.C. area as well as delivering food directly into hard to reach areas. These local partners include shelters, low-income day care centers, soup kitchens and emergency food programs. In addition to collecting and distributing food, CAFB is active in implementing educational programs, sustainable agriculture/food security programs and community advocacy/outreach programs addressing the underlying causes of hunger. These activities are funded primarily through contributions, grants and in-kind food contributions.

CAFB administers several government and nongovernmental programs as described below.

Food Resourcing and Logistics

- a) Agency Shopping Mart: The Agency Shopping Mart enables our partner agencies to conserve their limited resources by ordering donated and purchased food from the CAFB at prices significantly lower than retail cost.
- b) Partner Direct: CAFB facilitates retail pick-up directly between food bank partners and food donors. This allows agencies to collect donations directly from stores, saving on transportation and other costs.

Partner Relations and Agency Training

- a) Urban Garden: A newly established garden on the food bank's Northeast Washington facility grounds features bee hives, raised beds, fruit trees, nutrition and gardening lessons, as well as supplying some produce for lessons in the Teaching Kitchen. Our garden program aims to train partner agencies in how to start their own gardens as a way of creating a low-cost sustainable food supply.

Food for Kids

- a) Kids Café/Afterschool and Summer Meals (CACFP and SFSP): The food bank provides free, healthy meals and snacks to over 4,000 students attending after-school and summer enrichment programs at partner sites.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

A. Organization (continued)

Government and Direct Distributions

- a) Commodity Supplemental Food Program (CSFP): We provide approximately 3,500 DC seniors with a bag of healthy groceries each month. In the summer, participants also receive produce vouchers redeemable at participating farmer's markets.
- b) The Emergency Food Assistance Program (TEFAP): CAFB receives USDA commodities and distributes them to certain qualified agencies without any service fees. Over 6.8 million pounds were distributed under this program in the past fiscal year.
- c) Senior Brown Bag: CAFB provides almost 6,000 seniors with a 30-40 pound bag of groceries each month. Healthy recipes, a nutrition newsletter, and information on how to access community resources in specific neighborhoods are also included.
- e) Weekend Bag: This program provides kid-friendly bags of groceries for children to ensure that they have enough to eat when not at school. This program serves nearly 1,800 children weekly at over 50 sites around the region.
- f) Family Markets: CAFB sets up client-choice style food markets in area schools, currently serving over 8,000 families per month in DC, Maryland and Virginia.
- g) Mobile Markets: In partnership with community sites such as recreation centers and churches, CAFB hosts 89 monthly Mobile Markets for residents to attend and receive assistance.
- h) Community Marketplace: At this monthly farmer's market-inspired event, CAFB offers fresh, seasonal produce at no cost. Health, housing, and other service providers are also on site as additional resources for clients. Presently, three Community Marketplaces serve hundreds of clients one Saturday a month; one each in Virginia, Maryland and D.C.
- i) Joyful Food Markets: This monthly, pop-up grocery market takes place at schools in DC's Wards 7 and 8. Each market provides families with healthy, non-perishable groceries and fresh produce.

In addition to the CAFB's 125,000 square foot distribution center and offices in Northeast Washington, a 12,000 square foot warehouse and office facility in Lorton serves our Northern Virginia agencies and direct service programs.

The Capital Area Food Bank Foundation (the Foundation) is a nonprofit entity organized under the laws of the District of Columbia. Incorporated on April 29, 2010, the Foundation was organized solely to support the charitable purposes, mission, goals and activities of CAFB, the Foundation's sole member. As such, the Foundation's activities include raising funds, including capital and endowment funds, and managing and investing such funds for the benefit of its supported organization, CAFB. The Foundation is governed by a Board of Directors who is appointed by CAFB's Board of Directors.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

B. Principles of Consolidation

The consolidated financial statements of CAFB and the Foundation (collectively known as the Organization) have been prepared on the accrual basis of accounting. CAFB and the Foundation have been consolidated due to the presence of common control and economic interest, as required under accounting principles generally accepted in the United States of America (GAAP). All significant inter-company balances and transactions between CAFB and the Foundation have been eliminated during consolidation.

C. Basis of Accounting

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with GAAP. Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

D. Cash and Cash Equivalents

The Organization considers all cash, other highly liquid investments with initial maturities of three months or less and store credits to be cash and cash equivalents. Restricted cash and cash equivalents include a loan reserve established for payment of the servicing fee in compliance with the notes payable agreement related to the New Market Tax Credit (NMTC) Program.

E. Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income, including net realized and unrealized gains (losses), is reflected in the consolidated statement of activities as an increase (decrease) in unrestricted net assets, unless the investment income use is restricted by explicit donor stipulation for a specific purpose or law. Interest and dividend income is recorded on the accrual basis. The Organization's investments consist of fixed-income securities, equity mutual funds, other mutual funds, and real asset mutual funds.

