

CAPITAL AREA FOOD BANK OF TEXAS, INC.
and
CAPITAL AREA FOOD BANK FOUNDATION
(both nonprofit organizations)
FINANCIAL STATEMENTS
and Other Financial Information
September 30, 2009 and 2008

WITH
INDEPENDENT AUDITORS' REPORT

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BASIC FINANCIAL STATEMENTS



Lockart, Atchley & Associates, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

RSM McGladrey Network
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Capital Area Food Bank of Texas, Inc.
Capital Area Food Bank Foundation

We have audited the accompanying consolidated statements of financial position of Capital Area Food Bank of Texas, Inc. and Capital Area Food Bank Foundation (both nonprofit organizations) as of September 30, 2009 and 2008, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year ended September 30, 2009 and for the nine months ended September 30, 2008. These financial statements are the responsibility of the management of Capital Area Food Bank of Texas, Inc. and Capital Area Food Bank Foundation. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 consolidated financial positions of Capital Area Food Bank of Texas, Inc. and Capital Area Food Bank Foundation as of September 30, 2009 and 2008, and the changes in their net assets and their cash flows for the year ended September 30, 2009 and for the nine months ended September 30, 2008, 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 February 25, 2010, on our consideration of Capital Area Food Bank of Texas, Inc.'s internal control over financial reporting and 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.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements of Capital Area Food Bank of Texas, Inc. and Capital Area Food Bank Foundation taken as a whole. The consolidating schedule of financial position on Page 19 and the consolidating schedule of activities and changes in net assets by fund on Page 20 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on Page 21 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fochart, Achley + Associates, LLP

Austin, Texas
February 25, 2010

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2009 AND 2008

| ASSETS | <u>September 30, 2009</u> | <u>September 30, 2008</u> |
|--|------------------------------------|------------------------------------|
| Cash and Cash Equivalents | \$ 2,002,808 | \$ 1,890,580 |
| Investments | 3,084,195 | 3,046,636 |
| Accounts Receivable | 272,791 | 331,927 |
| Donated Food Inventory Held for Distribution | 2,700,803 | 2,324,114 |
| Purchased Food on Hand | - | 69,076 |
| Prepaid Expenses | 48,426 | 6,670 |
| Property and Equipment (Net of Accumulated Depreciation of \$2,651,000 and \$2,316,418) | <u>4,643,521</u> | <u>4,492,376</u> |
| TOTAL ASSETS | <u><u>\$ 12,752,544</u></u> | <u><u>\$ 12,161,379</u></u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts Payable | \$ 243,462 | \$ 160,316 |
| Accrued Liabilities | 119,194 | 100,925 |
| Notes Payable | <u>195,000</u> | <u>240,000</u> |
| Total Liabilities | <u>557,656</u> | <u>501,241</u> |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 1,220,549 | 768,313 |
| Designated: | | |
| For Property and Equipment | 4,489,093 | 4,495,167 |
| For Future Food Distribution | 2,700,803 | 2,324,114 |
| For Operating Reserve | 1,701,188 | 1,720,000 |
| For CAFB Foundation | <u>1,678,271</u> | <u>1,667,076</u> |
| Total Unrestricted | 11,789,904 | 10,974,670 |
| Temporarily Restricted | 253,890 | 534,374 |
| Permanently Restricted | <u>151,094</u> | <u>151,094</u> |
| Total Net Assets | <u>12,194,888</u> | <u>11,660,138</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 12,752,544</u></u> | <u><u>\$ 12,161,379</u></u> |

The Notes to Financial Statements are an intergral part of these financial statements.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------|---------------------------|---------------------------|---------------|
| PUBLIC SUPPORT AND REVENUE | | | | |
| Public Support: | | | | |
| Donated Food Received for Distribution, (Net of Food Scrapped of \$2,082,083) | \$ 35,137,253 | \$ - | \$ - | \$ 35,137,253 |
| Grants and Contracts | 641,422 | 335,926 | - | 977,348 |
| Contributions | 4,299,235 | 940,229 | - | 5,239,464 |
| Revenue: | | | | |
| Program Service Fees | 1,522,107 | - | - | 1,522,107 |
| Investment Income/(Loss) | 63,705 | - | - | 63,705 |
| Other | 16,152 | - | - | 16,152 |
| | 41,679,874 | 1,276,155 | - | 42,956,029 |
| Net Assets Released from Restrictions - Program Expenditures | 1,556,639 | (1,556,639) | - | - |
| Total Public Support and Revenue | 43,236,513 | (280,484) | - | 42,956,029 |
| EXPENSES | | | | |
| Program Services: | | | | |
| Donated Food Program | 41,045,289 | - | - | 41,045,289 |
| Supporting Services: | | | | |
| Management and General | 681,967 | - | - | 681,967 |
| Fund Raising | 694,023 | - | - | 694,023 |
| Total Expenses | 42,421,279 | - | - | 42,421,279 |
| Change in Net Assets | 815,234 | (280,484) | - | 534,750 |
| Net Assets at Beginning of Year | 10,974,670 | 534,374 | 151,094 | 11,660,138 |
| Net Assets at End of Year | \$ 11,789,904 | \$ 253,890 | \$ 151,094 | \$ 12,194,888 |

