

COMMUNITY FOOD BANK, INC.

Audited Financial Statements

For the years ended June 30, 2011 and 2010

COMMUNITY FOOD BANK, INC.

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LUDWIG KLEWER & CO. PLLC

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Boards of Directors
Community Food Bank, Inc.

We have audited the accompanying statements of financial position of Community Food Bank, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Community Food Bank, Inc. as of June 30, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011 on our consideration of Community Food Bank, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 audits.

LUDWIG KLEWER & CO. PLLC

November 2, 2011

Chris Wm. Ludwig, CPA Julie S. Klewer, CPA, MBA Eric S. Rudner, CPA

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COMMUNITY FOOD BANK, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2011 and 2010

ASSETS

	2011	2010
Current assets:		
Cash and cash equivalents	\$ 2,670,605	\$ 4,039,658
Grants and accounts receivable	580,525	561,026
Unconditional promises to give	2,786	5,936
Investments - other, current portion	-	534,000
Food and commodities inventory	3,358,878	2,646,217
Bequests receivable	42,494	44,700
Prepaid expenses and other current assets	107,697	85,181
Total current assets	6,762,985	7,916,718
Investments	796,512	767,677
Investments - other, non-current portion	1,921,356	189,000
Property and equipment, net	6,825,047	5,688,921
Total assets	\$ 16,305,900	\$ 14,562,316

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 263,844	\$ 257,357
Accrued expenses	323,256	252,242
Deferred revenue	1,863,079	1,633,037
Gift annuities	124,661	113,047
Note payable, current portion	36,234	33,519
Total current liabilities	2,611,074	2,289,202
Note payable, non-current portion	73,497	109,731
Total liabilities	2,684,571	2,398,933
Net assets:		
Unrestricted:		
Undesignated	2,547,254	3,313,389
Board designated	3,829,237	2,967,040
Investment in property and equipment	6,715,316	5,545,671
Total unrestricted net assets	13,091,807	11,826,100
Temporarily restricted	242,912	158,673
Permanently restricted	286,610	178,610
Total net assets	13,621,329	12,163,383
Total liabilities and net assets	\$ 16,305,900	\$ 14,562,316

See independent auditors' report and accompanying notes.

COMMUNITY FOOD BANK, INC.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Donated food	\$ 43,807,081	\$ -	\$ -	\$ 43,807,081
Contributions	6,581,665	351,458	-	6,933,123
Government grants and commodities	2,541,670	-	-	2,541,670
Bequests	190,046	-	108,000	298,046
In-kind contributions	277,679	-	-	277,679
Gain on Caridad acquisition	225,164	-	-	225,164
Value food store	221,726	-	-	221,726
Multi-service center rent income	144,813	-	-	144,813
United Way	121,210	-	-	121,210
Investment income, net	101,024	(9,959)	-	91,065
Special events, net	59,648	-	-	59,648
Miscellaneous	712	-	-	712
Net assets released from restrictions:				
Satisfaction of restrictions	257,260	(257,260)	-	-
Total support and revenue	54,529,698	84,239	108,000	54,721,937
Expenses:				
Program services				
Branch banks	19,275,751	-	-	19,275,751
Food box program	17,468,359	-	-	17,468,359
Agency market program	10,106,180	-	-	10,106,180
Food plus program	2,102,246	-	-	2,102,246
Community food resource center	1,997,755	-	-	1,997,755
Value market	414,678	-	-	414,678
Multi-service center program	266,152	-	-	266,152
Caridad community kitchen	88,771	-	-	88,771
Total program services	51,719,892	-	-	51,719,892
Supporting services:				
Fund-raising	1,287,027	-	-	1,287,027
Management and general	218,693	-	-	218,693
Tenant facilities	38,379	-	-	38,379
Total expenses	53,263,991	-	-	53,263,991
Change in net assets	1,265,707	84,239	108,000	1,457,946
Net assets, beginning of year	11,826,100	158,673	178,610	12,163,383
Net assets, end of year	<u>\$ 13,091,807</u>	<u>\$ 242,912</u>	<u>\$ 286,610</u>	<u>\$ 13,621,329</u>

See independent auditors' report and accompanying notes.

