

Financial Statements
Years Ended
June 30, 2010 and 2009



Certified Public Accountants
Specialized Services
Business Solutions

Foodbank of Southeastern Virginia

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Certified Public Accountants
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Report of Independent Auditors

Board of Directors
Foodbank of Southeastern Virginia

We have audited the accompanying statement of financial position of the *Foodbank of Southeastern Virginia* as of June 30, 2010 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the *Foodbank of Southeastern Virginia's* management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from *Foodbank of Southeastern Virginia's* June 30, 2009 financial statements and, in our report dated October 6, 2009, we expressed an unqualified opinion on those financial statements.

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 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 audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2010, on our consideration of *Foodbank of Southeastern Virginia's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Convergence Center III
272 Bendix Road, Suite 500
Virginia Beach, VA 23452-1367

ph 757.457.8400
fax 757.457.8401

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 financial statements. The information had been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Goodman + Company, LLP

Norfolk, Virginia
October 6, 2010

Foodbank of Southeastern Virginia

Statements of Financial Position

June 30, 2010 with Comparative Totals for 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Assets					
Current assets					
Cash and cash equivalents	\$ 3,011,265	\$ 64,473	\$ -	\$ 3,075,738	\$ 2,552,435
Accounts and grants receivable - net of allowance for uncollectible accounts	33,617	-	-	33,617	19,249
United Way and other receivables	113,592	349,858	-	463,450	473,829
Marketable securities	812,466	-	246,742	1,059,208	838,841
Interfund borrowing	(51,686)	51,686	-	-	-
Inventory					
USDA food	190,430	-	-	190,430	297,574
Donated food	628,604	-	-	628,604	552,181
Purchased food	157,527	-	-	157,527	127,676
Thrift store merchandise	73,167	-	-	73,167	104,630
Prepaid expense	63,179	-	-	63,179	49,434
Total current assets	5,032,161	466,017	246,742	5,744,920	5,015,849
Property and equipment - net	2,953,345	-	-	2,953,345	2,888,753
Total assets	\$ 7,985,506	\$ 466,017	\$ 246,742	\$ 8,698,265	\$ 7,904,602
Liabilities and Net Assets					
Current liabilities					
Accounts payable	\$ 72,358	\$ -	\$ -	\$ 72,358	131,256
Current portion - capital lease obligation	5,668	-	-	5,668	364
Security deposit	3,991	-	-	3,991	3,991
Accrued payroll and payroll taxes	244,806	-	-	244,806	218,167
Total current liabilities	326,823	-	-	326,823	353,778
Long-term debt - capital lease obligation	22,224	-	-	22,224	-
Total liabilities	349,047	-	-	349,047	353,778
Net assets	7,636,459	466,017	246,742	8,349,218	7,550,824
Total liabilities and net assets	\$ 7,985,506	\$ 466,017	\$ 246,742	\$ 8,698,265	\$ 7,904,602