The Notes to Financial Statements are an integral part of these financial statements.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------|---------------------------|---------------------------|---------------|
| PUBLIC SUPPORT AND REVENUE | | | | |
| Public Support: | | | | |
| Donated Food Received for Distribution, (Net of Food Scrapped of \$1,012,527) | \$ 18,386,335 | \$ - | \$ - | \$ 18,386,335 |
| Grants and Contracts | 556,093 | 216,684 | - | 772,777 |
| Contributions | 2,130,201 | 857,104 | - | 2,987,305 |
| Revenue: | | | | |
| Program Service Fees | 1,328,563 | - | - | 1,328,563 |
| Investment Income/(Loss) | (441,592) | - | - | (441,592) |
| Other | 18,345 | - | - | 18,345 |
| | 21,977,945 | 1,073,788 | - | 23,051,733 |
| Net Assets Released from Restrictions - Program Expenditures | 785,196 | (785,196) | - | - |
| Total Public Support and Revenue | 22,763,141 | 288,592 | - | 23,051,733 |
| EXPENSES | | | | |
| Program Services: | | | | |
| Donated Food Program | 22,227,781 | - | - | 22,227,781 |
| Supporting Services: | | | | |
| Management and General | 360,795 | - | - | 360,795 |
| Fund Raising | 348,390 | - | - | 348,390 |
| Total Expenses | 22,936,966 | - | - | 22,936,966 |
| Change in Net Assets | (173,825) | 288,592 | - | 114,767 |
| Net Assets at Beginning of Year | 11,148,495 | 245,782 | 151,094 | 11,545,371 |
| Net Assets at End of Year | \$ 10,974,670 | \$ 534,374 | \$ 151,094 | \$ 11,660,138 |

The Notes to Financial Statements are an integral part of these financial statements.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2009

| | Donated Food Program | Supporting Services | | Total |
|------------------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------|
| | | Management & General | Fund Raising | |
| Donated Food Distributed to Others | \$ 34,740,565 | \$ - | \$ - | \$ 34,740,565 |
| Salaries and Related Expenses | 2,614,570 | 338,969 | 351,837 | 3,305,376 |
| Professional Fees | 10,337 | 71,157 | 4,050 | 85,544 |
| Fees for Service | 1,550 | 132,311 | 172,634 | 306,495 |
| Grants to Agencies | 358,916 | - | - | 358,916 |
| Supplies | 104,860 | 4,638 | 3,878 | 113,376 |
| Telephone | 30,763 | 1,352 | 1,690 | 33,805 |
| Postage | 24,235 | 1,916 | 37,722 | 63,873 |
| Occupancy | 541,691 | 28,813 | 5,763 | 576,267 |
| Insurance | 78,504 | 4,176 | 835 | 83,515 |
| Equipment Rent and Maintenance | 261,715 | 4,192 | - | 265,907 |
| Printing and Publication | 52,663 | 5,886 | 88,595 | 147,144 |
| Mileage and Freight | 476,533 | 6,026 | 9,848 | 492,407 |
| Conferences and Meetings | 44,308 | 14,527 | 13,801 | 72,636 |
| Memberships | 1,685 | 1,685 | 3,370 | 6,740 |
| Food Acquisitions | 1,408,748 | - | - | 1,408,748 |
| Miscellaneous | - | 2,485 | - | 2,485 |
| | <u>40,751,643</u> | <u>618,133</u> | <u>694,023</u> | <u>42,063,799</u> |
| Interest Expense | - | 4,972 | - | 4,972 |
| Depreciation | 293,646 | 58,862 | - | 352,508 |
| | <u>293,646</u> | <u>63,834</u> | <u>-</u> | <u>357,480</u> |
| TOTAL EXPENSES | <u><u>\$ 41,045,289</u></u> | <u><u>\$ 681,967</u></u> | <u><u>\$ 694,023</u></u> | <u><u>\$ 42,421,279</u></u> |

The Notes to Financial Statements are an integral part of these financial statements.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

| | Donated Food Program | Supporting Services | | Total |
|------------------------------------|-----------------------------|--------------------------|--------------------------|-----------------------------|
| | | Management & General | Fund Raising | |
| Donated Food Distributed to Others | \$ 17,792,990 | \$ - | \$ - | \$ 17,792,990 |
| Salaries and Related Expenses | 1,597,946 | 217,898 | 212,776 | 2,028,620 |
| Professional Fees | 3,480 | 35,155 | - | 38,635 |
| Fees for Service | - | 27,569 | 27,958 | 55,527 |
| Grants to Agencies | 254,690 | - | - | 254,690 |
| Supplies | 59,744 | 1,124 | 834 | 61,702 |
| Telephone | 19,922 | 876 | 1,095 | 21,893 |
| Postage | 18,905 | 1,586 | 32,366 | 52,857 |
| Occupancy | 158,122 | 8,411 | 1,682 | 168,215 |
| Insurance | 50,507 | 2,687 | 537 | 53,731 |
| Equipment Rent and Maintenance | 141,611 | 2,220 | - | 143,831 |
| Printing and Publication | 35,486 | 4,031 | 64,642 | 104,159 |
| Mileage and Freight | 431,319 | 334 | 865 | 432,518 |
| Conferences and Meetings | 56,726 | 5,216 | 3,260 | 65,202 |
| Memberships | 1,188 | 1,188 | 2,375 | 4,751 |
| Food Acquisitions | 1,399,994 | - | - | 1,399,994 |
| Miscellaneous | - | 1,284 | - | 1,284 |
| | <u>22,022,630</u> | <u>309,579</u> | <u>348,390</u> | <u>22,680,599</u> |
| Interest Expense | - | 8,376 | - | 8,376 |
| Depreciation | 205,151 | 42,840 | - | 247,991 |
| | <u>205,151</u> | <u>51,216</u> | <u>-</u> | <u>256,367</u> |
| TOTAL EXPENSES | <u><u>\$ 22,227,781</u></u> | <u><u>\$ 360,795</u></u> | <u><u>\$ 348,390</u></u> | <u><u>\$ 22,936,966</u></u> |

The Notes to Financial Statements are an integral part of these financial statements.

**CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | 2009 | 2008 |
|---|---------------------|---------------------|
| Increase (Decrease) in Net Assets | \$ 534,750 | \$ 114,767 |
| Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 352,508 | 247,991 |
| (Gain) Loss on Sale of Property and Equipment | - | 303 |
| Realized (Gain) Loss on Sale of Investments | 214,442 | 8,141 |
| Unrealized (Gain) Loss on Investments | (197,573) | 522,179 |
| (Increase) Decrease in Operating Assets: | | |
| Accounts Receivable | 59,136 | 38,629 |
| Food Inventory | (307,613) | (508,776) |
| Prepaid Expenses | (41,756) | 48,047 |
| Increase (Decrease) in Operating Liabilities: | | |
| Accounts Payable | 83,146 | (6,240) |
| Accrued Liabilities | 18,269 | 47,384 |
| | <u>715,309</u> | <u>512,425</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Purchase of Investments | (1,118,264) | (1,034,401) |
| Proceeds from Sale of Investments | 1,063,835 | 1,068,321 |
| Purchase of Property and Equipment | (503,652) | (238,588) |
| Proceeds from Sale of Property and Equipment | - | 1,300 |
| | <u>(558,081)</u> | <u>(203,368)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Principal Payments on Note Payable | (45,000) | (33,750) |
| | <u>(45,000)</u> | <u>(33,750)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 112,228 | 275,307 |
| Cash and Cash Equivalents at Beginning of Year | <u>1,890,580</u> | <u>1,615,273</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 2,002,808</u> | <u>\$ 1,890,580</u> |
| <u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u> | | |
| Cash Paid During the Year for: | | |
| Interest | \$ 4,972 | \$ 8,376 |
| Federal Income Taxes | <u>\$ -</u> | <u>\$ -</u> |

The Notes to Financial Statements are an integral part of these financial statements.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization. Capital Area Food Bank of Texas, Inc. (the Food Bank) is a Texas nonprofit corporation. The Food Bank acts as a central clearinghouse to which the food industry and the public may donate edible surplus food and personal care products for distribution to human service agencies which assist victims of poverty or crisis, the ill, infants, and the elderly.

The Capital Area Food Bank Foundation (the Foundation), also a Texas nonprofit corporation, was created in January 2000 to provide a stable source of revenue to support the Food Bank's general program operations.

The Food Bank raises funds through government grants and donations from organizations, businesses and individuals. A portion of the program costs is shared by the recipient agencies in correlation with the amount of food each agency receives. Funding is provided primarily by donated food received, public support, program fees, and grants and contracts.

Consolidated Financial Statements. The accompanying consolidated financial statements include the financial statements of the Food Bank and the Foundation. The Foundation has no members but is governed by a Board of Directors which includes at least two directors of the Food Bank board. All significant inter-company transactions have been eliminated in the consolidated financial statements.

Change in Fiscal Year. The Board of Directors of the Food Bank voted to change the fiscal year end from December 31 to September 30 to more closely align reporting and recordkeeping with similar national organizations and federal agencies. Consequently, the accompanying financial statements for 2008 relate to the nine month period ended September 30, 2008.

Basis of Presentation. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted net assets — Net assets that 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 organization 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 organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on any related investments for general or specific purposes. Permanently restricted net assets are invested in perpetuity. The income may be used to support the Food Bank's general program operations, subject to the restrictions contained in the Foundation's organizational documents.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Donations. Donated material and services, although significant in amount, are not recorded unless there is an objectively measurable basis for determining their fair value.

A substantial number of people donate significant amounts of services to the Food Bank. The financial statements do not reflect the value of these services as no objective basis exists for the reasonable measuring of the value of such services in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-605-25 (Statement of Financial Accounting Standards No. 116). It is estimated that volunteers contributed approximately 80,000 and 46,300 hours to the food distribution program in 2009 and 2008, respectively.

Food Inventory. The Food Bank acts as an agent for the donors of food, immediately distributing it to various agencies. Donated food inventory on-hand at September 30, 2009 and 2008 is recorded in the financial statements at an average value of \$1.58 and \$1.49, respectively, per pound as calculated by Feeding America.

Property and Equipment. Donations of property and equipment are recorded as support revenue at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset 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 Food Bank reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Food Bank reclassifies temporarily restricted net assets to unrestricted net assets at that time. Purchased property and equipment is recorded at cost. There were no donated capital assets in 2009 and 2008.

Depreciation on property and equipment is provided using the straight-line method over estimated useful lives of the respective assets, ranging from 3 to 50 years. Upon sale or other disposition of assets, the costs and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected as an increase or decrease in unrestricted net assets.

Federal Income Taxes. The Food Bank is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is classified as an organization other than a private foundation.

Cash Equivalents. The Food Bank considers all deposits held at financial institutions or brokerage houses that are subject to withdrawal by check and investments with an original maturity of three months or less to be cash equivalents.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recognition of Donor Restrictions. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unrestricted contributions are recorded as an increase in unrestricted net assets available in the period in which the notice of the unconditional promise to give is received.

