

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

Year Ended June 30, 2011 with Comparative Totals
for the Year Ended June 30, 2010

SECTION I
FINANCIAL SECTION

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

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EMERITUS

Alexander W. Berger (1916-2005)
Griffith R. Lewis

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Francisco Food Bank
(A California Nonprofit Public Benefit Corporation)
San Francisco, California

We have audited the accompanying statement of financial position of San Francisco Food Bank (a California nonprofit public benefit corporation) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the valuation of the in-kind food inventory, the in-kind support and revenue from food donations, nor the in-kind food distributed. These amounts constitute 16% of total assets; 83% of total support and revenue; and 82% of total expenses. The value per pound of food was audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the above items, is based solely on the report of the other auditors. The prior year summarized comparative information has been derived from San Francisco Food Bank's financial statements for the year ended June 30, 2010 and, in our report dated October 20, 2010, we expressed an unqualified opinion on those financial statements. As discussed below and in Note 4 to the financial statements, management has revised its fair value methodology used in the valuation of its United States Department of Agriculture (USDA) food commodities received. The financial statements for the year ended June 30, 2010 have been restated to reflect the revised fair value methodology used in the valuation of USDA food commodities.

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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of San Francisco Food Bank as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, management has revised its fair value methodology used in the valuation of its United States Department of Agriculture (USDA) food commodities received. This fair value methodology is the same methodology that the Food Bank has consistently used for more than ten years in valuing its donated non-government food received. This valuation is based on an annual cost study conducted for Feeding America. The USDA indicated its approval of this fair market method for valuing its commodities in a Food Distribution National Policy Memorandum dated February 18, 2010. The financial statements for the year ended June 30, 2010 have been restated to reflect the revised fair value methodology used in the valuation of USDA food commodities.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of San Francisco Food Bank's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 conducted for the purpose of forming an opinion on the basic financial statements. The 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 basic 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 has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements as a whole.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 19, 2011

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2011 with Comparative Totals as of June 30, 2010

	2011	(Restated) (Note 4) <u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,368,450	\$ 3,851,259
Investments in Marketable Securities	1,934,817	-
Accounts Receivable from Affiliated Agencies, Net	218,243	94,884
Government Grants Receivable	612,949	434,752
Inventory	3,477,872	2,729,201
Prepaid Expenses and Other Assets	<u>72,427</u>	<u>69,272</u>
Total Current Assets	<u>8,684,758</u>	<u>7,179,368</u>
PROPERTY AND EQUIPMENT, NET	<u>7,947,122</u>	<u>8,030,434</u>
OTHER ASSETS:		
Investments in Marketable Securities	5,000,000	4,226,689
Cash and Cash Equivalents - Designated for Facilities Reserve	<u>-</u>	<u>773,311</u>
Total Other Assets	<u>5,000,000</u>	<u>5,000,000</u>
TOTAL ASSETS	<u><u>\$ 21,631,880</u></u>	<u><u>\$ 20,209,802</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 401,782	\$ 243,726
Accrued Expenses	765,045	683,861
Deferred Revenue	<u>108,000</u>	<u>10,000</u>
Total Current Liabilities	<u>1,274,827</u>	<u>937,587</u>
NET ASSETS:		
Unrestricted Net Assets:		
Undesignated	2,686,076	2,253,083
Inventory	3,477,872	2,729,201
Property and Equipment	7,947,122	8,030,434
Board Designated - Operating Reserve	1,000,000	1,000,000
Board Designated - Facilities Reserve	<u>5,000,000</u>	<u>5,000,000</u>
Total Unrestricted Net Assets	20,111,070	19,012,718
Temporarily Restricted Net Assets	<u>245,983</u>	<u>259,497</u>
Total Net Assets	<u>20,357,053</u>	<u>19,272,215</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 21,631,880</u></u>	<u><u>\$ 20,209,802</u></u>

The Accompanying Notes are an Integral Part of these Financial Statements.