The Organization's investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to these risk factors, it is reasonably possible that changes in the value of investments will occur in the near future and will materially affect the amounts reported in the consolidated financial statements.

F. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

F. Fair Value Measurements (continued)

assumptions that market participants would use in pricing the asset or liability. In order to increase consistency and comparability in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. The three levels of fair value hierarchy are described as follows:

Level 1 – Based on unadjusted, quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3 – Based on unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining fair value.

As of June 30, 2016, only the Organization's investments, as described in Note 5, were measured at fair value on a recurring basis.

G. Allowance for Doubtful Accounts

The Organization uses the allowance method to record potentially uncollectible receivables. The allowance for doubtful accounts is determined based upon an annual review of receivable balances, including the age of the balance and the historical experience with the donor or agency partner.

H. Pledges, Contributions and Grants Receivable

Promises to give are recognized as revenue when the donor has made an unconditional promise to contribute funds to the Organization in future periods. Promises to give are recorded at their net realizable value if expected to be collected within one year or at their present value if expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off.

I. 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 Independent Accountants' Report of the estimated weighted average wholesale value of such goods. Management believes this benchmark reflects the most accurate basis of estimating the value of the Organization's donated food goods and it is a widely accepted standard used by other food banks throughout the United States. For the year ended June 30, 2016, the value of donated goods and inventory balance reported in the consolidated statement of financial position was calculated using the calendar year 2014 estimate of \$1.70 per pound, which was the most recent number available when the Organization's fiscal year started.

Continued

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

J. Deferred Financing Costs

Deferred financing costs associated with the NMTC transactions are recorded as an asset and are amortized on a straight-line basis over the life of the related debt.

K. Property and Equipment and Related Depreciation and Amortization

Property and equipment are stated at cost or, the fair value at date of gift for donated assets. Property and equipment under capital leases are capitalized and recorded at the present value of the future minimum lease payments. The Organization capitalizes all purchases with acquisition values over \$1,500 and a useful life greater than one year. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	20 to 39 years
Warehouse equipment	3 to 10 years
Office and computer equipment	3 to 10 years
Vehicles	5 to 10 years
Software	3 to 5 years

Property and equipment held under capital leases are amortized on a straight-line basis over the lesser of the leases' terms and anticipated renewals or the estimated useful lives of the assets.

The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support or expenses in the accompanying consolidated statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

L. Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. There were no impairment losses recognized for the year ended June 30, 2016.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

M. Net Assets

The net assets of the Organization are reported as follows:

- Unrestricted net assets represent the portion of resources that are available for support of the Organization's operations. The in-kind portion of unrestricted net assets represents the balance of in-kind donations after distributions of donated food and the amortization of capitalized in-kind donations for the year. Board-designated net assets represent net assets which have been restricted by the Board for future capital improvement expenditures. During the year ended June 30, 2016, the CAFB Board removed this designation from the portion of unrestricted net assets previously restricted for this use.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

N. Revenue Recognition

Revenue from contributed food received, expense for contributed food distributed, and the contributed food inventory value, are determined based on the Feeding America per pound valuation described under the Inventory section of Note 1. The Organization treats contributed food as unrestricted contributions and records the revenue based on the pounds of food contributed, upon receipt, during the year.

The Organization recognizes all unconditional contributed support and pledges at their net realizable value in the period in which the commitment is made. Grants, contributions and pledges are considered unrestricted revenue and support and are available for general operations unless specifically restricted by the donor. The Organization reports grants, contributions and pledges of cash and other assets as temporarily restricted revenue and support if they are received with donor stipulations that limit the use of the donated assets as to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions.

Revenue recognized for grants and contributions that have been committed to the Organization but have not been received is reflected as contributions and grants receivable in the accompanying consolidated statement of financial position.

Program service fees are comprised of revenue earned by the Organization for the delivery of food products to its partner agencies. This revenue consists of the cost reimbursement for purchased food and a per pound shared maintenance fee on donated goods. This revenue is recognized upon the partner agency's receipt of the food.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies (continued)

N. Revenue Recognition (continued)

Federal and state grant revenue is recognized as it is earned through expenditures in accordance with the agreements. On other grant awards, revenue is recognized based on the submission for reimbursement of administration costs related to food commodity distribution by the Organization. Revenue recognized on federal grant awards for which billings have not been presented to or collected from the awarding agency is included in contributions and grants receivable in the accompanying consolidated statement of financial position.