COMMUNITY FOOD BANK, INC.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Donated food	\$ 41,791,756	\$ -	\$ -	\$ 41,791,756
Contributions	5,920,763	210,100	1,000	6,131,863
Government grants and commodities	2,215,439	-	-	2,215,439
Value food store	340,196	-	-	340,196
Bequests	210,042	-	10,000	220,042
In-kind contributions	205,561	-	-	205,561
United Way	144,879	-	-	144,879
Shared maintenance	81,650	-	-	81,650
Special events, net	74,807	-	-	74,807
Investment income, net	40,803	10,165	-	50,968
Multi-service center rent income	43,281	-	-	43,281
Rent income	30,000	-	-	30,000
Miscellaneous	7,702	-	-	7,702
Net assets released from restrictions:				
Satisfaction of restrictions	136,668	(136,668)	-	-
Total support and revenue	51,243,547	83,597	11,000	51,338,144
Expenses:				
Program services				
Branch banks	18,948,116	-	-	18,948,116
Food box program	14,472,034	-	-	14,472,034
Agency market program	9,811,036	-	-	9,811,036
Food plus program	3,446,585	-	-	3,446,585
Community food resource center	1,194,233	-	-	1,194,233
Value market	594,090	-	-	594,090
Multi-service center program	320,524	-	-	320,524
Total program services	48,786,618	-	-	48,786,618
Supporting services:				
Fund-raising	965,047	-	-	965,047
Management and general	170,814	-	-	170,814
Tenant facilities	86,443	-	-	86,443
Total expenses	50,008,922	-	-	50,008,922
Change in net assets	1,234,625	83,597	11,000	1,329,222
Net assets, beginning of year	10,591,475	75,076	167,610	10,834,161
Net assets, end of year	\$ 11,826,100	\$ 158,673	\$ 178,610	\$ 12,163,383

See independent auditors' report and accompanying notes.

COMMUNITY FOOD BANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2011

	Branch Banks	Food Box Program	Agency Market Program	Food Plus Program	Community Food Resource Center	Value Market	Multi-Service Center Program	Canad Community Kitchen	Total Program Services	Fund-raising	Management and General	Tenant Facilities	Total
Salaries	\$ 690,011	\$ 819,767	\$ 359,939	\$ 195,835	\$ 807,733	\$ 78,604	\$ 68,692	\$ 38,364	\$ 3,056,945	\$ 431,644	\$ 116,968	\$ 10,264	\$ 3,617,821
Payroll taxes	61,559	73,115	32,154	17,482	71,537	6,993	6,157	3,473	272,470	38,746	10,474	920	322,610
Employee benefits	161,791	200,140	77,233	43,938	135,298	24,156	16,181	4,202	662,939	82,509	23,435	2,418	771,301
Total employee expenses	913,361	1,093,022	469,326	257,255	1,014,568	109,753	91,030	46,039	3,994,354	552,899	150,877	13,602	4,711,732
Donated commodities and food distributed	17,586,511	14,787,449	9,317,924	1,652,336	90,736	1,095	-	-	43,446,051	-	-	-	43,446,051
Cost of purchased goods distributed: food and freight	132,801	966,254	77,933	-	367,581	117,001	-	-	1,661,570	-	-	-	1,661,570
Depreciation and amortization	133,074	195,697	78,279	54,795	133,074	39,139	13,620	2,839	650,517	109,590	23,484	2,035	785,626
Supplies and minor equipment	45,658	103,416	17,055	47,282	103,533	5,183	32,679	5,731	360,537	55,382	7,661	4,879	428,459
Outside and professional services	42,254	43,478	12,560	23,199	106,986	4,676	8,644	13,994	257,791	131,054	6,431	1,292	396,568
Printing and promotion	28,611	8,344	2,878	2,617	22,887	95,227	1,421	18	162,003	176,834	1,654	212	340,703
Miscellaneous	26,078	40,455	8,518	5,292	32,356	4,085	2,520	1,643	120,947	94,281	12,696	377	228,303
Utilities	59,097	34,014	19,186	25,091	10,091	14,759	36,253	6,768	205,259	1,476	1,476	5,417	213,628
Auto and truck expense	56,521	73,438	40,441	3,454	15,479	2,303	9,281	1,023	201,940	2,586	2,354	-	206,880
Maintenance and repair	53,956	15,002	8,850	10,486	10,995	7,031	50,056	7,081	163,457	7,770	676	7,480	179,383
Occupancy and lease expense	97,886	41,604	1,860	1,102	5,739	787	274	323	148,575	2,204	472	41	152,292
Travel	19,376	9,288	10,670	2,718	42,745	1,380	1,360	2,033	89,570	26,844	4,200	203	120,897
Insurance	17,460	27,788	24,458	7,871	8,817	5,003	9,876	-	101,273	2,174	2,672	1,476	107,595
Dues and subscriptions	14,318	14,537	5,938	4,146	18,120	4,895	1,338	14	63,306	42,646	226	200	106,378
Telephone	30,376	14,501	9,309	4,054	11,135	2,354	1,959	1,215	74,903	7,334	1,888	293	84,418
Postage	5,843	72	995	548	913	7	3	50	8,431	73,953	1,844	-	84,228
Property tax	449	-	-	-	-	-	5,838	-	6,287	-	-	672	7,159
Interest expense	2,121	-	-	-	-	-	-	-	2,121	-	-	-	2,121
Total expenses	\$ 19,275,751	\$ 17,466,359	\$ 10,106,180	\$ 2,102,246	\$ 1,997,755	\$ 414,678	\$ 266,152	\$ 88,771	\$ 51,719,892	\$ 1,287,027	\$ 218,693	\$ 38,379	\$ 53,263,991

See independent auditors' report and accompanying notes.