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	2011		(Restated) (Note 4) 2010	
	Unrestricted	Temporarily Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:				
Support:				
Contributions In-Kind	\$ 50,255,588	\$ -	\$ 50,255,588	\$ 47,648,454
Contributions	7,887,652	1,530,161	9,417,813	9,027,891
Special Events	194,731	-	194,731	248,755
Less: Special Event Costs	<u>(15,895)</u>	<u>-</u>	<u>(15,895)</u>	<u>(100,587)</u>
Total Support	<u>58,322,076</u>	<u>1,530,161</u>	<u>59,852,237</u>	<u>56,824,513</u>
Revenue:				
Governmental Support - In-Kind Food (Note 4)	13,035,982	-	13,035,982	10,259,939
Governmental Support - Cash	2,000,651	-	2,000,651	1,831,633
Other Income, Net	104,402	-	104,402	810,297
Shared Maintenance Fees	245,181	-	245,181	174,130
Net Investment Income	<u>270,736</u>	<u>-</u>	<u>270,736</u>	<u>118,448</u>
Total Revenue	<u>15,656,952</u>	<u>-</u>	<u>15,656,952</u>	<u>13,194,447</u>
Total Support and Revenue	73,979,028	1,530,161	75,509,189	70,018,960
Net Assets Released from Restrictions	<u>1,543,675</u>	<u>(1,543,675)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>75,522,703</u>	<u>(13,514)</u>	<u>75,509,189</u>	<u>70,018,960</u>
EXPENSES:				
Program Services:				
Healthy Children Pantries	10,550,694	-	10,550,694	8,372,195
Brown Bag Pantries Serving Seniors	5,403,478	-	5,403,478	5,314,079
Neighborhood Pantries	37,619,666	-	37,619,666	34,327,541
Supplemental Food Program for Seniors	7,528,095	-	7,528,095	6,013,428
Agency Distribution	12,363,476	-	12,363,476	11,037,825
Advocacy and Education	<u>467,412</u>	<u>-</u>	<u>467,412</u>	<u>333,333</u>
Total Program Services Expenses	<u>73,932,821</u>	<u>-</u>	<u>73,932,821</u>	<u>65,398,401</u>
Supporting Services:				
Management and General (Note 14 and 18)	858,981	-	858,981	474,216
Fundraising and Development	<u>1,763,107</u>	<u>-</u>	<u>1,763,107</u>	<u>1,640,335</u>
Total Supporting Services Expenses	<u>2,622,088</u>	<u>-</u>	<u>2,622,088</u>	<u>2,114,551</u>
Total Expenses	<u>76,554,909</u>	<u>-</u>	<u>76,554,909</u>	<u>67,512,952</u>
CHANGE IN NET ASSETS BEFORE MERGER	(1,032,206)	(13,514)	(1,045,720)	2,506,008
Contribution of Assets and Liabilities from Merger at Fair Market Value (Note 18)	<u>2,130,558</u>	<u>-</u>	<u>2,130,558</u>	<u>-</u>
CHANGE IN NET ASSETS (Note 3)	1,098,352	(13,514)	1,084,838	2,506,008
NET ASSETS, Beginning of Year (Restated)	<u>19,012,718</u>	<u>259,497</u>	<u>19,272,215</u>	<u>16,766,207</u>
NET ASSETS, End of Year	<u>\$ 20,111,070</u>	<u>\$ 245,983</u>	<u>\$ 20,357,053</u>	<u>\$ 19,272,215</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	PROGRAM SERVICES							SUPPORTING SERVICES			TOTAL EXPENSES	
	Healthy Children Pantries	Brown Bag Pantries Serving Seniors	Neighborhood Pantries	Supplemental Food Program for Seniors	Agency Distribution	Advocacy and Education	Total Program Services	Management and General	Fundraising and Development	Total Supporting Services	2011	(Restated) 2010
Donated Food	\$ 8,328,437	\$ 4,665,984	\$ 32,632,685	\$ 6,558,043	\$ 10,424,818	\$ -	\$ 62,609,967	\$ -	\$ -	\$ -	\$ 62,609,967	\$ 56,379,593
Salaries	468,657	292,719	1,724,618	474,743	802,031	297,282	4,060,050	356,159	1,002,188	1,358,347	5,418,397	4,353,219
Food Procurement	1,273,251	161,847	1,427,598	29,262	432,847	-	3,324,805	-	-	-	3,324,805	2,279,140
Employee Benefits	77,644	48,536	285,745	74,786	131,971	46,524	665,206	56,253	162,817	219,070	884,276	736,483
Freight and Storage	103,163	57,813	404,715	57,863	131,052	-	754,606	-	-	-	754,606	700,168
Depreciation and Amortization	44,745	29,354	167,438	41,408	79,280	27,061	389,286	36,394	100,200	136,594	525,880	452,831
Payroll Taxes	36,912	23,032	135,456	34,882	62,603	21,976	314,861	26,848	77,099	103,947	418,808	318,438
Outside Services	10,668	6,380	41,195	9,163	15,356	3,212	85,974	81,269	233,602	314,871	400,845	572,482
Donated Services	11,300	6,788	45,252	2,767	17,700	1,892	85,699	250,721	31,811	282,532	368,231	343,658
Vehicle Expenses	43,000	23,976	166,025	34,778	55,087	1,619	324,485	2,050	5,734	7,784	332,269	204,869
Warehouse Supplies	27,020	14,270	99,715	108,545	34,584	-	284,134	-	-	-	284,134	227,863
Public Affairs	24,015	14,371	94,427	20,681	36,044	47,250	236,788	7,380	21,135	28,515	265,303	142,467
Utilities	24,322	13,696	92,877	19,563	32,029	5,467	187,954	10,313	18,507	28,820	216,774	187,561
Occupancy	22,493	12,492	89,139	17,450	28,795	1,607	171,976	13,668	5,345	19,013	190,989	102,103
Equipment Expenses	21,452	12,066	83,195	17,071	28,145	1,445	163,374	1,761	5,150	6,911	170,285	150,569
Miscellaneous	12,320	7,598	49,510	8,159	19,402	4,444	101,433	6,175	16,238	22,413	123,846	112,288
Donor Relations	2,159	1,224	8,681	-	2,827	-	14,891	-	56,059	56,059	70,950	67,436
Printed Materials and Postage	5,965	3,660	21,390	5,767	9,943	3,509	50,234	4,411	12,397	16,808	67,042	57,204
Insurance	7,611	4,226	29,314	5,658	9,668	921	57,398	1,934	3,065	4,999	62,397	60,927
Office/Computer Supplies	3,274	2,003	12,012	4,831	5,366	1,840	29,326	2,111	6,585	8,696	38,022	32,557
Conferences and Training	2,254	1,426	8,555	2,649	3,888	1,363	20,135	1,534	5,175	6,709	26,844	27,783
Volunteer Program	32	17	124	26	40	-	239	-	-	-	239	3,313
Total Expenses	\$ 10,550,694	\$ 5,403,478	\$ 37,619,666	\$ 7,528,095	\$ 12,363,476	\$ 467,412	\$ 73,932,821	\$ 858,981	\$ 1,763,107	\$ 2,622,088	\$ 76,554,909	\$ 67,512,952
Percentage of Total	13.8 %	7.1 %	49.1 %	9.8 %	16.2 %	0.6 %	96.6 %	1.1 %	2.3 %	3.4 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011 with Comparative Totals for the Year Ended June 30, 2010