Contributions or grants, which contain a donor-imposed restriction or a stipulation that the contribution cannot be used until a future period, are recorded as restricted contributions. Contributions, which are restricted with respect to the expenditure of the funds, are recorded as increases in temporarily restricted net assets available in the period in which the notice of grant award is received. Temporarily restricted net assets are reclassified to unrestricted net assets in the period in which the use restriction has been met or the time restriction lapses.

Revenue Recognition. In accordance with the *AICPA Audit and Accounting Guide for Not-for-Profit Organizations*, contributions (grants) received from federal, state, and local governments that are conditioned upon the Food Bank incurring certain qualifying costs, are considered to be conditional promises to give and therefore are recognized as revenue as those costs are incurred.

Use of Estimates and Assumptions. 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 as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable. The Food Bank considers all recorded accounts, grants, and pledges to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

Investments. Investments are recorded at fair value as of year-end. Unrealized gains and losses as well as all interest and dividends earned are included in the change in unrestricted net assets in the accompanying Consolidated Statement of Activities and Changes in Net Assets.

Board Designated Unrestricted Net Assets. The Board of Directors has set aside amounts to be used for designated future purposes of the organizations as reflected in these financials statements. A portion of the unrestricted net assets is set aside as an operating reserve fund in compliance with Feeding America policies.

**CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at September 30,:

| | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| Cash held at financial institutions | \$ 1,555,537 | \$ 1,426,377 |
| Money market accounts, at fair market value | 447,271 | 464,203 |
| | <u>\$ 2,002,808</u> | <u>\$ 1,890,580</u> |

NOTE 3 - INVESTMENTS

The Food Bank and the Foundation adopted FASB ASC 958-320-50 (Statement of Financial Accounting Standards No. 124). This statement requires entities to report investments in the statement of financial position at fair value and report realized and unrealized gains and losses in the statement of activities and changes in net assets. Investment income for the periods ended September 30, 2009 and 2008, included in the Consolidated Statement of Activities and Changes in Net Assets, is summarized as follows:

| | <u>2009</u> | <u>2008</u> |
|---------------------------------------|------------------|---------------------|
| Unrealized Gain (Loss) on Investments | \$ 197,573 | \$ (522,179) |
| Interest and Dividends | 80,574 | 88,728 |
| Loss on Sale of Investments | (214,442) | (8,141) |
| | <u>\$ 63,705</u> | <u>\$ (441,592)</u> |

Short-term investments are recorded at fair value and are recorded in the financial statements as cash and cash equivalents. Long-term investments are recorded at fair value. Market values and unrealized appreciation (depreciation) at September 30, are summarized as follows:

September 30, 2009:

| <u>FOOD BANK</u> | <u>Cost</u> | <u>Market Value</u> | <u>Unrealized Gain/(Loss)</u> |
|--|---------------------|---------------------|-------------------------------|
| Short-Term Investments: | | | |
| Money Market Accounts (cash equivalents) | \$ 309,552 | \$ 309,552 | \$ - |
| Long-Term Investments | | | |
| Corporate Bonds | 303,635 | 314,769 | 11,134 |
| Government Obligations | 263,980 | 277,975 | 13,995 |
| Equities and Other | 700,478 | 799,806 | 99,328 |
| | <u>1,268,093</u> | <u>1,392,550</u> | <u>124,457</u> |
| Total Food Bank | <u>\$ 1,577,645</u> | <u>\$ 1,702,102</u> | <u>\$ 124,457</u> |

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 3 - INVESTMENTS - CONTINUED

| <u>FOUNDATION</u> | Cost | Market Value | Unrealized Gain/(Loss) |
|--|---------------------|---------------------|------------------------|
| Short-Term Investments: | | | |
| Money Market Accounts (cash equivalents) | \$ 137,719 | \$ 137,719 | \$ - |
| Long-Term Investments: | | | |
| Corporate Bonds | 314,883 | 329,001 | 14,118 |
| Government Obligations | 184,748 | 193,984 | 9,236 |
| Equities and Other | 1,051,334 | 1,168,660 | 117,326 |
| | <u>1,550,965</u> | <u>1,691,645</u> | <u>140,680</u> |
| Total Foundation | <u>\$ 1,688,684</u> | <u>\$ 1,829,364</u> | <u>\$ 140,680</u> |
| Total Food Bank and Foundation | <u>\$ 3,266,329</u> | <u>\$ 3,531,466</u> | <u>\$ 265,137</u> |
| September 30, 2008: | | | |
| <u>FOOD BANK</u> | | | |
| Short-Term Investments: | | | |
| Money Market Accounts (cash equivalents) | \$ 350,875 | \$ 350,875 | \$ - |
| Long-Term Investments | | | |
| Corporate Bonds | 54,156 | 52,756 | (1,400) |
| Government Obligations | 318,854 | 329,328 | 10,474 |
| Equities and Other | 938,491 | 959,710 | 21,219 |
| | <u>1,311,501</u> | <u>1,341,794</u> | <u>30,293</u> |
| Total Food Bank | <u>\$ 1,662,376</u> | <u>\$ 1,692,669</u> | <u>\$ 30,293</u> |
| <u>FOUNDATION</u> | | | |
| Short-Term Investments: | | | |
| Money Market Accounts (cash equivalents) | \$ 113,328 | \$ 113,328 | \$ - |
| Long-Term Investments: | | | |
| Corporate Bonds | 239,455 | 230,603 | (8,852) |
| Government Obligations | 316,927 | 324,782 | 7,855 |
| Equities and Other | 1,102,213 | 1,149,457 | 47,244 |
| | <u>1,658,595</u> | <u>1,704,842</u> | <u>46,247</u> |
| Total Foundation | <u>\$ 1,771,923</u> | <u>\$ 1,818,170</u> | <u>\$ 46,247</u> |
| Total Food Bank and Foundation | <u>\$ 3,434,299</u> | <u>\$ 3,510,839</u> | <u>\$ 76,540</u> |