COMMUNITY FOOD BANK, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2010

	Branch	Food Box Program	Agency Market Program	Food Plus Program	Community Food Resource Center	Value Market	Multi- Service Center Program	Total Program Services	Fund-raising	Management and General	Tenant Facilities	Total
Salaries	\$ 577,727	\$ 721,542	\$ 316,031	\$ 203,251	\$ 488,238	\$ 159,349	\$ 51,784	\$ 2,517,922	\$ 424,078	\$ 102,359	\$ 22,193	\$ 3,066,552
Employee benefits	102,879	140,724	58,656	32,916	80,150	46,505	11,082	472,912	84,029	18,055	4,750	579,746
Payroll taxes	53,010	66,250	29,158	18,771	45,676	14,509	4,800	232,274	38,666	9,508	2,057	282,505
Total employee expenses	733,616	928,516	403,845	254,938	614,064	220,463	67,666	3,223,106	546,773	129,922	29,000	3,928,803
Donated commodities and food distributed	17,625,525	12,174,821	9,057,910	2,919,725	62,777	6,226	-	41,846,984	-	-	-	41,846,984
Cost of purchased goods distributed: food and freight	114,205	929,481	112,518	37,399	276,757	201,757	-	1,672,717	-	-	-	1,672,717
Depreciation	36,875	104,480	92,188	104,480	18,438	86,042	147,501	590,004	6,146	6,146	12,292	614,588
Supplies and minor equipment	27,365	105,963	14,827	43,649	44,083	11,435	18,080	265,422	31,104	4,392	7,748	308,666
Printing and promotion	17,882	5,055	2,373	1,127	11,753	16,983	720	55,913	215,491	810	308	272,522
Utilities	52,831	34,307	19,140	25,029	8,218	14,723	28,858	183,106	1,472	1,694	12,368	198,640
Outside and professional services	16,332	26,687	16,635	21,664	62,810	4,266	5,044	153,438	12,051	10,060	2,162	178,511
Maintenance and repair	75,449	12,054	7,182	10,299	3,460	7,348	34,939	150,741	10,129	536	14,974	176,380
Auto and truck expense	44,874	45,046	30,145	2,582	16,695	1,721	1,243	142,306	2,358	1,721	533	146,918
Occupancy and lease expense	109,831	25,444	1,203	870	3,315	659	350	141,672	1,967	670	150	144,459
Insurance	10,480	30,974	28,081	8,323	9,785	5,656	8,086	101,365	2,235	1,763	3,465	108,848
Miscellaneous	23,266	18,575	8,029	5,964	19,045	4,516	1,084	80,479	10,094	6,680	464	97,717
Travel	16,213	8,439	6,890	3,429	24,585	4,112	830	64,298	24,976	1,245	356	90,875
Dues and subscriptions	13,049	10,426	4,457	2,994	8,797	6,496	629	46,948	35,128	1,645	269	83,990
Postage	5,050	142	1,203	341	884	14	55	7,699	58,349	1,899	23	67,970
Telephone	22,611	11,614	4,510	3,172	8,651	1,673	748	52,979	5,974	1,631	321	60,905
Property tax	1,571	-	-	-	-	-	4,691	6,262	-	-	2,010	8,272
Interest expense	1,051	-	-	-	-	-	-	1,051	-	-	-	1,051
Other program expense	-	-	-	-	106	-	-	106	-	-	-	106
Total expenses	\$ 18,948,116	\$ 14,472,034	\$ 9,811,036	\$ 3,446,565	\$ 1,194,233	\$ 594,080	\$ 320,524	\$ 48,786,610	\$ 965,047	\$ 170,814	\$ 86,443	\$ 50,008,922

See independent auditors' report and accompanying notes.

COMMUNITY FOOD BANK, INC.