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

Foodbank of Southeastern Virginia

Statements of Activities

Year Ended June 30, 2010 with Comparative Totals for 2009

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total 2010	Total 2009
Revenue, support and other changes					
Purchased food sales	\$ 137,896	\$ -	\$ -	\$ 137,896	\$ 96,035
Less - food purchases	(378,418)	-	-	(378,418)	(377,390)
Gross loss	(240,522)	-	-	(240,522)	(281,355)
Inventory adjustments	13,578	-	-	13,578	(2,347)
	(226,944)	-	-	(226,944)	(283,702)
Contributions					
General - net of expense	1,811,457	167,396	900	1,979,753	2,328,467
Grants	276,149	605,539	-	881,688	1,126,965
Special events revenue - net of expenses	511,492	27,677	-	539,169	410,524
Program fees	315,039	-	-	315,039	318,471
USDA handling fees	248,003	-	-	248,003	158,197
United Way support	-	236,648	-	236,648	232,894
Donated goods and services	184,840	-	-	184,840	11,850
Thrift store sales - net of purchases	148,090	-	-	148,090	137,413
Realized and unrealized gains (losses) - net	106,257	1,545	-	107,802	(123,982)
Rental income	94,804	-	-	94,804	48,650
Dividends and interest	38,441	3,122	-	41,563	46,163
Other revenue	24,308	-	-	24,308	42,087
Loss on disposal of property and equipment	(10,665)	-	-	(10,665)	(357)
	3,521,271	1,041,927	900	4,564,098	4,453,640
Net assets released from restrictions	1,061,657	(1,061,657)	-	-	-
Total revenues, gains, and other support	4,582,928	(19,730)	900	4,564,098	4,453,640
Expenses					
Program services	2,440,057	-	-	2,440,057	2,253,700
Fundraising	692,493	-	-	692,493	445,574
Depreciation expense	325,082	-	-	325,082	292,149
Management and general	271,122	-	-	271,122	236,557
	3,728,754	-	-	3,728,754	3,227,980
Increase (decrease) in net assets before donated food transactions	854,174	(19,730)	900	835,344	1,225,660
Donated food received	15,642,647	-	-	15,642,647	13,365,007
Donated food distributed	(15,679,597)	-	-	(15,679,597)	(13,424,241)
Net donated food transactions	(36,950)	-	-	(36,950)	(59,234)
Increase (decrease) in net assets	817,224	(19,730)	900	798,394	1,166,426
Net assets - beginning of year	6,819,235	485,747	245,842	7,550,824	6,384,398
Net assets - end of year	\$ 7,636,459	\$ 466,017	\$ 246,742	\$ 8,349,218	\$ 7,550,824

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

Foodbank of Southeastern Virginia

Statements of Functional Expenses

Year Ended June 30, 2010 with Comparative Totals for 2009

	Program Services	Management and General	Fundraising	Total 2010	Total 2009
Personnel expense					
Salaries and wages	\$ 1,124,223	\$ 134,514	\$ 416,333	\$ 1,675,070	\$ 1,441,385
Employee benefits	261,560	50,102	59,481	371,143	324,921
Payroll taxes	90,552	10,889	30,652	132,093	107,744
Total personnel expense	1,476,335	195,505	506,466	2,178,306	1,874,050
Program supplies	398,196	-	15,555	413,751	341,460
Occupancy	254,865	5,457	1,672	261,994	267,670
Transportation and freight	80,507	-	-	80,507	83,370
Equipment maintenance	70,082	4,737	1,448	76,267	68,169
Printing and advertising	1,677	641	60,051	62,369	3,368
Professional fees	4,903	19,782	28,621	53,306	48,147
Office and computer supplies	31,250	10,451	7,777	49,478	34,338
Insurance	34,212	8,171	5,172	47,555	52,734
Staff development	28,063	11,395	7,947	47,405	30,916
Bank charges	229	1,074	38,376	39,679	31,334
Telephone	20,083	3,929	4,236	28,248	29,319
Membership dues	15,472	2,833	3,181	21,486	22,104
Postage	5,282	3,773	9,778	18,833	18,995
Travel	10,178	911	857	11,946	17,630
Uniforms	6,827	1,472	337	8,636	5,556
Miscellaneous	1,896	444	482	2,822	6,311
Interest	-	547	537	1,084	360
Total expense before depreciation	2,440,057	271,122	692,493	3,403,672	2,935,831
Depreciation	325,082	-	-	325,082	292,149
Total expense, excluding donated food	2,765,139	271,122	692,493	3,728,754	3,227,980
Donated food transactions					
Donated food received	15,642,647	-	-	15,642,647	13,365,007
Donated food distributed	(15,679,597)	-	-	(15,679,597)	(13,424,241)
Net donated food transactions	(36,950)	-	-	(36,950)	(59,234)
Total expense	\$ 2,802,089	\$ 271,122	\$ 692,493	\$ 3,765,704	\$ 3,287,214