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 4 - PROPERTY AND EQUIPMENT

The major classes of property and equipment held as of September 30, were:

| | <u>Life</u> | <u>2009</u> | <u>2008</u> |
|--------------------------|-------------|---------------------|---------------------|
| Land | - | \$ 330,972 | \$ 330,972 |
| Building | 5-50 years | 4,412,252 | 4,366,709 |
| Office equipment | 3-10 years | 443,688 | 433,418 |
| Warehouse equipment | 3-10 years | 797,142 | 768,650 |
| Vehicles | 5-8 years | 1,310,467 | 909,045 |
| | | <u>7,294,521</u> | <u>6,808,794</u> |
| Accumulated Depreciation | | <u>(2,651,000)</u> | <u>(2,316,418)</u> |
| | | <u>\$ 4,643,521</u> | <u>\$ 4,492,376</u> |

Depreciation expense of \$352,507 and \$247,991 was recorded during the periods ended September 30, 2009 and 2008, respectively. The Food Bank capitalizes all depreciable assets with a cost equal to or greater than \$500 with a useful life of more than one year. Assets retired from service during the year are charged against their accumulated depreciation account and removed from the fixed asset records. If the asset is not fully depreciated the residual asset balance is charged to depreciation expense for the current period. During 2009 and 2008, there was a total of \$17,926 and \$20,388 of retirements that had an accumulated depreciation of \$17,926 and \$18,785, respectively.

NOTE 5 - NOTE PAYABLE

The Food Bank entered into a loan agreement on April 29, 2005 to borrow up to \$800,000 to finance the construction of building improvements. The note accrues interest at a rate of prime less 1.25% per annum, the rate was 2% at September 30, 2009, with interest payments due monthly. Principal payments started on February 28, 2006, and are due in monthly installments until the maturity date January 29, 2011. During 2009 and 2008, the Food Bank made principal payments of \$45,000 and \$33,750 plus interest due, respectively. The note is collateralized by a mortgage on the land and all improvements.

NOTE 6 - RESTRICTIONS ON NET ASSETS

The following are temporarily restricted net assets which the Food Bank held at September 30:

| | <u>2009</u> | <u>2008</u> |
|--------------------|-------------------|-------------------|
| Kids' Café Program | \$ 132,567 | \$ 179,186 |
| Disaster Relief | 121,323 | 355,188 |
| | <u>\$ 253,890</u> | <u>\$ 534,374</u> |

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 7 - RELEASE OF DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. Amounts released during the periods ending on September 30 were:

| Donated Food Program: | 2009 | 2008 |
|--|---------------------|-------------------|
| Kids' Café Program | \$ 352,366 | \$ 267,381 |
| Disaster Relief | 337,908 | 53,142 |
| Federal Emergency Management Agency (FEMA) | 186,061 | 108,691 |
| Food Purchase | 170,100 | - |
| Community Action Network - CAN | 149,865 | 107,993 |
| Fresh Food for Families | 126,114 | - |
| Healthy Options Program for the Elderly (HOPE) | 105,500 | 55,104 |
| Mobile Pantry | 78,185 | 22,078 |
| Capacity Building | 20,000 | 13,213 |
| East Austin Service Center | 19,128 | - |
| Perishable Food Rescue | 9,500 | 22,904 |
| Handling Fee | 1,912 | - |
| Backpack Program | - | 22,000 |
| Purchase of Fixed Assets | - | 112,690 |
| | <u>\$ 1,556,639</u> | <u>\$ 785,196</u> |

NOTE 8 - CONTRIBUTIONS

Contributions for the periods ended September 30 are composed of receipts from:

| | 2009 | 2008 |
|-------------------------------------|---------------------|---------------------|
| Individuals | \$ 2,593,153 | \$ 1,626,708 |
| Special events and other | 892,261 | 544,198 |
| Foundations | 699,373 | 167,485 |
| Businesses | 744,228 | 515,296 |
| In-kind donation | 200,000 | - |
| Religious and service organizations | 110,449 | 133,618 |
| | <u>\$ 5,239,464</u> | <u>\$ 2,987,305</u> |

NOTE 9 - CITY AND COUNTY GRANTS

Expenditures of the City of Austin and Travis County grant funds for the periods ended September 30, 2009 and 2008 consist of salaries of \$149,865 and \$107,993, respectively.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 10 - TEXAS COMMODITIES ASSISTANCE PROGRAM - (TEXCAP)

The Food Bank contracted with the Texas Health and Human Services Commission (HHSC) for the distribution of USDA commodities to Food Bank partner agencies under the Texas Commodities Assistance Program (TEXCAP). During the periods ended September 30, 2009 and 2008, the Food Bank recognized \$354,980 and \$364,739 of revenue, respectively, from HHSC for reimbursement of allowable actual direct costs of storage and distribution of commodities. The related costs charged to the program totaled \$354,980 and \$364,739 in 2009 and 2008, respectively. During the year ended September 30, 2009, the Food Bank received an additional TEXCAP grant under the American Recovery and Reinvestment Act. Revenue and related costs charged to the program were \$66,464.