Donated materials and services are recognized at the estimated fair value when received. Donated services are recognized if the services received create or enhance nonfinancial assets or if the services require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Contributions of long-lived assets or of cash and other assets restricted to the purchase of long-lived assets are reported as restricted support that increases temporarily restricted net assets. Depreciation is recorded over the asset's useful life, and net assets are reclassified from temporarily restricted to unrestricted as depreciation is recognized.

O. Functional Allocation of Expenses

The costs of providing the various programs, supporting services and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated proportionately among the programs, supporting services and other activities benefited based on usage or other equitable bases established by management.

P. Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, expenses and other changes in net assets during the reporting period. Accordingly, actual results could differ from those estimates.

Q. Definition of Operations

Operating revenue and expenses generally reflect those revenues and expenses that arise from the Organization's programmatic and supporting activities and exclude interest revenue from notes receivable, investment income and interest expense on notes payable. This is a change in policy from the prior year, as only investment income was considered to be a non-operating activity in the prior year.

2. Accounts, Contributions and Grants Receivable

Accounts receivable are composed primarily of amounts due from partner agencies and are shown net of an allowance for doubtful accounts of \$51,591 as of June 30, 2016.

Continued

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

2. Accounts, Contributions and Grants Receivable (continued)

Contributions and grants receivable consist of amounts due from government agencies. All amounts are due within one year and are considered fully collectible; thus, no allowance has been recorded.

3. Pledges Receivable

Pledges receivable primarily reflect capital campaign commitments made to the Organization by individuals and foundations. As of June 30, 2016, the pledges receivable were due to be collected as follows:

Within one year	\$ 104,950
One to five years	<u>30,000</u>
Gross Pledges Receivable	134,950
Less: Discount to Net Present Value at 1.5%	<u>(880)</u>
Pledges Receivable, Net	<u><u>\$ 134,070</u></u>

4. Investments

Investments consisted of the following as of June 30, 2016:

Fixed-income securities	\$ 2,578,384
Equity mutual funds	4,048,883
Real asset mutual funds	595,671
Other mutual funds	360,393
Cash and cash equivalents	<u>130,909</u>
Total Investments	<u><u>\$ 7,714,240</u></u>

Investment income is summarized as follows for the year ended June 30, 2016:

Interest and dividends	\$ 187,616
Net realized and unrealized gains	61,293
Investment fees	<u>(35,265)</u>
Total Investment Income	<u><u>\$ 213,644</u></u>

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

5. Fair Value Measurements

The table below summarizes the Organization's investments measured at fair value on a recurring basis as of June 30, 2016, aggregated by the fair value hierarchy level with which those measurements were made:

	Fair Value Total	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Fixed-income securities:				
Corporate bonds	\$ 1,096,893	\$ -	\$ 1,096,893	\$ -
U.S. Treasury bonds	748,236	-	748,236	-
Emerging market bonds	257,680	-	257,680	-
High yield bonds	210,385	-	210,385	-
World bond	136,940	-	136,940	-
Bank loan	72,360	-	72,360	-
Mortgage backed securities	55,890	-	55,890	-
Equity mutual funds:				
Domestic mutual funds	2,931,684	2,931,684	-	-
International mutual funds	1,117,199	1,117,199	-	-
Real asset mutual funds:				
Real estate	525,413	525,413	-	-
Commodities	70,258	70,258	-	-
Other mutual funds:				
Managed futures	39,619	39,619	-	-
Multi-alternatives	155,367	155,367	-	-
Long/short equity	165,407	165,407	-	-
Total Investments ^(a)	<u>\$ 7,583,331</u>	<u>\$ 5,004,947</u>	<u>\$ 2,578,384</u>	<u>\$ -</u>

(a) Excludes cash \$130,909 which is not considered a fair value measurement.

The following is a description of the valuation methodology used to determine the fair value for investments.

Real asset funds and equity and other mutual funds – Valued at quoted prices available in an active market for identical assets.

Fixed-income securities – Valued based on current yields, the securities' terms and conditions, and market activity. Information used includes market sources, credit information, observed market movement and sector news. The value is provided to the Organization by the investment manager.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

6. Inventory

The Organization utilizes a variety of channels to maximize the distribution of healthy food throughout the region. The largest pipelines consist of food donated by local retailers and the general public. These are referred to as Donated in the tables below. The Organization also acts as a pass-through distribution partner to several government food commodity programs that are reflected in the Government section in the tables below. These two channels are supplemented by the Purchased Product and Fresh Produce Program described as Purchased below.

In addition to the food distributed directly by the Organization to its member agencies and other food banks, over thirteen million pounds of food were distributed through the Organization's Partner Direct Program during the year ended June 30, 2016. The value of approximately four million pounds of this total was reported to the Organization by certain member agencies and partners and was included in the Organization's accompanying consolidated financial statements. The other nine million pounds of these food contributions were not included in the Organization's consolidated financial statements as the Organization never took custody of the goods and did not determine which entities received the in-kind goods. Accordingly, these are disclosed as Partner Direct Proxy.