	2011	(Restated) 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,084,838	\$ 2,506,008
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided by Operating Activities:		
Non-Cash Portion of Contribution from Merger	(443,319)	-
Depreciation and Amortization	525,880	452,831
Loss on Sale/Disposal of Property and Equipment	-	2,481
In-Kind Contributions of Food (Including USDA)	(62,923,339)	(57,470,790)
Distribution of Food Received In-Kind	62,609,967	56,379,593
Net Realized and Unrealized Gains on Investments	(142,431)	(26,112)
Change in Accrued Dividends and Interest	-	(14,515)
(Increase) Decrease in Assets, Net of Effects of		
Contribution from Merger:		
Accounts Receivable from Affiliated Agencies, Net	(87,124)	86,062
Government Grants Receivable	(159,502)	45,070
Inventory Purchased	(34,578)	(61,276)
Prepaid Expenses and Other Assets	5,145	62,790
Increase (Decrease) in Liabilities, Net of Effects of		
Contribution from Merger:		
Accounts Payable	118,690	103,658
Accrued Expenses	6,532	(46,677)
Deferred Revenue	73,000	(2,500)
Net Cash Provided by Operating Activities (Includes \$1,687,239 Cash Received in from Merger)	633,759	2,016,623
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Designated for Facilities Reserve	773,311	1,457,221
Purchase of Property and Equipment	(324,182)	(271,160)
Purchase of Investments	(5,489,834)	(3,493,388)
Proceeds from Sale of Investments	2,924,137	1,077,243
Net Cash Used by Investing Activities	(2,116,568)	(1,230,084)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,482,809)	786,539
CASH AND CASH EQUIVALENTS, Beginning of Year	3,851,259	3,064,720
CASH AND CASH EQUIVALENTS, End of Year	\$ 2,368,450	\$ 3,851,259
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Fair Value of Assets Received in Merger, Net of Liabilities and Cash	\$ 443,319	\$ -

The Accompanying Notes are an Integral Part of these Financial Statements.

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS:

The San Francisco Food Bank (the "Food Bank") is the largest distributor of food to low-income families and individuals in San Francisco and Marin Counties providing non-perishable groceries, fresh produce, bread, meat and dairy to over 400 nonprofit agencies, from senior centers and after-school programs to soup kitchens and food pantries. The Food Bank solicits donations from a nationwide network of sources, including large manufacturers, supermarket chains, wholesalers, the United States Department of Agriculture, produce growers, and locally sponsored food drives; then it distributes these food commodities to qualifying nonprofit agencies and neighborhood pantries. The Food Bank is the most effective food bank in the country according to the Feeding America 2010 annual poundage report *Pounds per Person in Poverty (Total Distribution to Clients)*.