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

Foodbank of Southeastern Virginia

Statements of Cash Flows

Years Ended June 30,	2010	2009
Cash flows from operating activities		
Increase in net assets	\$ 798,394	\$ 1,166,426
Adjustments to reconcile to net cash from operating activities:		
Donated food received, distributed and undistributable - net	36,950	59,234
Depreciation	325,082	292,149
Reinvestment of earnings on investments	(12,665)	(45,534)
Net realized and unrealized (gains) losses on investments	(107,802)	123,982
Receipt of donated property, equipment and services	(184,840)	(11,850)
Loss on disposal of property and equipment	10,665	357
Change in:		
Accounts and grants receivable	(3,989)	(44,034)
Purchased food inventory	(29,851)	10,601
Thrift store inventory - net	31,463	(62,534)
Prepaid expenses	(13,745)	31,323
Accounts payable	(58,898)	16,942
Security deposit	-	3,991
Accrued payroll and payroll taxes	26,639	54,913
Net cash from operating activities	<u>817,403</u>	<u>1,595,966</u>
Cash flows from investing activities		
Purchases of property and equipment - net	(114,645)	(375,591)
Proceeds from sale of investments and transfers to operating cash	450,552	10,672
Purchases of investments	(627,568)	(186,726)
Net cash used in investing activities	<u>(291,661)</u>	<u>(551,645)</u>
Cash flows from financing activities		
Capital lease payments	(2,439)	(4,495)
Net change in cash and cash equivalents	523,303	1,039,826
Cash and cash equivalents - beginning of year	<u>2,552,435</u>	<u>1,512,609</u>
Cash and cash equivalents - end of year	<u>\$ 3,075,738</u>	<u>\$ 2,552,435</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 737	\$ 360
Supplemental disclosure of noncash investing and financing activities		
Equipment financed through a lease	\$ 30,618	\$ -
Noncash food donations	\$ 15,642,647	\$ 13,365,007

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

Foodbank of Southeastern Virginia

Notes to Financial Statements

June 30, 2010

1. **Organization and Nature of Activities**

Foodbank of Southeastern Virginia (Foodbank) was organized and incorporated in March 1981 for the purpose of collecting and distributing food to nonprofit organizations, which provide for the ill, the needy, and infants at no cost, in the South Hampton Roads area of Virginia. Its activities also currently include the Foodbank and Thrift Store on Virginia's Eastern Shore, Justine's Clothes Bank, the Backpack Program, and Kids Cafe®, a program of Feeding America™, formerly named America's Second Harvest - The Nation's Food Bank Network. The Foodbank promotes food recovery; acquires and distributes food, clothing and related products; and provides community leadership and education on issues of hunger and poverty.

The Foodbank was granted tax-exempt status on March 17, 1981 under Internal Revenue Code Section 501(c)(3) and, accordingly, does not pay federal or state income taxes on its increase in net assets. For income tax purposes, in-kind as well as monetary donations to the Foodbank are eligible for the charitable contribution deduction by the donor, subject to relevant provisions of the Code.

The Foodbank's operations include the following programs:

Food Distribution Programs - South Hampton Roads and Eastern Shore - The Food Distribution Programs solicit donated food from food producers, retailers, and individuals. The food is sorted and stored until distributed to member agencies of the Foodbank, who then distribute the food, at no charge, to needy individuals and families. A shared maintenance fee may be charged to the member agencies to help offset expenses incurred in the collection, storage, and distribution of the food. The Food Rescue Program is an effort to collect prepared and perishable food from area grocery stores, restaurants, hotels, caterers, country clubs, and hospitals to distribute immediately to the hungry at on-site feeding agencies.

The Emergency Food Assistance Program (TEFAP) - The Foodbank has contracted with the Virginia Department of Agriculture and Consumer Services (VDACS) to participate in The Emergency Food Assistance Program administered by the U.S. Department of Agriculture (USDA). The objective of the TEFAP program is to provide USDA commodities to low-income households for consumption and to provide hot meals prepared from USDA commodities to needy persons in congregated settings. The Foodbank receives USDA commodities from VDACS and has subcontracted with numerous emergency feeding organizations, usually churches and other not-for-profit organizations, to distribute the food. In addition, Foodbank staff conducts mass distributions in some locales based upon need. All recipients of these federal commodities are required to sign self-declaration of income forms to verify eligibility. This program is included in donated food transactions in the accompanying statements of activities.

BackPack Program - Backpack Program is a nationally-recognized program that distributes nutritious food to children at the end of the school day, before weekends and/or school breaks. Students are identified by school personnel as being food insecure by a variety of criteria.

Kids Cafe - Kids Cafe is a national program founded by Feeding America, a national domestic hunger relief organization and food bank network, to solve a nationwide problem of child hunger. The Foodbank and various agencies of South Hampton Roads have joined together to provide children with a free nutritious evening meal in a safe and supportive environment.