A summary of the value of food contributions, purchases, distributions and inventory balances for the year ended June 30, 2016, are as follows:

	Beginning Inventory	Purchases and Receipts	Distributed	Ending Inventory
Purchased	\$ 416,944	\$ 2,630,044	\$ (2,703,345)	\$ 343,643
Government	2,095,327	16,053,574	(14,577,564)	3,571,337
Donated	3,024,053	37,443,650	(38,617,862)	1,849,841
	5,536,324	56,127,268	(55,898,771)	5,764,821
Partner Direct Proxy	-	15,676,550	(15,676,550)	-
Grand Total	\$ 5,536,324	\$ 71,803,818	\$(71,575,321)	\$ 5,764,821

A summary of the pounds of food contributions, purchases, distributions and inventory balances for the year ended June 30, 2016, are as follows:

	Beginning Inventory	Purchases & Receipts	Distributed	Ending Inventory
Purchased	551,510	5,976,339	(6,141,800)	386,049
Government	1,219,551	9,442,468	(8,561,811)	2,100,208
Donated	1,756,823	21,942,908	(22,612,015)	1,087,716
	3,527,884	37,361,715	(37,315,626)	3,573,973
Partner Direct Proxy	-	9,221,498	(9,221,498)	-
Grand Total	3,527,884	46,583,213	(46,537,124)	3,573,973

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

7. Property and Equipment and Accumulated Depreciation and Amortization

The Organization's property and equipment consisted of the following as of June 30, 2016:

Building and improvements	\$ 27,119,748
Land	8,604,775
Vehicles	2,407,689
Warehouse equipment	1,569,416
Office and computer equipment	1,194,953
Software and IT Infrastructure	<u>961,396</u>
Total Property and Equipment	41,857,977
Less: Accumulated Depreciation and Amortization	<u>(6,012,998)</u>
Property and Equipment, Net	<u>\$ 35,844,979</u>

Depreciation and amortization expense related to property and equipment totaled \$1,390,174 for the year ended June 30, 2016, and is included as depreciation and amortization expense in the accompanying consolidated statement of functional expenses.

8. Notes Payable and New Market Tax Credit Transactions

On July 18, 2005, the Organization purchased an existing building at 4900 Puerto Rico Avenue, N.E., Washington, D.C. 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. partner agencies. The remaining balance of \$5,205,000 is considered a 40-year deferred loan and is repayable only if the property is sold, if the Organization moves away from the District of Columbia, or if the Organization ceases to fulfill its principal mission. Management has determined that the imputed interest on the note payable, which is conditioned on the Organization fulfilling the above criteria, is immaterial to the consolidated financial statements taken as a whole, and therefore not reflected in these consolidated financial statements. The loan is secured by a deed of trust on the Organization's interest in the land and improvements of the property.

In November 2010, the Organization entered into a financial arrangement to help fund the cost of a new warehouse and its office facility at 4900 Puerto Rico Avenue, N.E., Washington, D.C. through the use of the NMTC program. Under this arrangement, the Organization received a loan of \$19,200,000 from City First Capital 25 LLC (City First Capital) and two loans totaling \$9,600,000 from Enhanced Capital New Market Development Fund VIII LLC (Enhanced Capital), aggregating \$28,800,000. The note payable to City First Capital requires payment of interest only at 0.7241% per annum until December 1, 2017. Thereafter, annual payments of \$909,237, plus interest at 0.7241% per annum are due until December 1, 2040. The notes payable to Enhanced Capital require payments of interest only at 0.7241% per annum until

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

8. Notes Payable and New Market Tax Credit Transactions (continued)

December 1, 2017. Thereafter, annual payments of \$454,618, with interest at 0.7241% per annum, are due until December 1, 2040. As of June 30, 2016, the Organization has accrued interest payable of \$121,649 related to these notes. The loan is secured by a deed of trust in the Organization's interest in the property (the warehouse and office facility). Total outstanding notes payable aggregate \$34,005,000 and are classified as all long-term in the accompanying financial statements.

CAFB formed the Foundation as a supporting organization and made a \$20,861,591 contribution to the Foundation. In conjunction with the financing arrangements, the Foundation provided a loan of \$20,833,437 to CAFB NMTC Investment Trust LLC (an unaffiliated investment structure). The loan is evidenced by a promissory note from the Investment Trust LLC, carrying an interest rate of 1% per annum, payable annually starting on December 10, 2010, providing for amortization of the principal from December 10, 2017, to the maturity date of December 10, 2034, with the first principal payment due on December 10, 2018, and secured by the interests of the Investment Trust LLC in the two lenders discussed in the second paragraph of this note. During the year ended June 30, 2016, the Foundation was paid \$208,334 in interest income related to this note receivable.