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 1,457,946	\$ 1,329,222
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	785,626	614,588
Donated property and equipment	(28,180)	(78,646)
Net realized and unrealized gain on investments	(94,022)	(52,903)
Gain on Caridad acquisition	(225,164)	-
Changes in operating assets and liabilities:		
Grants and accounts receivable	(19,499)	(285,008)
Unconditional promises to give	3,150	6,000
Food and commodities inventory	(712,661)	241,374
Bequests receivable	2,206	293,643
Prepaid expenses and other current assets	(20,413)	(6,712)
Accounts payable	5,634	94,400
Accrued expenses	71,014	45,992
Deferred revenue	230,042	(164,703)
Gift annuities	11,614	(3,941)
Total adjustments	<u>9,347</u>	<u>704,084</u>
Net cash provided by operating activities	1,467,293	2,033,306
Cash flows from investing activities:		
Purchases of property and equipment	(1,669,658)	(1,699,093)
Purchases of investments and investments - other	(13,837,241)	(8,608,232)
Proceeds from sale of investments and investments - other	12,704,072	8,753,249
Net cash used in investing activities	<u>(2,802,827)</u>	<u>(1,554,076)</u>
Cash flows from financing activities:		
Repayments on note payable	(33,519)	-
Net cash used in financing activities	<u>(33,519)</u>	<u>-</u>
Change in cash and cash equivalents	<u>(1,369,053)</u>	<u>479,230</u>
Cash and cash equivalents, beginning of year	<u>4,039,658</u>	<u>3,560,428</u>
Cash and cash equivalents, end of year	<u>\$ 2,670,605</u>	<u>\$ 4,039,658</u>
Supplemental cash flow information:		
Cash paid during the year for interest	<u>\$ 2,121</u>	<u>\$ 1,051</u>
Supplemental schedule of noncash investing and financing activities:		
Donated property and equipment	<u>\$ 28,180</u>	<u>\$ 78,646</u>
Property and equipment purchased with note payable	<u>\$ -</u>	<u>\$ 143,250</u>

See independent auditors' report and accompanying notes.

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

1. Organization

Community Food Bank, Inc. (Agency) is a private not-for-profit corporation anticipating and meeting the food needs of the hungry in Southern Arizona through education, advocacy, and the acquisition, storage, and distribution of food. The Agency's primary sources of revenue are governmental contracts and private donations.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities. Revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Agency reports information regarding its financial position and activities according to the following net asset classifications:

- Unrestricted net assets - Net assets that represent the portions of expendable funds, which are available for support of Agency operations and are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Agency and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Agency. The donors of these assets permit the Agency to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Agency reports the support as unrestricted.

Contributions of long-lived assets not having donor-imposed time or purpose restrictions are reported as unrestricted contributions in amounts equal to the fair value of the contributed assets.

Donated Goods, Facilities, Advertising Time and Services

Donated goods, space, and advertising time are valued at their fair value. Donated services are recognized in the financial statements at their fair value if the following criteria are met:

- The services require specialized skills and the services be provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Many individuals volunteer their time to perform a variety of tasks that assist the Agency. During the years ended June 30, 2011 and 2010, volunteers worked approximately 154,268 and 120,606 hours, respectively. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

COMMUNITY FOOD BANK, INC
NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

2. Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the statement of activities. Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods.

Income Taxes

The Agency is a non-profit organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and from Arizona income tax under Arizona Revised Statute Section 43-1201(4). The Agency is classified as other than a private foundation under Section 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code.

The Agency adopted FASB ASC 740. The Agency's policy is to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2011 and 2010, management is not aware of any uncertain tax positions that are potentially material. The Agency's federal Form 990, Return of Organization Exempt from Income Tax, for fiscal years 2008, 2009 and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Cash and Cash Equivalents

The Agency considers all highly-liquid investments with a purchased maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Cash balances are maintained at various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures interest-bearing cash accounts at banks up to \$250,000 per institution. Non-interest bearing cash accounts are fully-insured. Investments held by other institutions are insured up to \$500,000, including up to \$250,000 for cash balances, per institution by the Securities Investor Protection Corporation (SIPC). However, the SIPC does not protect against losses in market value. It is the opinion of management that the solvency of the referenced financial institutions is not of concern at this time. At June 30, 2011 and 2010, the Agency had cash and investments in the amount of \$154,093 and \$130,374, respectively, at various banks and institutions in excess of FDIC and SIPC limitations.

Grants and Accounts Receivable

Grants receivable consist principally of uncollateralized amounts due from state and local governments under contractual agreements. Other receivables consist principally of uncollateralized amounts due from other not-for-profit organizations under contractual agreements. There are no receivables at June 30, 2011 and 2010 that are considered delinquent. Due to the nature of these receivables, no allowance for doubtful accounts has been recorded.