Justine's Clothes Bank - The Clothes Bank provides vouchers to needy individuals to be used for the purchase of new clothing and shoes. It is partially supported by the earnings from a permanently restricted fund established for this purpose.

Eastern Shore Thrift Store - The Foodbank on Virginia's Eastern Shore operates a thrift store in which donated merchandise is sold. This program also provides free goods for families in emergencies. The Thrift Store helps to support the Eastern Shore Food Distribution Program.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

The Foodbank is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The classes of net assets are described as follows:

Unrestricted amounts are those currently available at the discretion of the Foodbank's Board of Directors for use in the Foodbank's operations.

Temporarily restricted amounts are those that are stipulated by donors for specific purposes. When a donor 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 amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

Public Support and Revenue

Contributions are generally available for unrestricted use unless specifically restricted by the donor. Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

The Foodbank recognizes revenue from various governmental localities when the award notice has been received.

Cash Equivalents

The Foodbank considers all highly liquid debt securities purchased with an original maturity of fourteen months or less to be cash equivalents.

Accounts and Grants Receivable

Accounts and grants receivable are stated at the amount management expects to collect from balances outstanding at year-end. Accounts receivable represent amounts due from various agencies under the Foodbank's shared maintenance fee program. Based on management's assessment of the credit history with clients having outstanding balances and current relationships with them, management provides for probable uncollectible accounts through a provision for bad debt expense and an adjustment to a valuation 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 through a charge to the valuation allowance and a credit to accounts receivable. Accounts receivables previously written off are recorded when received. Management has established an allowance of \$1,250 for 2010 and 2009 for accounts receivable. Management believes that all grants receivable are fully collectible; therefore, no provision for doubtful accounts has been made for grants receivable.

Property and Equipment

Acquisitions of property and equipment are recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. Depreciation is provided by the straight-line method over estimated useful lives of each class of depreciable assets from 3 to 40 years. The Foodbank's policy is to capitalize property and equipment purchased with a cost greater than \$1,000.

Buildings and improvements	5 - 40 years
Office equipment and computer software	3 - 5 years
Warehouse equipment	5 - 10 years
Vehicles	5 years

Investment Securities

Investments in marketable securities with readily determinable fair values are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Inventory

USDA food inventory and food received, distributed and undistributable are stated at the value determined by the USDA for each commodity item on an annual basis. The commodity values are obtained from the USDA website which is considered to be a reasonable basis upon which to estimate these amounts. Inventory purchased by the Foodbank is recorded at cost and is charged to operations using the first-in, first-out method.

Non-USDA donated food inventory and donated food received, distributed and undistributable are stated at estimated fair value determined by reference to a study commissioned by Feeding America. That study presents the average wholesale value of products donated to the network and is considered to be a reasonable basis upon which to estimate these amounts. For the years ended June 30, 2010 and 2009, the average wholesale value of products per this study was \$1.60 and \$1.58 per pound, respectively. Undistributable food for the year ended June 30, 2010 and 2009 was \$282,068 and \$55,217, respectively.

Merchandise inventory at the Eastern Shore Thrift Store is recorded at its estimated fair market value. The increase or decrease in this inventory is presented as contributions in the accompanying statements of activities.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services.

Advertising Costs

The Foodbank expenses advertising costs as they are incurred. Advertising expense was \$53,752 and \$1,761 for 2010 and 2009, respectively.

Estimates

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

Donated Services

The Foodbank utilizes a substantial amount of volunteer and subsidized labor in its daily operations. The availability of such cost-free and reduced-cost labor has allowed the Foodbank to expand its programs and services beyond what might otherwise have been possible. The Foodbank does not recognize contributed labor as revenue because these services do not meet the accounting standards for recognition.

Concentrations and Credit Risk

Financial instruments which potentially subject the Foodbank to concentration of credit risk consist principally of cash and cash equivalents, investments, and accounts receivable. The Foodbank places its cash and cash equivalents and investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. There were no uninsured balances on deposit at June 30, 2010 and 2009 which exceeded the FDIC limit. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of grantors comprising the Foodbank's grant base.

Comparative Figures

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

Comparative Information

The 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foodbank's financial statements for 2009, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, the Foodbank has evaluated events and transactions for potential recognition or disclosure through October 6, 2010, the date the financial statements were available to be issued.