In December 2017, the lenders that own the investment structure may put their interest in the investment structure to the Foundation for a put price of \$1,000. If the lenders do not exercise their put right, the Foundation may call the lenders' interest in the investment structure for a call price equal to the fair value of the investment. Exercise of the put or the call will provide the Foundation with ownership of the investment structure, and will allow for the settlement of the associated NMTC notes receivable and payable as the Foundation will be the holder of CAFB's note payable and, as such, the loan will be eliminated in the consolidated financial statements. It is anticipated that the loan will be discharged.

As of June 30, 2016, restricted cash and cash equivalents were composed of a loan servicing reserve in the amount of \$267,779.

As part of the transaction, the Foundation was required to provide a guarantee for all the existing notes payable.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

9. Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets were available for the following programs or purposes as of June 30, 2016:

Capital:	
Capital Campaign	\$ 17,723,662
Other Capital Purchases	<u>622,068</u>
Total Capital	<u>18,345,730</u>
Operational:	
Fresh Produce	748,227
Childhood Nutrition	305,169
Distribution Expansion	90,126
Missing Meals Virtual Giving Platform	25,716
Partner Relations and Support	57,123
Family Markets	86,513
Healthy Food Purchases Support	39,716
Hunger Awareness	<u>8,836</u>
Total Operational	<u>1,361,426</u>
Total Temporarily Restricted Net Assets	<u>\$ 19,707,156</u>

The Capital Campaign temporarily restricted net assets are associated with the costs incurred in connection with the construction of the offices and warehouse located at 4900 Puerto Rico Avenue, N.E., Washington, D.C. The depreciation of these construction costs commenced during the year ended June 30, 2013, when the building was placed into service. The Organization has elected to release the restricted Capital Campaign net assets into unrestricted revenue and support over the life of the building for which the funds were raised.

Other capital purchases represent funds received to acquire other long-lived assets that support the Organization's mission. Similarly to the Capital Campaign, the Organization has elected to release these net asset funds into unrestricted revenue over the life of the underlying assets.

Operational temporarily restricted net assets are comprised of funding received to support various programs the Organization administers. Operational funds are released into unrestricted revenue as eligible costs related to the specified programs are incurred.

10. In-Kind Food Contributions and Distributions

The Organization's receipt of donated food is recorded as in-kind food contributions revenue in the accompanying consolidated statement of activities. Distributions of in-kind food are included in-kind food distributions in the accompanying consolidated statement of functional expenses.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

10. In-Kind Food Contributions and Distributions (continued)

A summary of the value of in-kind food contributions and distributions for the year ended June 30, 2016, are as follows:

	Beginning Inventory	Received	Distributed	Ending Inventory
Government	\$ 2,095,327	\$ 16,053,574	\$(14,577,564)	\$ 3,571,337
Donated	3,024,053	37,443,650	(38,617,862)	1,849,841
Grand Total	\$ 5,119,378	\$ 53,497,224	\$(53,195,426)	\$ 5,421,176

A summary of in-kind food contributions and distributions in pounds for the year ended June 30, 2016, are as follows:

	Beginning Inventory	Received	Distributed	Ending Inventory
Government	1,219,551	9,442,468	(8,561,811)	2,100,208
Donated	1,756,823	21,942,908	(22,612,015)	1,087,716
Grand Total	2,976,374	31,385,376	(31,173,826)	3,187,924

11. Donated Materials and Services

In addition to in-kind food contributions, the Organization also receives donated materials and services which are used to further the Organization's activities. The following is a summary of donated materials and services received during the year ended June 30, 2016:

Legal services	\$ 319,375
Donated materials	252,027
Other services	7,700
Total Donated Materials and Services	\$ 579,102

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

12. Commitments, Contingencies and Risks

Capital Leases

The Organization is obligated under various capital leases for vehicles. These capital leases are scheduled to expire at various dates through December 2023. The cost of vehicles included in fixed assets that were acquired under capital lease totaled \$1,430,263, with accumulated depreciation of \$787,009, as at June 30, 2016. Future minimum capital lease payments, together with the present value of net minimum capital payments, as of June 30, 2016, are as follows:

For the Year Ending June 30,		
2017	\$	160,798
2018		137,712
2019		137,712
2020		137,712
2021		137,712
Thereafter		78,404
Total Minimum Payment Required		790,050
Less: Amount Representing Interest at Various Rates		(40,733)
Present Value of Net Minimum Capital Lease Payments		749,317
Less: Current Portion		(160,798)
Long-Term Portion	\$	588,519

Operating Leases

The Organization is obligated as a lessee under several noncancelable operating leases for its equipment. The leases expire at various times through December 2020. The future minimum lease obligations under these agreements are as follows:

For the Year Ending June 30,		
2017	\$	38,906
2018		25,596
2019		15,411
2020		5,226
2021		2,613
Total	\$	87,752

Equipment rental expense totaled \$39,579 for the year ended June 30, 2016, and is included in miscellaneous in the accompanying consolidated statement of functional expenses.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

12. Commitments, Contingencies and Risks (continued)

Office of Management and Budget Uniform Guidance

The Organization has instructed its independent auditors to audit its applicable federal programs for the year ended June 30, 2016, in compliance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), issued by the U.S. Office of Management and Budget. Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the review by the federal agencies of the independent auditor's reports for the year ended June 30, 2016, will not have a material effect on the Organization's consolidated financial position as of June 30, 2016, or its results of operations for the year then ended.

13. Financial Instruments and Credit Risk

Concentration of Credit Risk

Financial instruments, which potentially subject the Organization to a concentration of credit risk, consist principally of cash balances maintained at various creditworthy financial institutions. While the amount at a given bank at times exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, the Organization has not experienced, nor does it anticipate, any losses on its funds. At June 30, 2016, the amount in excess of the Federal Deposit Insurance Corporation insured limit of \$250,000 was approximately \$4,147,000.

14. Related Parties

Included among the Organization'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. Six members of the two Boards work for companies, which have contributed to the support of the Organization or receive food distributions from the Organization.

15. Pension Plan

The Organization sponsors a Simplified Employee Pension (SEP) plan for full-time employees who have completed one full year of service. The Organization contributes 10% of an employee's salary with a maximum contribution of \$30,000 per year. Pension expense totaled \$499,479 for the year ended June 30, 2016. The Organization 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 to the 403(b) plan during the year ended June 30, 2016.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

15. Pension Plan (continued)

The Organization modernized its retirement plans to mirror industry practice effective July 1, 2016. Employees with over five years of service with the Organization were grandfathered under the previous policy in which the Organization makes an employer contribution equal to 10% of the employee's salary. Staff members with less than five years of service were converted to a new plan based on longevity as detailed below. The most notable changes to the overall plan were the addition of the Organization-funded retirement contributions based on employee contributions (Employee Contribution Match below) and tiered rates based on years of service with the Organization.

Years of Service	Organization Automatic Retirement Contribution	Eligibility for Employee Contribution	Employee Contribution Match
0 to 1	0%	Yes	0%
1 to 3	3%	Yes	Up to 3%
3+	5%	Yes	Up to 3%
Grandfathered Employees	10%	Yes	0%

Lastly, the Organization suspended the 403(b) and SEP plans and instead utilizes 457(b) and 401(k) plans for fiscal year 2017 and subsequent contributions.

16. Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC) and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. No provision for income taxes is required for the year ended June 30, 2016, as the Organization had no unrelated business income. Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken uncertain tax positions that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and concluded there are no uncertain positions taken that may have any effect on its tax-exempt status and no provision for income taxes is required for the year ended June 30, 2016.

As of June 30, 2016, the statute of limitations for tax years ended June 30, 2013, through June 30, 2015 remains open with the U.S. federal jurisdiction and/or the various states and local jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2016, the Organization had no accruals for interest and/or penalties.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

17. Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 financial statement presentation.

18. Prior Year Summarized Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2015, from which the summarized information was derived.

19. Subsequent Events

In preparing these consolidated financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 26, 2016, the date the consolidated financial statements were issued. Except as disclosed in Note 15 related to changes to the employer contribution to the retirement plan, there were no subsequent events that require recognition or disclosure in these financial statements.