This year, the Food Bank increased distribution to nearly 43 million pounds of food, equivalent to more than 98,000 meals per day (an 18% increase over last year). The Food Bank was fortunate to receive significant financial support from the community in the 10-11 fiscal year, allowing it to address the overwhelming need caused by the recession. It also enabled the Food Bank to increase food procurement spending to bring in greater quantities of protein, fresh produce, staples and other nutritious items. The Food Bank expanded service and increased the amount of food distributed through its 230+ pantries, helping over 28,000 households each week.

On January 1, 2011, the San Francisco Food Bank and Marin Food Bank merged as part of a strategy to increase the food available to people in need in Marin County. In the year before the merger, each Organization distributed 2 million pounds of food in the Marin service area. By July 2012, San Francisco Food Bank anticipates increasing its distribution in Marin to 5.5 million pounds predominantly by increasing the number of households that can get weekly supplemental fresh, seasonal produce and staples at existing pantries and by opening new pantries where services are in short supply. The merger is discussed in Note 18.

The Food Bank obtains government revenues and support equal to 20% of total revenues and support from the following government agencies:

United States Department of Agriculture (USDA) - Emergency Food Assistance Program: The USDA revenue represents federal funds which have been distributed through the California Department of Social Services. The funds are designated to partially cover the costs of distributing USDA commodities to nonprofit agencies serving low-income families and individuals through their emergency meal and pantry programs.

United States Department of Agriculture (USDA) - Supplemental Food Program (SFP): SFP is partially funded by the USDA and state-administered by the California Department of Education. SFP provides a monthly box of nutritious USDA commodity food products to eligible seniors, pregnant or postpartum women, children and infants. The Food Bank began operating this program on July 1, 2004.

Emergency Food and Shelter Program National Board/Federal Emergency Management Agency (FEMA): FEMA funds represent federal money that has been distributed to the Food Bank through both the San Francisco and Marin Emergency Food and Shelter Program Boards. The funds are designated to distribute foods to nonprofit agencies serving low-income families and individuals through their meal and pantry programs.

SAN FRANCISCO FOOD BANK
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 - NATURE OF OPERATIONS (Continued):

Federal Ryan White Comprehensive AIDS Resource Emergency (CARE) Act of 1990, Title I: The CARE funds represent federal money that has been granted through the City and County of San Francisco Department of Public Health. The funds are designated to provide nonprofit agencies serving persons with HIV and AIDS with a steady supply of foods that best meet their clients' nutritional needs.

City and County of San Francisco Human Services Agency (HSA): HSA funds are designated to provide a nutritionally balanced three day supply of emergency food to eligible families and individuals and weekly groceries to low-income immigrants, senior citizens, and formerly homeless individuals.

NOTE 2 - PROGRAM SERVICES:

Pantry Programs - The Food Bank has established a variety of pantry programs designed to provide a lifeline for people who need help. The pantries provide food to low-income seniors, families, children and other individuals, enabling them to plan and prepare meals in their own homes, an essential aspect of promoting good health, normalcy and dignity. Relying largely on the support of grants and contributions, the Food Bank operates the following types of pantries:

Healthy Children Pantries: This program combats child hunger by distributing nutritious foods every week in family-friendly environments such as public schools, childcare centers, parenting support centers and other child-focused locations.

Brown Bag Pantries Serving Seniors: This program enables the Food Bank to help low-income senior citizens secure immediate access to nutritious food. The Food Bank provides weekly and bi-weekly bags of groceries to thousands of senior citizens struggling to maintain their health and independence. In the 10-11 fiscal year, the Food Bank expanded its Home-Delivered Grocery Program, providing weekly groceries to more than 285 seniors in San Francisco and Marin Counties. The Food Bank provides the food, performs some deliveries and collaborates with other community organizations to serve homebound and mobility-impaired seniors who cannot make the trip to pantry sites or meal programs.

Neighborhood Pantries: The Food Bank established a network of weekly pantries to serve economically distressed communities and reach target populations in need of food assistance. The *Immigrant Food Assistance Pantries* initiative focuses on low-income immigrants struggling with language and cultural barriers. The *Community Food Partners Pantries* distribute food to families living in public housing developments. The *Supportive Housing Pantries* distribute easily prepared fresh and packaged products to formerly homeless individuals living in permanent housing with supportive services. The *Neighborhood Grocery Network Pantries* distributes supplemental weekly groceries to working poor families and low-income individuals.

Supplemental Food Program for Seniors: This program provides a monthly box of nutritious USDA food to approximately 11,000 low-income individuals, predominantly senior citizens, but also pregnant women, women up to one year postpartum, and children under the age of six.

SAN FRANCISCO FOOD BANK
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAM SERVICES (Continued):

Agency Distribution Shopping Program: Approximately 450 of the Food Bank's member agencies, including community centers, religious organizations, soup kitchens, shelters, affordable housing, senior programs, AIDS support programs and child care centers, visit the warehouse on a regular basis to select bread, dry goods, meat and fresh produce for their clients.