3. Investments

Investments as of June 30, 2010, are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 453,418	\$ 454,477	\$ 1,059
Common stock	622,000	604,731	(17,269)
Total marketable securities	<u>\$ 1,075,418</u>	<u>\$ 1,059,208</u>	<u>\$ (16,210)</u>

The following schedule summarizes the investment return in the statement of activities for 2010:

Interest and dividends	\$ 41,563
Unrealized/realized gains	<u>107,802</u>
Total investment return	<u>\$ 149,365</u>

Investments as of June 30, 2009 are summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Mutual funds	\$ 486,276	\$ 397,800	\$ (88,476)
Common stock	505,158	441,041	(64,117)
Total marketable securities	<u>\$ 991,434</u>	<u>\$ 838,841</u>	<u>\$ (152,593)</u>

The following schedule summarized the investment return and its classification in the statement of activities for 2009.

Interest and dividends	\$ 46,163
Unrealized/realized losses	<u>(123,982)</u>
Total investment return	<u>\$ (77,819)</u>

4. Property and Equipment

Major classes of property and equipment consisted of the following:

	<u>2010</u>	<u>2009</u>
Land and construction in progress	\$ 271,013	\$ 243,890
Buildings and improvements	3,416,171	3,414,297
Office equipment and computer software	435,975	323,541
Warehouse equipment	462,032	407,905
Vehicles	738,191	678,057
	<u>5,323,382</u>	<u>5,067,690</u>
Less - accumulated depreciation	<u>(2,370,037)</u>	<u>(2,178,937)</u>
	<u>\$ 2,953,345</u>	<u>\$ 2,888,753</u>

Included in office equipment and computer software as of June 30, 2010 is \$156,510 of capitalized equipment and software donated to the Foodbank in the current year. Additionally, included in land and construction in progress is \$28,330 of donated services related to the roof repair project.

In May 2010, the Foodbank entered into a contract to upgrade the roof and certain heating and air conditioning units on its main office and warehouse in Norfolk. The value of the contract is approximately \$1 million and the work is expected to be completed by November 2010. The cost of the project will be funded through the proceeds from a Capital Campaign and through the use of cash reserves. Approximately \$27,000 has been recorded as construction in progress as of June 30, 2010.

5. Capital Leases

Long-term liabilities at June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Monthly payments of \$385 including interest at 6% through fiscal year 2010, secured by telephone system	\$ -	\$ 364
Monthly payments of \$578 including interest at 5% through fiscal year 2015, secured by copy machine	\$ 27,892	\$ -

Interest expense charged to operations related to these capital leases for the year ended June 30, 2010 and 2009 was \$737 and \$360, respectively.

Future minimum lease payments are as follows:

2011	\$	6,933
2012		6,933
2013		6,933
2014		6,933
2015		3,467
		<u>31,199</u>
Less - imputed interest		<u>(3,313)</u>
Present value of net minimum lease payments		27,886
Less - current portion		<u>(5,668)</u>
Noncurrent portion	\$	<u>22,218</u>

6. Lease Obligations

The Foodbank's rental income is received under four operating leases of a portion of its facility expiring in fiscal year 2012. Total future rentals on these operating leases are \$52,326 in 2011; and \$50,805 in 2012.

Various items of equipment are leased on an as-needed basis, primarily for use in transporting food. There are no long-term commitments associated with such leases.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Foodbank programs	\$ 461,861	\$ 481,591
Justine's Clothes Bank	4,156	4,156
	<u>\$ 466,017</u>	<u>\$ 485,747</u>

Temporarily restricted net assets included contributions to the Sukoff Memorial Fund. These temporarily restricted net assets were \$28,277 for 2010 and 2009.

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

	<u>2010</u>	<u>2009</u>
Foodbank programs	\$ 777,405	\$ 735,738
BackPack and Kids Café Programs	281,130	179,369
Justine's Clothes Bank	3,122	7,512
	<u>\$ 1,061,657</u>	<u>\$ 922,619</u>

8. Permanently Restricted Net Assets

Permanently restricted net assets consist of contributions to the Justine's Clothes Bank fund. Contributions are permanently invested and the earnings are temporarily restricted to be used to support the operations of Justine's Clothes Bank. At June 30, 2010 and 2009, these permanently restricted net assets were \$246,742 and \$245,842, respectively.