SUPPLEMENTAL INFORMATION

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2016**

	Capital Area Food Bank	Capital Area Food Bank Foundation	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 4,316,507	\$ 1,048,834	\$ -	\$ 5,365,341
Cash and cash equivalents – restricted, current portion	134,200	-	-	134,200
Accounts receivable, net of allowance	226,016	-	-	226,016
Pledges receivable, current portion	104,950	-	-	104,950
Contributions and grants receivable	481,234	-	-	481,234
Interest receivable	-	119,864	-	119,864
Deferred financing costs, current portion	56,326	-	-	56,326
Inventory	5,764,821	-	-	5,764,821
Prepaid expenses and other deposits	46,521	-	-	46,521
Total Current Assets	11,130,575	1,168,698	-	12,299,273
Cash and cash equivalents – restricted, net of current portion	133,579	-	-	133,579
Pledges receivable, net of current portion	29,120	-	-	29,120
Investments	-	7,714,240	-	7,714,240
Deferred financing costs, net of current portion	976,035	-	-	976,035
Note receivable	-	20,833,437	-	20,833,437
Property and equipment, net	35,844,979	-	-	35,844,979
TOTAL ASSETS	\$ 48,114,288	\$ 29,716,375	\$ -	\$ 77,830,663
LIABILITIES AND NET ASSETS				
Liabilities				
Current Liabilities				
Accounts payable and accrued expenses	\$ 1,072,437	\$ -	\$ -	\$ 1,072,437
Capital lease obligations, current portion	160,798	-	-	160,798
Interest payable	121,649	-	-	121,649
Total Current Liabilities	1,354,884	-	-	1,354,884
Noncurrent Liabilities				
Capital lease obligations, net of current portion	588,519	-	-	588,519
Notes payable, noncurrent	34,005,000	-	-	34,005,000
Total Noncurrent Liabilities	34,593,519	-	-	34,593,519
TOTAL LIABILITIES	35,948,403	-	-	35,948,403
Net Assets				
Unrestricted	(7,541,271)	29,716,375	-	22,175,104
Temporarily restricted	19,707,156	-	-	19,707,156
TOTAL NET ASSETS	12,165,885	29,716,375	-	41,882,260
TOTAL LIABILITIES AND NET ASSETS	\$ 48,114,288	\$ 29,716,375	\$ -	\$ 77,830,663

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	Capital Area Food Bank	Capital Area Food Bank Foundation	Eliminations	Total
OPERATING REVENUE AND SUPPORT				
In-kind food contributions	\$ 53,497,224	\$ -	\$ -	\$ 53,497,224
Contributions and grants	10,285,868	-	-	10,285,868
Federal and state grants	3,736,201	-	-	3,736,201
Program service fees	2,035,478	-	-	2,035,478
Donated materials and services	579,102	-	-	579,102
Other income	300,509	-	-	300,509
	<u>70,434,382</u>	<u>-</u>	<u>-</u>	<u>70,434,382</u>
TOTAL OPERATING REVENUE AND SUPPORT				
OPERATING EXPENSES				
Program Services:				
Food resourcing and logistics	29,581,007	-	-	29,581,007
Partner relations and agency training	1,735,620	-	-	1,735,620
Food for Kids	1,416,940	-	-	1,416,940
Government and direct distributions	35,763,526	-	-	35,763,526
	<u>68,497,093</u>	<u>-</u>	<u>-</u>	<u>68,497,093</u>
Total Program Services				
Supporting Services:				
Management and general	2,557,213	-	-	2,557,213
Fundraising	2,266,698	-	-	2,266,698
	<u>4,823,911</u>	<u>-</u>	<u>-</u>	<u>4,823,911</u>
Total Supporting Services				
TOTAL OPERATING EXPENSES				
	<u>73,321,004</u>	<u>-</u>	<u>-</u>	<u>73,321,004</u>
Change in net assets from operations	(2,886,622)	-	-	(2,886,622)
NONOPERATING ACTIVITIES				
Interest income from notes receivable	-	208,334	-	208,334
Interest expense from notes payable	(208,541)	-	-	(208,541)
Investment income	3,737	209,907	-	213,644
	<u>3,737</u>	<u>209,907</u>	<u>-</u>	<u>213,644</u>
CHANGE IN NET ASSETS	(3,091,426)	418,241	-	(2,673,185)
NET ASSETS, BEGINNING OF YEAR	<u>15,257,311</u>	<u>29,298,134</u>	<u>-</u>	<u>44,555,445</u>
NET ASSETS, END OF YEAR	<u>\$ 12,165,885</u>	<u>\$ 29,716,375</u>	<u>\$ -</u>	<u>\$ 41,882,260</u>



Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Capital Area Food Bank and
Capital Area Food Bank Foundation

Report on the Financial Statements

We have audited, in accordance with the 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 consolidated financial statements of the Capital Area Food Bank and Capital Area Food Bank Foundation (collectively referred to as the Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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 internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Continued

Compliance and Other Matters

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

Purpose of this Report

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

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 26, 2016



Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Capital Area Food Bank and
Capital Area Food Bank Foundation

Report on Compliance for Each Major Federal Program

We have audited the Capital Area Food Bank and Capital Area Food Bank Foundation's (collectively referred to as the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization'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 its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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* (the 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 Organization'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2016.

Continued

Report on Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing 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 Organization'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 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. We did not identify any deficiencies in 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.

Raffa, P.C.

Raffa, P.C.