Advocacy and Education: Food Bank advocacy efforts focus on optimizing under-utilized government food assistance programs, eliminating bureaucracy and red tape that prevents low-income individuals from receiving assistance, and offering recommendations to elected officials and community leaders to reduce barriers to food for qualified recipients. Food Bank education programs raise public awareness about the problem of hunger and help mobilize support for government programs and policies that provide adequate nutrition for low-income people.

NOTE 3 - CHANGE IN NET ASSETS:

The significant positive change in net assets for the year ended June 30, 2011 is largely due to the merger (see Note 18).

The significant positive change in net assets for the year ended June 30, 2010 is largely due to the receipt of two unexpected, one-time gifts totaling approximately \$1.4 million. These funds make up a portion of the board designated - facilities reserve. This reserve is maintained to attend to significant long-term building repairs and equipment replacement over the next ten years as well as address future increased capacity or expansion. The remainder of these funds will enable San Francisco Food Bank to continue to meet the increased demand that its pantry network still faces.

NOTE 4 - CHANGE IN FAIR VALUE METHODOLOGY FOR USDA FOOD COMMODITIES RECEIVED:

During the year ended June 30, 2011, San Francisco Food Bank revised its methodology for valuing its United States Department of Agriculture (USDA) food commodities received. The revised methodology is based on an annual cost study conducted for Feeding America to determine the fair market value of donated food. This fair value methodology is the same methodology that the Food Bank has consistently used for more than ten years in valuing its donated non-government food received. The cost study valued donated food at \$1.66 and \$1.60 per pound for the years ended June 30, 2011 and 2010, respectively. During the year ended June 30, 2010, San Francisco Food Bank had previously valued USDA food commodities based on published USDA fair values. Management believes the use of a single valuation source in valuing both its donated non-government food and donated government food will streamline its reporting process as well as improve standardization in reporting among food banks. The USDA indicated its approval of this fair market method for valuing its commodities in a Food Distribution National Policy Memorandum dated February 18, 2010.

The financial statements for the year ended June 30, 2010 have been restated to reflect the revised fair value methodology used in the valuation of USDA food commodities.

SAN FRANCISCO FOOD BANK
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - CHANGE IN FAIR VALUE METHODOLOGY FOR USDA FOOD COMMODITIES RECEIVED (Continued):

The impact of the change in the fair value methodology used for USDA food commodities to the statement of financial position and statement of activities for the year ended June 30, 2010 is summarized as follows:

	<u>2010</u>	<u>2010</u>	<u>2010</u>
	Using Both USDA and Feeding America Valuations	Using Only Feeding America Valuation	Difference
Statement of Financial Position:			
Inventory at Fair Value:			
Donated Non-Government Food	\$ 1,039,685	\$ 1,039,685	\$ -
USDA Food Commodities	608,207	1,433,033	824,826
Purchased Food	<u>256,483</u>	<u>256,483</u>	<u>-</u>
Inventory at Fair Value Impact	<u>\$ 1,904,375</u>	<u>\$ 2,729,201</u>	<u>\$ 824,826</u>
Statement of Activities:			
Contributions In-Kind - Non-Government Food	\$ 47,210,851	\$ 47,210,851	\$ -
Contributions In-Kind - Government Food	4,143,401	10,259,939	6,116,538
Donated Food Expense	<u>(51,087,881)</u>	<u>(56,379,593)</u>	<u>(5,291,712)</u>
Change in Net Assets Impact	<u>\$ 266,371</u>	<u>\$ 1,091,197</u>	<u>\$ 824,826</u>

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of San Francisco Food Bank have been prepared on the accrual basis of accounting.

Basis of Presentation - The Food Bank follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with accounting principles generally accepted in the United States of America, the Food Bank reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Food Bank. Under this category, the Food Bank maintains an operating fund, any net assets designated by the Board for specific purposes and the unrestricted inventory and property and equipment funds.

SAN FRANCISCO FOOD BANK
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as endowments. There are currently no permanently restricted net assets.

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Food Bank's financial statements for the year ended June 30, 2010, from which the summarized information was derived (also see Note 4).

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

As discussed in Note 4 to the financial statements, management has revised its fair value methodology used in the valuation of its United States Department of Agriculture (USDA) food commodities received. This fair value methodology is the same methodology that the Food Bank has consistently used for more than ten years in valuing its donated non-government food received. This valuation is based on an annual cost study conducted for Feeding America. The financial statements for the year ended June 30, 2010 have been restated to reflect the revised fair value methodology used in the valuation of USDA food commodities.