COMMUNITY FOOD BANK, INC

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

2. Summary of Significant Accounting Policies, Continued

Food and Commodities Inventory

Purchased inventory and certain commodities are stated at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis. Inventory of food contributed by donors and remaining commodities inventory are valued at the approximate wholesale value, which is determined annually by Feeding America, the national food bank network. It is standard industry practice to use the Feeding America estimated value per pound, which is subject to agreed upon testing procedures by independent certified public accountants supporting the published amount.

Investments

In accordance with generally accepted accounting principles applicable to nonprofit organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included with the change in net assets.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded as earned. Dividends are recorded on the ex-dividend date. Investment expenses are recorded as a reduction in investment earnings. Investment gains and losses are included in the statements of activities as increases or decreases in unrestricted or temporarily restricted net assets.

Investments are considered to be impaired when a decline in fair value is judged to be other than temporary. The Agency employs a systematic methodology on an annual basis that considers available quantitative and qualitative evidence in evaluating potential impairment of investments. If the cost of an investment exceeds its fair value, it is evaluated for, among other things, general market conditions, the duration and extent to which the fair value is less than cost, and the intent and ability to hold the investment. The Agency also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financial cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Investments - Other

Investments – other consists of certificates of deposit held for investment that are not debt securities. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as short-term, and certificates of deposit with remaining maturities greater than one year are classified as long-term.

Property and Equipment

Purchased property and equipment is recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Agency reclassifies temporarily restricted net assets to unrestricted net assets at that time.

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

2. Summary of Significant Accounting Policies, Continued

Property and Equipment, continued

Property and equipment with an expected useful life of more than one year and an acquisition cost of \$1,000 or more per unit are capitalized and depreciated over the expected useful lives of the assets using the straight-line method of depreciation. All other equipment and the cost of repairs and maintenance is charged to expense in the year incurred. Property and equipment is depreciated using the straight-line method over the following estimated useful lives of the assets:

Buildings and improvements	3 - 30 years
Equipment	5 - 10 years
Vehicles	3 - 5 years

Reclassifications

Certain items from 2010 have been reclassified to conform to the 2011 financial statement presentation.

3. Unconditional Promises to Give

The Agency conducted capital campaigns over the last several years to purchase a new warehouse and administrative facility in Tucson, build a warehouse in Green Valley, and pay down the debt related to the Tucson facility. Only those promises for which the Agency has received a signed pledge card have been recognized. Unconditional promises to give are \$2,786 and \$5,936 as of June 30, 2011 and 2010, respectively, and are expected to be received during the next fiscal year. Management believes all amounts are collectible, and therefore no allowance for uncollectible unconditional promises to give has been established at June 30, 2011 or 2010.

4. Food and Commodities Inventory

Inventories of food and U.S. Government commodities at June 30, 2011 and 2010 are:

	<u>2011</u>	<u>2010</u>
Commodities received from the U.S. Department of Agriculture	\$ 1,863,079	\$ 1,630,203
Donated food	1,334,673	730,930
Purchased food	<u>161,126</u>	<u>285,084</u>
Total food and commodities inventory	<u>\$ 3,358,878</u>	<u>\$ 2,646,217</u>

5. Investments

Investments are stated at fair value at June 30, 2011 and 2010 and consist of:

	<u>2011</u>	<u>2010</u>
Common Stock	\$ 157,581	\$ 346,319
Mutual funds	533,154	336,809
Corporate Bonds	83,257	60,686
Community Foundation of Southern Arizona	<u>22,520</u>	<u>23,863</u>
Total investments	<u>\$ 796,512</u>	<u>\$ 767,677</u>

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

5. Investments, Continued

Investment income for the years ended June 30, 2011 and 2010 is:

	2011	2010
Interest and dividend income	\$ 56,407	\$ 39,005
Realized and unrealized gain on investments, net	94,022	52,903
Investment fees	(59,364)	(40,940)
Total investment income, net	<u>\$ 91,065</u>	<u>\$ 50,968</u>

6. Fair Value Measurements

The Financial Accounting Standards Board has established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011.

- *Stocks, bonds, treasuries*: Valued at fair value based on national trade listing.
- *Mutual funds*: Valued at the net asset value ("NAV") of shares held by the Agency at year-end.
- *Interest in trust held by Community Foundation of Southern Arizona*: Valued at the fair value of the underlying equity and fixed income funds as reported by the Foundation.