NOTE 11 - RETIREMENT PLAN

The Food Bank offers a defined contribution retirement plan (the Plan) which qualifies under the Internal Revenue Code Section 403(b)(7). Eligible employees may contribute to the Plan a portion of their annual salary through payroll deductions. In addition to employee contributions, the Food Bank contributes 2% of each eligible employee's salary to the Plan and also matches up to 5% of each employee's salary reduction contribution. All full-time employees with three months of service are eligible to participate in the Plan. All Food Bank contributions are fully vested. For the periods ended September 30, 2009 and 2008, the Food Bank contributed \$95,059 and \$64,054 to the Plan, respectively.

NOTE 12 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities and Changes in Net Assets. Accordingly, certain common costs have been allocated among the program and supporting services benefited, as summarized in the Consolidated Statement of Functional Expenses.

NOTE 13 - CONCENTRATION OF CREDIT RISK

The Food Bank and the Foundation maintain cash deposits at financial institutions, which at times exceed federally guaranteed limits. Management closely monitors the financial institutions as well as the account balances. Neither the Food Bank nor the Foundation have experienced any losses on its deposits at these institutions. Combined cash deposits did not exceed federally guaranteed limits at September 30, 2009 and 2008.

In addition, the Food Bank and the Foundation invest in various money market funds that are classified as cash equivalents in the financial statements. No losses were experienced during the period on these short-term investments, which are held by high credit quality institutions. Investments of \$347,271 and \$364,203 in money market accounts were not insured by the FDIC at September 30, 2009 and 2008, respectively.

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

NOTE 14 - RELATED PARTY TRANSACTIONS

The Capital Area Food Bank is an affiliate of Feeding America. As such, the Food Bank is offered donations from national food companies. The Food Bank received 5,222,848 and 5,156,059 pounds of food as a result of this affiliation during the periods ended September 30, 2009 and 2008, respectively. The Food Bank paid affiliate fees of \$15,048 and \$11,286 to Feeding America in 2009 and 2008, respectively.

NOTE 15 - FAIR VALUE MEASUREMENTS

During 2008 the Food Bank implemented FASB ASC 820-10-50 (Financial Accounting Standards Board Statement No. 157), *Fair Value Measurements*, which establishes 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 under FASB ASC 820-10-50 are described below:

| | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Food Bank 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's 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 September 30, 2009.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

**CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009
AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

NOTE 15 - 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 Food Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Food Bank's assets at fair value as of September 30, 2009:

FOOD BANK

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------|---------------------|----------------|----------------|---------------------|
| Common stocks | \$ 799,806 | \$ - | \$ - | \$ 799,806 |
| Corporate bonds | 314,769 | - | - | 314,769.00 |
| Government securities | 277,975 | - | - | 277,975.00 |
| | <u>\$ 1,392,550</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,392,550</u> |

FOUNDATION

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------|---------------------|----------------|----------------|---------------------|
| Common stocks | \$ 1,168,660 | \$ - | \$ - | \$ 1,168,660 |
| Corporate bonds | 329,001 | - | - | 329,001.00 |
| Government securities | 193,984 | - | - | 193,984.00 |
| | <u>\$ 1,691,645</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,691,645</u> |

NOTE 16 - SUBSEQUENT EVENTS

Management of the Food Bank has evaluated subsequent events for disclosure through February 25, 2010, the date the financial statements were available to be issued.

ADDITIONAL INFORMATION

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
SEPTEMBER 30, 2009

| ASSETS | 2009 | | | Consolidated |
|--|----------------------|---------------------|--------------|----------------------|
| | Food Bank | Foundation | Eliminations | |
| Cash and Cash Equivalents | \$ 1,865,089 | \$ 137,719 | \$ - | \$ 2,002,808 |
| Investments | 1,392,549 | 1,691,646 | - | 3,084,195 |
| Accounts Receivable | 272,791 | - | - | 272,791 |
| Donated Food Inventory Held for Distribution | 2,700,803 | - | - | 2,700,803 |
| Purchased Food on Hand | - | - | - | - |
| Prepaid Expenses | 48,426 | - | - | 48,426 |
| Property and Equipment (Net of Accumulated Depreciation of \$ 2,651,000) | 4,643,521 | - | - | 4,643,521 |
| TOTAL ASSETS | \$ 10,923,179 | \$ 1,829,365 | \$ - | \$ 12,752,544 |
| LIABILITIES AND NET ASSETS | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 243,462 | \$ - | \$ - | \$ 243,462 |
| Accrued Liabilities | 119,194 | - | - | 119,194 |
| Notes Payable | 195,000 | - | - | 195,000 |
| Total Liabilities | 557,656 | - | - | 557,656 |
| Net Assets: | | | | |
| Unrestricted: | | | | |
| Undesignated | 1,220,549 | - | - | 1,220,549 |
| Designated for Property and Equipment | 4,489,093 | - | - | 4,489,093 |
| Designated for Future Food Distribution | 2,700,803 | - | - | 2,700,803 |
| Designated for Operating Reserve | 1,701,188 | - | - | 1,701,188 |
| Designated for CAFB Foundation | - | 1,678,271 | - | 1,678,271 |
| Total Unrestricted | 10,111,633 | 1,678,271 | - | 11,789,904 |
| Temporarily Restricted | 253,890 | - | - | 253,890 |
| Permanently Restricted | - | 151,094 | - | 151,094 |
| Total Net Assets | 10,365,523 | 1,829,365 | - | 12,194,888 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 10,923,179 | \$ 1,829,365 | \$ - | \$ 12,752,544 |

See Independent Auditors' Report.