Cash and Cash Equivalents - Cash equivalents include highly liquid investments and investments with a maturity of three months or less and exclude donor restricted receipts for long-term purposes. The Food Bank maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Food Bank has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Accounts and Grants Receivable - Receivables represent amounts due from affiliated agencies and are stated at the amount the Food Bank expects to collect for shared maintenance fees and grants from government agencies. Provision for losses on receivables is made when considered necessary to maintain an adequate allowance to cover bad debts. Receivables are charged against the allowance when the Food Bank determines that payments will not be received. Any subsequent receipts are credited to the allowance. As of June 30, 2011 and 2010, the Food Bank estimates that no reserve for losses on receivables is required. Bad debt expense for the years ended June 30, 2011 and 2010 amounted to \$641 and \$1,379, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventory - Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated non-government food and donated government food for the years ended June 30, 2011 and 2010 was valued at \$1.66 and \$1.60 per pound, respectively (see Note 4). This valuation is based on a cost study conducted for Feeding America. Purchased food is valued at the latest purchase price.

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from three to seven years for vehicles, office furniture and equipment, and thirty-nine years for buildings and building improvements. Equipment purchases over \$1,000 are capitalized. Depreciation is recorded as a decrease in unrestricted net assets and the expense is charged to the activity benefiting from the use of the facilities or equipment. Amounts expended for maintenance and repairs are charged to operations as incurred.

The Food Bank regularly evaluates its long-lived assets for indicators of possible impairment. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset's fair market value or discounted estimates of future cash flows. The Food Bank has not identified any such impairment losses to date.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains or losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Fair Value Measurement - Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Food Bank. Unobservable inputs reflect the Food Bank's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Food Bank's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

All of the Food Bank's assets and liabilities are classified as level 1 with the exception of donated food. All donated non-government food and USDA food commodities inventory are classified as level 2 assets. The Food Bank did not have any assets or liabilities classified as level 3.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30. The maximum vacation time that can be accrued and carried over to the next year is 200 hours. The accrued vacation balance as of June 30, 2011 and 2010 was \$199,433 and \$143,459, respectively, and is included in accrued expenses.

Revenue Recognition - The Food Bank recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions - Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind - Donated non-government food and donated government food for the years ended June 30, 2011 and 2010 was valued at \$1.66 and \$1.60 per pound, respectively (see Note 4). This valuation is based on a cost study conducted for Feeding America. Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Food Bank would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Food Bank also receives donated services that do not require specific expertise but which are nonetheless central to the Food Bank's operations. While these contributed services are not reflected in the financial statements the estimated value of these services is disclosed in Note 14.

Allocation of Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time and poundage of food distributed by each program.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Allocation of Joint Costs - The Food Bank accounts for joint costs in accordance with accounting principles generally accepted in the United States of America. The nonprofit organization is required to record all of the costs of certain activities as fundraising expenses, rather than allocating certain costs to various programs of the organization. For the years ended June 30, 2011 and 2010, the Food Bank incurred costs of \$285,682 and \$484,582, respectively, for informational materials and activities that include fundraising appeals. Of these costs, \$273,640 and \$473,167, respectively was allocated to fundraising expense, \$12,042 and \$11,415, respectively was allocated to programs, and no amounts required allocation to management and general expense.

Income Taxes - San Francisco Food Bank is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Food Bank qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a).

Uncertainty in Income Taxes - Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization's federal returns for the years ended June 30, 2010, 2009 and 2008 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Organization's state returns for the years ended June 30, 2010, 2009, 2008 and 2007 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Advertising - Advertising costs are charged to operations when incurred. Advertising costs for the years ended June 30, 2011 and 2010 totaled \$38,920 and \$214,694, respectively. Of these costs, \$0 and \$173,338, respectively were in-kind contributions.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

Subsequent Events - Management of the Food Bank has evaluated events and transactions subsequent to June 30, 2011 for potential recognition or disclosure in the financial statements. The Food Bank did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2011. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 19, 2011.

SAN FRANCISCO FOOD BANK
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - INVENTORY:

Inventory consists of donated non-government food, purchased food and United States Department of Agriculture (USDA) food commodities received from the government. Donated non-government food and donated government food for the years ended June 30, 2011 and 2010 was valued at \$1.66 and \$1.60 per pound, respectively (see Note 4). This valuation is based on a cost study conducted for Feeding America. All donated non-government food and USDA food commodities inventory are classified as Level 2 assets and all purchased food inventory is classified as a Level 1 asset (see Note 5).