9. Retirement Plan

The Foodbank sponsors 401(a) and 403(b) plans covering substantially all employees who had attained age 21, been employed for at least one year, and who worked a minimum of 1,000 hours annually. Employee contributions are matched up to the first 5% of their compensation. In addition, a discretionary contribution may be made by the Foodbank at the end of the fiscal year upon approval by the Board of Directors. These plans were restated July 1, 2009 to comply with the new 403(b) ERISA requirements. The employer match is now being deposited into the 403(b) plan due to this restatement. Total cost under these plans for the year ended June 30, 2010 and June 30, 2009 was \$98,202 and \$100,449, respectively.

10. Fundraising Events

The Foodbank conducts or is the recipient of several annual fundraising events as follows:

"Taste of Hampton Roads" raises funds through sponsorships, auction sales and ticket sales. Local chefs and restaurants donate their talent, time and specialties to this event. Expenses include banquet charges, licenses and advertising.

"Legal Food Frenzy" is an event that is sponsored by the Norfolk and Portsmouth Bar Association. Law professionals donate their time to collect cash and nonperishable food donations. The event is held for two weeks in March or April.

"Mayflower Marathon" is an event promoted by local radio stations requesting listeners to donate cash and canned food to the Foodbank. The Foodbank incurs minimal costs associated with this event.

"Art Auction" raises funds through ticket sales and sales of art donated by local artists. The artists utilize donated items from the Thrift Store to create pieces of art to auction. Expenses include facility rental and advertising.

The results of these and other fundraising events conducted during the years ended June 30, 2010 and 2009 are summarized as follows:

	2010		
	Gross Revenues	Gross Expenses	Net Profit
Canned food and fund drives	\$ 232,811	\$ 4,674	\$ 228,137
Taste of Hampton Roads	141,795	27,636	114,159
Legal Food Frenzy	102,820	13,443	89,377
Mayflower Marathon	61,810	3,583	58,227
All other events	28,104	4,863	23,241
Cause Marketing	18,074	-	18,074
Art Auction	9,001	1,047	7,954
Total special events	\$ 594,415	\$ 55,246	\$ 539,169

	2009		
	Gross Revenues	Gross Expenses	Net Profit
Canned food and fund drives	\$ 151,017	\$ -	\$ 151,017
Taste of Hampton Roads	135,032	29,353	105,679
Legal Food Frenzy	90,903	11,660	79,243
Mayflower Marathon	56,186	3,413	52,773
All other events	28,911	13,966	14,945
Cause Marketing	10,415	3,548	6,867
Total special events	\$ 472,464	\$ 61,940	\$ 410,524

11. United Way Fundraising Costs

The Foodbank's proportionate share of the United Way of South Hampton Roads' fundraising costs in 2010 and 2009 was \$21,510 and \$21,155, respectively.

12. Contingencies

Federal programs in which the Foodbank participates were audited in accordance with *Government Auditing Standards* and OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*". Pursuant to the provisions of the above, all major programs were tested for compliance with applicable grant requirements. Matters of noncompliance exist for which the Foodbank may incur additional costs and/or be required to make mandatory reimbursements of the United States Department of Agriculture (USDA) funds. Additionally, the federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. Management has taken steps to correct all instances of noncompliance and does not anticipate sanctions from the USDA.

The Foodbank receives a substantial portion of revenue from the USDA. During 2010 and 2009, a substantial portion of donated food revenue was received from the USDA.

13. Related Party Transactions

During the years ended June 30, 2010 and 2009, the Foodbank contracted with a payroll reporting service company, which is owned by a member of its Board of Directors. Expenses incurred for the service were \$5,589 and \$5,878 for years ended June 30, 2010 and 2009, respectively.

A member of the board assisted the Foodbank in establishing the Board Restricted Endowment Fund and receives a commission of approximately 1/6% of the average balance of the fund annually. This member does not make the day-to-day investment decisions concerning the fund.

14. Fair Value Measurement

On January 1, 2008, accounting standards provided guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

As noted above, this accounting standard established a three-level disclosure hierarchy to indicate the level of judgment used to estimate fair value measurements:

Level 1 - quoted prices in active market for identical assets or liabilities as of the reporting date;

Level 2 - quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices (such as interest rate and yield curves);

Level 3 - uses inputs that are unobservable, supported by little or no market activity and reflect significant management judgment.