Washington, DC
October 26, 2016

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
FOOD AND NUTRITION SERVICES:			
Child and Adult Care Food Program	10.558		
Pass-through from Maryland State Department of Education		MSDE-BS/NT-SNPA	\$ 344,988
Pass-through from the Virginia Department of Health		N/A	177,966
Pass-through from the District of Columbia Office of the State Superintendent of Education (OSSE)		V-162	<u>370,652</u>
Subtotal CFDA #10.558			<u>893,606</u>
Children and Nutrition Cluster (CFDA Numbers 10.553, 10.555, 10.556 and 10.559):			
Summer Food Service Program for Children	10.559		
Pass-through from Maryland State Department of Education		347105	115,137
Pass-through from the District of Columbia OSSE		N/A	79,021
Pass-through from Virginia Department of Health		59962	<u>72,175</u>
Subtotal CFDA #10.559 and Children and Nutrition Cluster			<u>266,333</u>
Food Distribution Cluster (CFDA Numbers 10.565, 10.568 and 10.569):			
Commodity Supplemental Food Program	10.565		
Pass-through from District of Columbia Office on Aging (<i>Food Commodities</i>)		CFB05A-16	1,125,791
Pass-through from District of Columbia Office on Aging		CFB05A-146	<u>467,074</u>
Subtotal CFDA #10.565			<u>1,592,865</u>
Emergency Food Assistance Program (Administrative Costs)	10.568		
Pass-through from Virginia Department of Agriculture and Consumer Services (VDACS)		67-150	162,352
Pass-through from District of Columbia OSSE Wellness and Nutrition Services Division		N/A	178,763
Pass-through from Maryland Department of Human Resources Family Investment Administration		FIA/FNS 15-031	<u>452,345</u>
Subtotal CFDA #10.568			<u>793,460</u>
Emergency Food Assistance Program (Food Commodities)	10.569		
Pass-through from District of Columbia OSSE Wellness and Nutrition Services Division		N/A	1,930,845
Pass-through from VDACS		67-150	1,908,080
Pass-through from Maryland Department of Human Resources Family Investment Administration		FIA/FNS 15-031	<u>2,398,409</u>
Subtotal CFDA #10.569			<u>6,237,334</u>
Total Food Distribution Cluster CFDA #10.565, 10.568 and 10.569			<u>8,623,659</u>
Total U.S. Department of Agriculture			<u>12,169,923</u>

See accompanying notes to this schedule.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

(continued)

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)			
<i>Community Development Block Grant Program (Mortgage)</i>	14.248		
Pass-through from District of Columbia Department of Housing and Urban Development – Outstanding loan balance on a loan provided by HUD		DC-DHCD No. 2005-28	<u>\$ 5,205,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 14,988,598</u>

See accompanying notes to this schedule.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

1. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. Consequently, amounts are recorded as expenditures when the obligations are incurred.

Subrecipients

For the year ended June 30, 2016, the Organization issued no awards to subrecipients as defined under the Uniform Guidance.

Cost Principles

Federal expenditures were recognized following the cost principles contained in OMB Circular A-122 *Cost Principles for Non Profit Organizations*. The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

2. Donated Food Commodities

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the commodities received and disbursed to partner agencies based on the values determined by USDA. As of June 30, 2016, the Organization had food commodities totaling \$3,571,337 in inventory related to the federal programs.

3. U.S. Department of Housing and Urban Development Loan

For loans and loan guarantees received from a federal agency, Section 2 CFR 200.502 of the Uniform Guidance indicates the rules for determining federal awards expended and considers the fact that the federal government is at risk for loans and loan guarantees until the debt is repaid. The first component of the amount to be considered in federal awards expended is new loans received during the fiscal year. If in a subsequent year the loan balance is still outstanding, and the federal government imposes continuing compliance requirements, the balance is also considered to be part of federal expenditures for the purpose of determining the need for a single audit. The Organization did not receive any new loans during the year ended June 30, 2016. However, the Organization has one outstanding loan balance which is included in the schedule of expenditures of federal awards as the loan has continuing compliance requirements.

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016**

4. Reconciliation of Schedule of Expenditures of Federal Awards to Consolidated Financial Statements

Expenditures per schedule of federal awards	\$ 14,988,598
State grant revenue	1,315,599
Adjustment to federal revenue based on prior year costs	129
In-kind food distributions	(7,363,125)
Mortgage included in SEFA	<u>(5,205,000)</u>
Federal and State Grants Revenue Reported on the Consolidated Statement of Activities	<u>\$ 3,736,201</u>

**CAPITAL AREA FOOD BANK AND
CAPITAL AREA FOOD BANK FOUNDATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: X Unmodified Qualified
 Adverse Disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Type of auditor's report issued on compliance for major program(s):

 X Unmodified Qualified
 Adverse Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR, 200 516(a)?

 Yes X No

Identification of Major Program(s):

CFDA Numbers	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program
14.248	Community Development Block Grant Program (Mortgage)

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

Auditee qualified as a low-risk auditee? X Yes No

B. FINDINGS – FINANCIAL STATEMENT

None required to be reported.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None required to be reported.