**CAPITAL AREA FOOD BANK OF TEXAS, INC.
CAPITAL AREA FOOD BANK FOUNDATION
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS BY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

| | Capital Area Food Bank | | | | | Foundation Funds | | | Eliminations | Consolidated Total |
|--|------------------------|---------------------------|---------------------------|----------------------|---------------|------------------|---------------------------|--------------|--------------|-----------------------|
| | Operating Fund | | Property and Equipment | Operating Reserve | Total | Unrestricted | Permanently Restricted | Total | | |
| | Unrestricted | Temporarily Restricted | | | | | | | | |
| PUBLIC SUPPORT AND REVENUE | | | | | | | | | | |
| Public Support: | | | | | | | | | | |
| Donated Food Received for Distribution, (Net of Food Scrapped of \$1,088,461) | \$ 35,137,253 | \$ - | \$ - | \$ - | \$ 35,137,253 | \$ - | \$ - | \$ - | \$ - | \$ 35,137,253 |
| Grants and Contracts | 641,422 | 335,926 | - | - | 977,348 | - | - | - | - | 977,348 |
| Contributions | 4,049,965 | 940,229 | 268,475 | - | 5,258,669 | 795 | - | 795 | (20,000) | 5,239,464 |
| Revenue: | | | | | | | | | | |
| Program Service Fees | 1,522,107 | - | - | - | 1,522,107 | - | - | - | - | 1,522,107 |
| Investment Income | 3,501 | - | - | 18,160 | 21,661 | 42,044 | - | 42,044 | - | 63,705 |
| Other | 16,152 | - | - | - | 16,152 | - | - | - | - | 16,152 |
| | 41,370,400 | 1,276,155 | 268,475 | 18,160 | 42,933,190 | 42,839 | - | 42,839 | (20,000) | 42,956,029 |
| Released from Restrictions | 1,556,639 | (1,556,639) | - | - | - | - | - | - | - | - |
| Total Public Support and Revenue | 42,927,039 | (280,484) | 268,475 | 18,160 | 42,933,190 | 42,839 | - | 42,839 | (20,000) | 42,956,029 |
| EXPENSES | | | | | | | | | | |
| Program Services: | | | | | | | | | | |
| Donated Food Program | 40,751,643 | - | 293,646 | - | 41,045,289 | 20,000 | - | 20,000 | (20,000) | 41,045,289 |
| Supporting Services: | | | | | | | | | | |
| Management and General | 601,820 | - | 58,862 | 9,641 | 670,323 | 11,644 | - | 11,644 | - | 681,967 |
| Fund Raising | 694,023 | - | - | - | 694,023 | - | - | - | - | 694,023 |
| Total Expenses | 42,047,486 | - | 352,508 | 9,641 | 42,409,635 | 31,644 | - | 31,644 | (20,000) | 42,421,279 |
| Change in Net Assets | 879,553 | (280,484) | (84,033) | 8,519 | 523,555 | 11,195 | - | 11,195 | - | 534,750 |
| Transfers Among Funds | (50,627) | - | 77,958 | (27,331) | - | - | - | - | - | - |
| Net Assets at Beginning of Year | 3,092,427 | 534,374 | 4,495,167 | 1,720,000 | 9,841,968 | 1,667,076 | 151,094 | 1,818,170 | - | 11,660,138 |
| Net Assets at End of Year | \$ 3,921,353 | \$ 253,890 | \$ 4,489,092 | \$ 1,701,188 | \$ 10,365,523 | \$ 1,678,271 | \$ 151,094 | \$ 1,829,365 | \$ - | \$ 12,194,888 |

See Independent Auditors' Report.

**CAPITAL AREA FOOD BANK OF TEXAS, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor Number | Disbursements |
|---|---------------------------|-----------------------------------|----------------------------|
| <u>The Emergency Food Assistance - Cluster</u> | | | |
| U.S. Department of Agriculture | | | |
| Passed Through the Texas Department of Agriculture | | | |
| Texas Commodity Assistance Emergency Food Assistance Program (Food Commodities) (Note A) | 10.569 | 227702K | \$ 3,709,989 |
| Texas Commodity Assistance Emergency Food Assistance Program (Food Commodities) - ARRA | 10.569 | 227702K | 657,896 |
| Texas Commodity Assistance Emergency Food Assistance Program (Administrative Costs) | 10.568 | 227702K | 354,980 |
| ARRA - Texas Commodity Assistance Emergency Food Assistance Program (Administrative Costs) - ARRA | 10.568 | 227702K | <u>66,464</u> |
| Passed Through the Texas Health and Human Services Commission | | | |
| Food Stamp Nutrition Education | 10.561 | 529-06-0002-00009 | <u>123,774</u> |
| Passed Through the Texas Food Bank Network | | | |
| Food Stamp Outreach | 10.561 | 529-06-0423-0001 | <u>50,440</u> |
| Total U. S. Department of Agriculture | | | <u>4,963,543</u> |
| <u>Department of Homeland Security</u> | | | |
| Emergency Food and Shelter National Board Program | 97.024 | | 118,134 |
| Emergency Food and Shelter National Board Program - ARRA | 97.114 | | <u>67,927</u> |
| Total Department of Homeland Security | | | <u>186,061</u> |
| TOTAL FEDERAL AWARDS | | | <u><u>\$ 5,149,604</u></u> |

Note A - This program represents food with a value of \$3,709,989 which was distributed under the TEXCAP program.

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.