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

6. Fair Value Measurements, Continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Agency believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of investment assets measured on a recurring basis at June 30, 2011 and 2010 are:

	Investments at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 533,154	\$ -	\$ -	\$ 533,154
Common stock	157,581	-	-	157,581
Corporate bonds	83,257	-	-	83,257
Community Foundation of Southern Arizona	-	22,520	-	22,520
Total investments	<u>\$ 773,992</u>	<u>\$ 22,520</u>	<u>\$ -</u>	<u>\$ 796,512</u>

	Investments at Fair Value as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Common stock	\$ 346,319	\$ -	\$ -	\$ 346,319
Mutual funds	336,809	-	-	336,809
Corporate bonds	60,686	-	-	60,686
Community Foundation of Southern Arizona	-	23,863	-	23,863
Total investments	<u>\$ 743,814</u>	<u>\$ 23,863</u>	<u>\$ -</u>	<u>\$ 767,677</u>

7. Property and Equipment

Property and equipment at June 30, 2011 and 2010 consists of:

	2011	2010
Land	\$ 529,689	\$ 428,874
Buildings and improvements	8,277,832	6,877,408
Vehicles	1,823,302	1,518,335
Equipment	1,672,489	1,452,706
Construction in progress	34,053	167,174
Total property and equipment, at cost or donated value	12,337,365	10,444,497
Less accumulated depreciation	(5,512,318)	(4,755,576)
Property and equipment, net	<u>\$ 6,825,047</u>	<u>\$ 5,688,921</u>

COMMUNITY FOOD BANK, INC.
 NOTES TO FINANCIAL STATEMENTS
 For the years ended June 30, 2011 and 2010

7. Property and Equipment, Continued

Construction in progress at June 30, 2011 includes deposits for equipment not yet placed into service and improvements to the main campus parking lot, Green Valley Food bank, construction for the Gabrielle Giffords Family Assistance Center and other small improvements. The total estimated cost of the equipment, improvements, and construction is expected to be \$265,713. The construction in progress at June 30, 2010 included services and improvements to the Nogales building which totaled \$248,568 and were placed into service on June 1, 2011.

8. Deferred Revenue

Deferred revenue at June 30, 2011 and 2010 consists of:

	2011	2010
Government commodities not yet distributed	\$ 1,863,079	\$ 1,630,203
Other	-	2,834
Total deferred revenue	\$ 1,863,079	\$ 1,633,037

9. Gift Annuities

The Agency has received several charitable gift annuities, whereby a donor gives assets to the Agency in return for the Agency's promise to pay a fixed amount for the life of the annuitant. The gift is recorded as a contribution when received. The assets are included with investments held by a third party asset manager and designated for payment of the benefits until the death of the annuitant, at which time any remaining assets will be available for general use. The present value of the expected benefits to be paid are recalculated at each year end and recorded as a liability. Payment rates vary depending on the age of the annuitant at the time of the agreement. During the years ended June 30, 2011 and 2010, the payment rates ranged between 5.8% to 9.5%, respectively. At June 30, 2011 and 2010, the Agency had four charitable gift annuities with an estimated benefit liability of \$124,661 and \$113,047, respectively. Investments at June 30, 2011 and 2010 include \$180,843 and \$168,641, respectively, designated for payment of these benefits.

10. Note payable

The note payable at June 30, 2011 and 2010 consists of:

	2011	2010
Note payable, due in annual installments of \$35,813 including variable interest rate ranging from 1% to 4%, final payment due December 2013, collateralized by a vehicle.	\$ 109,731	\$ 143,250
Less current portion	(36,234)	(33,519)
Non-current portion	\$ 73,497	\$ 109,731

Principal maturities of the note payable are:

2012	\$ 36,234
2013	36,820
2014	36,677
	\$ 109,731

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

11. Net Assets

Board Designated

The general board designated fund and the board designated - capital fund are maintained together in a separate investment account. These board designated net assets consist of all bequests in excess of \$5,000 that are not specifically designated for another purpose. Expenditures from the fund must be approved by the board of directors.

Board designated net assets at June 30, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>
Board designated - operating reserve	\$ 2,500,000	\$ 2,314,986
Board designated - discretionary	707,616	-
Board designated - capital reserve	399,596	363,106
Board designated - gift annuity reserve	180,844	168,641
Board designated - building fund	41,181	120,307
Total board designated net assets	<u>\$ 3,829,237</u>	<u>\$ 2,967,040</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>
CFRC Farm to Child	\$ 150,000	\$ -
FA Kresge Foundation	34,481	84,500
Food Security	21,736	21,736
Pima County Community Action Agency	17,386	23,611
Remaining balance of permanently restricted endowments	14,959	28,826
Kid's Club grants	4,350	-
Total temporarily restricted net assets	<u>\$ 242,912</u>	<u>\$ 158,673</u>