The table below summarizes investments, by level, for items measured at fair value on a recurring basis at June 30, 2010.

	Level 1	Level 2	Level 3
June 30, 2010			
Mutual funds	\$ 454,477	\$ -	\$ -
Common stock	604,731	-	-
Total marketable securities	<u>\$ 1,059,208</u>	<u>\$ -</u>	<u>\$ -</u>

The table below summarizes investments, by level, for items measured at fair value on a recurring basis at June 30, 2009.

	Level 1	Level 2	Level 3
June 30, 2009			
Mutual funds	\$ 397,800	\$ -	\$ -
Common stock	441,041	-	-
Total marketable securities	<u>\$ 838,841</u>	<u>\$ -</u>	<u>\$ -</u>

15. Endowment

In August 2008, accounting standards provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Act of 2006 (UPMIFA) and additional disclosures about an organization’s endowment funds. In 2008, the State of Virginia adopted UPMIFA. The adoption of UPMIFA had no effect on accounting for the Foodbank’s endowment.

The Foodbank’s permanently restricted endowment consists of one individual fund established for the purpose of providing vouchers to needy individuals to be used for the purchase of new clothing and shoes, which is donor-restricted. The unrestricted endowment consists of a board restricted endowment fund. Net assets associated with these funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foodbank have interpreted the Virginia State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair 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 Foodbank classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foodbank considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Foodbank and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and appreciation of investments.
- (6) Other resources of the Foodbank.
- (7) The investment policies of the Foodbank.

At June 30, 2010, the endowment net asset consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds - investment	\$ -	\$ (51,686)	\$ 246,742	\$ 195,056
Interfund borrowing	(51,686)	51,686	-	-
Donor-restricted funds - cash	-	4,156	-	4,156
Board-restricted funds - investment	604,731	-	-	604,731
	\$ 553,045	\$ 4,156	\$ 246,742	\$ 803,943

Changes in endowment net assets for the fiscal year ended June 30, 2010, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 366,852	\$ 4,156	\$ 245,842	\$ 616,850
Investment return:				
Investment income	10,440	3,122	-	13,562
Net appreciation (realized and unrealized)	75,753	-	-	75,753
Total investment loss	86,193	3,122	-	89,315
Contributions (transfers)	100,000	-	900	100,900
Appropriation of endowment assets for expenditure	-	(3,122)	-	(3,122)
Endowment net assets - end of year	<u>\$ 553,045</u>	<u>\$ 4,156</u>	<u>\$ 246,742</u>	<u>\$ 803,943</u>

At June 30, 2009, the endowment net asset consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds - investment	\$ -	\$ (74,189)	\$ 245,842	\$ 171,653
Interfund borrowing	(74,189)	74,189	-	-
Donor-restricted funds - cash	-	4,156	-	4,156
Board-restricted funds - investment	441,041	-	-	441,041
	<u>\$ 366,852</u>	<u>\$ 4,156</u>	<u>\$ 245,842</u>	<u>\$ 616,850</u>

Changes in endowment net assets for the fiscal year ended June 30, 2009, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 227,152	\$ 2,252	\$ 243,242	\$ 472,646
Investment return:				
Investment income	8,780	5,854	-	14,634
Net depreciation (realized and unrealized)	(81,580)	-	-	(81,580)
Total investment loss	(72,800)	5,854	-	(66,946)
Contributions (transfers)	212,500	2,961	2,600	218,061
Appropriation of endowment assets for expenditure	-	(6,911)	-	(6,911)
Endowment net assets - end of year	\$ 366,852	\$ 4,156	\$ 245,842	\$ 616,850

The Foodbank has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foodbank must hold in perpetuity as well as board-designated funds. Under the investment policy, the endowment assets are invested in a manner that will build the assets sufficient to support the mission of the Foodbank. The Foodbank's spending policy with respect to the fund is to spend the interest earned on the investment of the funds on expenses related to the fund.

From time-to-time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor and SPMIFA requires the Foodbank to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were \$51,686 and \$74,189 as of June 30, 2010 and 2009, respectively, and are reported as an interfund borrowing. These deficiencies resulted from unfavorable market fluctuations that occurred after investment of permanently restricted contributions.

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