Lockart, Atchley & Associates, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

RSM McGladrey Network
An Independently Owned Member

Karen E. Atchley, CPA
Nancy E. Boyd, CPA
Dan A. Shaner, CPA
Evonne G. Jones, CPA
Joyce J. Smith, CPA
Harold F. Ingersoll, CPA
Ronny Armstrong, CPA

INDEPENDENT AUDITORS' 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*

To the Board of Directors of
Capital Area Food Bank of Texas, Inc.

We have audited the financial statements of Capital Area Food Bank of Texas, Inc. as of and for the year ended September 30, 2009, and have issued our report thereon dated February 25, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Capital Area Food Bank of Texas, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capital Area Food Bank of Texas, Inc.'s financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1.

We noted certain matters that we reported to management in a separate letter dated February 25, 2010.

Capital Area Food Bank's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Capital Area Food Bank's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fochart, Atchley + Associates, LLP

Austin, Texas

February 25, 2010



Lockart, Atchley & Associates, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

RSM McGladrey Network
An Independently Owned Member

Karen E. Atchley, CPA
Nancy E. Boyd, CPA
Dan A. Shaner, CPA
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Joyce J. Smith, CPA
Harold F. Ingersoll, CPA
Ronny Armstrong, CPA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Capital Area Food Bank of Texas, Inc.

Compliance

We have audited the compliance of Capital Area Food Bank of Texas, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. Capital Area Food Bank of Texas, Inc.'s major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Capital Area Food Bank of Texas, Inc.'s management. Our responsibility is to express an opinion on Capital Area Food Bank of Texas, Inc.'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Capital Area Food Bank of Texas, Inc.'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. Our audit does not provide a legal determination on Capital Area Food Bank of Texas, Inc.'s compliance with those requirements.

In our opinion, Capital Area Food Bank of Texas, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1.

Internal Control Over Compliance

The management of Capital Area Food Bank of Texas, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Capital Area Food Bank of Texas, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

Capital Area Food Bank of Texas, Inc.'s response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Capital Area Food Bank of Texas, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jochart, Atchley + Associates, LLP

Austin, Texas
February 25, 2010

**CAPITAL AREA FOOD BANK OF TEXAS, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

A. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified not considered to be material weakness(es)? None Reported

Noncompliance material to the financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified not considered to be material weakness(es)? None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? Yes

Identification of major programs:

| <u>CFDA #</u> | <u>Federal Program Title - Cluster</u> |
|---------------|--|
| 10.569 | Texas Commodity Assistance Emergency Food Assistance Program (Food Commodities) |
| 10.569 | Texas Commodity Assistance Emergency Food Assistance Program (Food Commodities) - ARRA |
| 10.568 | Texas Commodity Assistance Emergency Food Assistance Program (Administrative Costs) |
| 10.568 | Texas Commodity Assistance Emergency Food Assistance Program (Administrative Costs) - ARRA |
| 97.024 | Emergency Food and Shelter National Board Program |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

B. Financial Statement Findings

None

C. Findings Related to Federal Awards

2008-1 Procurement Policy - Suspension and Debarment

Condition:

The Food Bank's written procurement policy does not address suspension and debarment of vendors and the requirement to verify that vendors have not been suspended or debarred. Consequently, appropriate steps were not taken to verify that vendors were not suspended or debarred.

Criteria:

The requirements for procurement, contained in A-102 Common Rule and OMB Circular A-110, indicate that the Food Bank must verify that vendors are not suspended or debarred by checking the *Excluded Parties List System (EPLS)*, collecting a certification from the entity, or adding a clause or condition to the covered transaction with each entity. The Food Bank's policies and procedures should document these requirements and provide a framework to ensure compliance.

Effect:

The Food Bank's policies fail to address suspension and debarment; thus, management and staff were not instructed to, and did not, perform and document efforts to verify that entities were not suspended or debarred.

Cause:

Management lacked a thorough understanding of the compliance requirement.

Questioned Costs:

None.

Recommendations:

The Food Bank should revise the written procurement policy to specifically address suspension and debarment. The written policy should indicate the types of transactions covered by the suspension and debarment requirements and should instruct management and staff to document the efforts made to verify that covered transactions are not conducted with suspended or debarred entities.

Management's Response:

In response to the above finding, the Food Bank has revised the Financial Management Policy as described in the attached Corrective Action Plan.

**CAPITAL AREA FOOD BANK OF TEXAS, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

A. PRIOR YEAR FINDINGS - FINANCIAL STATEMENTS AUDIT

None

B. PRIOR YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

CAPITAL AREA FOOD BANK OF TEXAS, INC.
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED SEPTEMBER 30, 2009

2008-1 Procurement Policy - Suspension and Debarment

Finding:

The Food Bank's written procurement policy does not address suspension and debarment of vendors and the requirement to verify that vendors have not been suspended or debarred. Consequently, appropriate steps were not taken to verify that vendors were not suspended or debarred.

Corrective Actions Taken and Planned:

In response to the audit finding, the Food Bank has revised the Financial Management Policy to include the following section in the Procurement Procedures:

- f. Procurement of goods and services whose costs are charged to federal awards require verification that the vendor has not been suspended or debarred by checking the Excluded Parties List System (EPLS) or collecting a certification from the vendor. The documentation verifying covered transactions are not conducted with suspended or debarred entities shall be maintained in the purchasing files.

The revision will be presented to the Finance Committee for approval on February 18, 2010. The revised policy and procedure will be effective upon approval and the staff will be informed immediately. The accounting staff will ensure that documentation is maintained in the purchasing files for purchases of goods and services charged to federal awards.