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>
Bornstein Farm to Child Endowment	\$ 100,000	\$ -
Punch Woods Endowment	98,235	98,235
Green Endowment Fund	30,000	30,000
Stocker Endowment Fund	25,000	25,000
Terri Valenzuela Endowment Fund	16,000	10,000
Young Foundation	9,175	7,175
Jacob Haber Children's Fund	8,200	8,200
Total permanently restricted net assets	<u>\$ 286,610</u>	<u>\$ 178,610</u>

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

12. Endowments

The Agency has endowments that were established by individual donors and restricted for a variety of purposes. In accordance with FAS ASC 958-605, which requires net assets to be classified based on the existence or absence of donor-imposed restrictions, these funds are recorded as permanently restricted net assets.

These endowments require the Agency's compliance with Arizona's enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). In addition, the Agency is subject to the FSP FAS No. 117-1, *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (as codified in FASB ASC 958-205) which improves the disclosures about an organization's endowment funds whether or not the funds are subject to UPMIFA.

Interpretation of Relevant Law

The board of directors has interpreted current law as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by current law.

Accordingly, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Agency and the donor-restricted endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of the Agency

The endowments' net asset composition by type of fund as of June 30, 2011 and 2010 is:

	<u>2011</u>	<u>2010</u>
Donor-restricted permanent endowment funds	\$ 286,610	\$ 178,610

The Agency had the following endowment-related activities during the year ended June 30, 2010:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment balance, June 30, 2009	\$ 18,661	\$ 167,610
Interest and dividends	2,808	-
Net realized and unrealized gain	7,357	-
Contributions	-	11,000
Endowment balance, June 30, 2010	<u>\$ 28,826</u>	<u>\$ 178,610</u>

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

12. Endowments, Continued

The Agency had the following endowment-related activities during the year ended June 30, 2011:

	Temporarily Restricted	Permanently Restricted
Endowment balance, June 30, 2010	\$ 28,826	\$ 178,610
Interest and dividends	806	-
Net realized and unrealized loss	(10,765)	-
Appropriated for expenditure	(3,908)	-
Contributions	-	108,000
Endowment balance, June 30, 2011	<u>\$ 14,959</u>	<u>\$ 286,610</u>

Fund Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires the Agency to retain as a fund in perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. There were no such deficiencies as of June 30, 2011 or 2010.

Return Objectives and Risk Parameters

The Agency has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment funds while seeking to maintain the original value of any contributions to the endowment assets. Endowment assets include those assets of donor-restricted funds that the Agency must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the board of directors, the endowment assets are invested with a growth and income style of investing in a portfolio comprised of cash, fixed income securities and equities.

Strategies Employed for Achieving Objectives

To satisfy its long-term objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation with a blend of cash, fixed income securities and equities to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Agency's policy is to distribute the funds in accordance with the instructions of the endowment; in the absence of any specific instructions, all distributions require approval from the board of directors. One endowment allows for annual distributions, as long as these distributions do not result in an endowment balance less than the cumulative amount of the donations. The other endowments control any distributions in an attempt to maintain the endowment's buying power.

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

13. In-Kind Contributions

During the years ended June 30, 2011 and 2010, the Agency recognized in-kind contributions consisting of:

	<u>2011</u>	<u>2010</u>
Property and equipment	\$ 28,180	\$ 78,646
Rent	88,500	88,500
Professional services	131,500	17,535
Miscellaneous	29,499	20,880
Total in-kind contributions	<u>\$ 277,679</u>	<u>\$ 205,561</u>

Contributed services were utilized by the Agency in support of the Caridad Community Kitchen and administrative personnel support.

14. Revenue

Shared Maintenance

Shared maintenance revenue consists of amounts assessed to various area not-for-profit organizations that are recipients of certain eligible salvage food items. The charges are based on the type and poundage of the salvage food received by the organizations and are used to partially offset expenses incurred by the Agency in the administration of the Agency Market program. This allocation fee was eliminated during the fiscal year ended June 30, 2010.

Multi-Service Center Rent Income

The Agency's main facility has vacant space which is leased to local organizations in connection with its multi-service center program. Commercial leases range from one to twenty years. These leases generally contain options to renew with provisions for rental adjustments for increases in the Consumer Price Index. Multi-service center rent income received during the years ended June 30, 2011 and 2010 was \$144,813 and \$43,281, respectively.