The Food Bank's inventory as of June 30, consisted of the following:

	2011	(Restated) 2010
Inventory at Fair Value:		
Donated Non-Government Food	\$ 1,350,972	\$ 1,039,685
USDA Food Commodities	1,835,839	1,433,033
Purchased Food	291,061	256,483
Total Inventory at Fair Value	\$ 3,477,872	\$ 2,729,201

NOTE 7 - PROPERTY AND EQUIPMENT:

The cost and accumulated depreciation of property and equipment as of June 30, consisted of the following:

	2011	2010
Building	\$ 5,403,731	\$ 5,403,731
Land	3,328,645	3,328,645
Vehicles	1,742,683	1,252,571
Building Improvements	651,536	642,494
Office Furniture and Equipment	618,928	556,783
Warehouse Equipment	513,687	350,804
Other Depreciable Property	59,910	52,922
	12,319,120	11,587,950
Less: Accumulated Depreciation and Amortization	(4,371,998)	(3,557,516)
Property and Equipment, Net	\$ 7,947,122	\$ 8,030,434

Depreciation and amortization expense for the years ended June 30, 2011 and 2010 totaled \$525,880 and \$452,831, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - INVESTMENTS IN MARKETABLE SECURITIES:

All of the following investments are classified as Level 1 investments (see Note 5). Investments in marketable securities as of June 30, consisted of the following:

	2011		
	Fair Market Value	Cost	Unrealized Appreciation (Depreciation)
Bond Fund	\$ 5,680,109	\$ 5,683,871	\$ (3,762)
Equity Fund	<u>1,254,708</u>	<u>1,109,010</u>	<u>145,698</u>
Total Investments in Marketable Securities	<u>\$ 6,934,817</u>	<u>\$ 6,792,881</u>	<u>\$ 141,936</u>
	2010		
	Fair Market Value	Cost	Unrealized Appreciation (Depreciation)
Treasury Notes	\$ 2,003,850	\$ 2,000,220	\$ 3,630
Bond Fund	1,597,584	1,570,042	27,542
Equity Fund	<u>625,255</u>	<u>693,946</u>	<u>(68,691)</u>
Total Investments in Marketable Securities	<u>\$ 4,226,689</u>	<u>\$ 4,264,208</u>	<u>\$ (37,519)</u>

The following schedule summarizes the net investment income in the statement of activities for the years ended June 30:

	2011	2010
Interest and Dividend Income	\$ 128,305	\$ 92,336
Net Realized and Unrealized Gains	<u>142,431</u>	<u>26,112</u>
Total Net Investment Income	<u>\$ 270,736</u>	<u>\$ 118,448</u>

NOTE 9 - LINE OF CREDIT:

The Food Bank has a revolving unsecured line of credit for borrowings up to \$1,000,000 bearing interest at 3.75%. The line of credit matures on February 1, 2012. There were no amounts outstanding under this line of credit as of June 30, 2011 and 2010.

Under the terms of the line of credit agreement, the Food Bank is required to comply with certain financial covenants. As of June 30, 2011 and 2010, the Food Bank has met these financial covenants.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - BOARD DESIGNATED NET ASSETS:

Operating Reserve - The Food Bank maintains a reserve to cover unexpected expense or revenue needs such as responding to a natural disaster, a significant decrease in private donations, or a change in its government support.

Facilities Reserve - The Food Bank maintains a reserve fund to attend to significant long-term building repairs and equipment replacement over the next ten years as well as address future increased capacity or expansion.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS:

The Food Bank's temporarily restricted net assets as of June 30, consisted of the following:

	<u>2011</u>	<u>2010</u>
Temporarily Restricted Net Assets:		
Season of Sharing	\$ 100,000	\$ 200,000
Home Delivered Groceries	55,983	-
Other	50,000	-
Healthy Children Pantries	20,000	5,500
Merger	20,000	-
Adopt-a-Pantry	-	43,497
Advocacy and Education	-	10,000
Holiday Programs	-	500
Total Temporarily Restricted Net Assets	<u>\$ 245,983</u>	<u>\$ 259,497</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2011</u>
Food Purchase	\$ 341,909
Season of Sharing	292,930
Healthy Children Pantries	232,191
Advocacy and Education	137,018
Pantry Programs	99,651
Capital Grants	97,766
Morning Snack	96,420
Adopt-a-Pantry	91,975
Other	46,924
Brown Bag Pantries Serving Seniors	39,331
Holiday Programs	36,132
Marin County	16,428
Fresh Rescue	<u>15,000</u>
Total Net Assets Released from Restrictions	<u>\$ 1,543,675</u>

NOTE 13 - SHARED MAINTENANCE FEES:

The Food Bank receives fees from participating agencies to assist in the costs of distributing food. These shared maintenance fees are based upon predetermined rates from \$0 to \$0.18 per pound or an average of \$0.006 per pound for the year ended June 30, 2011. Total shared maintenance fees during the years ended June 30, 2011 and 2010, totaled \$245,181 and \$174,130, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 14 - CONTRIBUTIONS IN-KIND:

The estimated fair value of donated food, supplies and expert services received are recorded as contributions. During the years ended June 30, the following in-kind contributions were received by the Food Bank:

	<u>2011</u>	<u>(Restated) 2010</u>
Contributions In-Kind - Government:		
Food - Government	\$ 13,035,982	\$ 10,259,939
Contributions In-Kind - Non-Government:		
Food - Non-Government	49,887,357	47,210,851
Outside Services	140,424	343,245
Donated Legal Services related to Merger (Charged to Management and General Expenses)	227,807	413
Other	<u>-</u>	<u>93,945</u>
Total Contributions In-Kind - Non-Government	<u>50,255,588</u>	<u>47,648,454</u>
Total Contributions In-Kind	<u>\$ 63,291,570</u>	<u>\$ 57,908,393</u>

The Food Bank also receives donated services that do not require specific expertise but which are nonetheless central to the Food Bank's operations. The Food Bank relies on volunteers from the community to sort, glean, and repack donated food. The estimated value of these services for the years ended June 30, 2011 and 2010, which were based on the estimated dollar value of volunteer time calculated using the San Francisco Minimum Compensation Ordinance (MCO) rate of \$11.03 per hour and Marin County's Living Wage Ordinance rate of \$11.55 per hour, amounted to \$1,448,142 and \$1,262,020, respectively. In accordance with accounting principles generally accepted in the United States of America, the value of these services is not reflected in the financial statements.

NOTE 15 - RETIREMENT PLAN:

The Food Bank provides retirement benefits to its employees through an annuity thrift plan that became effective July 1, 1991 and was amended in 1998. The Food Bank contributes 3% of salary to the plan for all eligible employees and matches up to an additional 3% for employees who make contributions. Employees are eligible to begin making contributions immediately upon hire regardless of age. Employees are eligible for the employer matching contributions after one year of service. Employer contributions to the plan for the years ended June 30, 2011 and 2010 totaled \$211,177 and \$185,257, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 16 - CONFLICT OF INTEREST POLICY:

Included among the Food Bank's Board of Directors and Officers are volunteers from the community who provide valuable assistance to the Food Bank in the development of policies and programs and in the evaluation of business transactions. The Food Bank has adopted a conflict of interest policy whereby board members are disqualified from participation in the final decisions regarding any action affecting their related company or organization.

NOTE 17 - COMMITMENTS AND CONTINGENCIES:

Feeding America - The Food Bank has a contractual agreement with Feeding America. The agreement improves the capacity of the Food Bank to provide solutions to the problem of hunger in America. Under the terms of the agreement, the Food Bank is required to maintain certain financial covenants, which they complied with for each of the years ended June 30, 2011 and 2010. The Food Bank can terminate the agreement by a written notice 30 days in advance subject to the termination provisions as defined by the agreement. Feeding America can terminate the agreement with cause as provided by the compliance standards per the agreement.

Grants and Contracts - Grants and contracts awarded to San Francisco Food Bank are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Food Bank could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered during the period.

Legal Proceedings - The Food Bank is engaged in certain legal and administrative proceedings in the normal course of its operations. While it is not possible to determine the ultimate outcome of these matters at this time, management believes that any liabilities from such proceedings, or claims that are pending or known to be threatened, will not have a material adverse effect on the Food Bank's financial condition, results of activities or cash flows.

NOTE 18 - MERGER:

On January 1, 2011, the San Francisco Food Bank and Marin Food Bank merged as part of a strategy to increase the food available to people in need in Marin County. In the year before the merger, each Organization distributed 2 million pounds of food in the Marin service area. By July 2012, San Francisco Food Bank anticipates increasing its distribution in Marin to 5.5 million pounds predominantly by increasing the number of households that can get weekly supplemental fresh, seasonal produce and staples at existing pantries and by opening new pantries where services are in short supply.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 18 - MERGER (Continued):

The transaction is accounted for as an "acquisition" in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Entities - Business Combinations* (formerly Statement of Financial Accounting Standards (SFAS) No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*).

During the negotiations regarding combining the two entities, the parties decided to refer to the combination as a merger to most accurately portray the nature of the work being done in Marin County.

The transaction is detailed as follows:

	Fair Market Value at January 1, 2011 <u>(Date of Merger)</u>
Contribution of Assets and Liabilities from Merger:	
Cash and Cash Equivalents	\$ 1,687,239
Inventory	400,721
Accounts Receivable	36,235
Grants Receivable	18,695
Property and Equipment, Net	118,386
Deposits	8,300
Accounts Payable	(39,366)
Accrued Expenses	(74,652)
Deferred Revenue	<u>(25,000)</u>
Total Contribution of Assets and Liabilities from Merger	<u>\$ 2,130,558</u>

The San Francisco Food Bank incurred over \$265,000 in one-time, direct expenses associated with the merger, of which over \$225,000 was donated legal services. These merger expenses represent the majority of the increase in Management and General expenses over the prior fiscal year.