Minimum future lease payments receivable from the Agency's tenants under existing leases are:

<u>Year ended</u> <u>June 30,</u>	
2012	\$ 125,633
2013	56,287
2014	50,881
2015	5,064
	<u>\$ 237,865</u>

15. Special Events

Special events activity for the years ended June 30, 2011 and 2010 is:

	<u>2011</u>		
	<u>Revenue</u>	<u>Expenses</u>	<u>Net</u>
Mardi Gras	\$ 75,940	\$ 58,219	\$ 17,721
Hunger Walk	51,878	9,951	41,927
	<u>\$ 127,818</u>	<u>\$ 68,170</u>	<u>\$ 59,648</u>

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

15. Special Events, Continued

	2010		
	Revenue	Expenses	Net
Mardi Gras	\$ 236,022	\$ 193,249	\$ 42,773
Hunger Walk	60,762	28,728	32,034
	<u>\$ 296,784</u>	<u>\$ 221,977</u>	<u>\$ 74,807</u>

Special events revenue and expenses for the year ended June 30, 2011 includes \$37,050 and \$8,160 of in-kind contributions for Mardi Gras and the Hunger Walk, respectively. Special events revenue and expenses for the year ended June 30, 2010 includes \$170,200 and \$21,250 of in-kind contributions for Mardi Gras and the Hunger Walk, respectively. The Agency receives revenue from special events that it operates and from special events operated by other organizations that contribute the proceeds to the Agency. Proceeds contributed to the Agency from designated special events by other organizations are recorded as contributions revenue when received.

16. Acquisition of Caridad Community Kitchen

On January 26, 2011, the Agency acquired the assets of de Porres, Inc. which operated Caridad Community Kitchen (Caridad) in Tucson. The Agency acquired the following assets, at fair value, in connection with the acquisition:

Land	\$ 100,816
Building	224,184
Vehicle	3,631
Utility deposit	1,250
Total assets acquired at fair value	<u>\$ 329,881</u>

There were no liabilities assumed. The aggregate purchase price was \$104,717 and is included with purchases of property and equipment in the statement of cash flows. The excess of the fair value of the assets acquired over the aggregate purchase price was \$225,164 and has been recorded in the statement of activities in accordance with FASB ASC 958-805-45-5. Caridad now operates as a program of the Agency.

17. Commitments and Contingencies

Operating Lease Commitments

The Agency leases office equipment under operating leases. Total rent expense for the years ended June 30, 2011 and 2010 was \$63,791 and 55,960, respectively. The future minimum lease payments are:

<u>Year ended</u> <u>June 30,</u>	
2012	\$ 15,685
2013	17,803
2014	12,060
2015	2,931
	<u>\$ 48,479</u>

COMMUNITY FOOD BANK, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended June 30, 2011 and 2010

17. Commitments and Contingencies, Continued

Contingencies

The Agency is subject to audit by its funding agencies. Contingent liabilities, if any, have not been determined at June 30, 2011 and 2010. The Agency's management feels no such liabilities exist at June 30, 2011 and 2010.

Joint Occupancy Agreement

In February 1998, the Agency entered into a joint occupancy agreement (the "Agreement") with a not-for-profit organization (the "Joint Occupant") whereby the joint occupant has the right to use not less than 1,000 square feet of the Agency's 4,600 square foot Green Valley branch location. Neither the Agency nor the joint occupant are permitted to assign, transfer, mortgage, sublet or otherwise transfer its interest in the Agreement or its share of the branch location without the other party's prior written consent. The agreement is in effect for ten years commencing January 1998 with automatic ten year renewals unless mutually agreed to in writing by the parties. In January 2008, the first automatic ten-year renewal began.

Caridad Property

As discussed in Note 16, on January 26, 2011, the Agency acquired the assets of De Porres, Inc. As of November 2, 2011, the assignment of assets, including the land and building acquired, has been fully executed between the Agency and De Porres, Inc. However, the title transfer has not yet been recorded with the Pima County Assessor's office. The Agency's legal counsel believes that all rights and responsibilities of ownership have effectively transferred to the Agency, and therefore, the assets have been recorded in the Agency financial statements as of and for the year ended June 30, 2011 as discussed in Note 16.

18. Retirement Plan

The Agency implemented a 401(k) retirement plan on June 1, 1998. All employees 18 years of age or older can participate in the plan after completing one month of service. Employer matching is available for employees who have at least one year of service consisting of a minimum 1,000 hours of service. During the years ended June 30, 2011 and 2010, the Agency matching contributions to the plan amounted to \$188,383 and \$100,355, respectively. Contributions for the year ended June 30, 2011 includes a \$1,000 discretionary distribution made to all eligible employees, including those employees not previously participating in the Plan.

19. Subsequent Events

The Agency was unaware of any subsequent events as of November 2, 2011, the date the financial statements were available to be issued.

